British Dairying
June 2018
Nigel Davies

£85k rise in dairy profit, predicts Promar

Interim results from Promar's Farm Business Accounts show that dairy farmers are heading for an £85k improvement in profits to March 2018 due to a lift in milk price of 4.98ppl, an extra 240 litres per cow and keeping five extra cows. Full results are expected later this year, says Promar's Nigel Davies.

"Last autumn, we predicted an increase in profit for the average dairy farm for year end March 2018 in excess of £50,000 over and above the £43,404 reported as achieved by the average in the sample in 2017."

He warns that it is not all good news. "The Milkminder matched sample indicates that average concentrate prices have increased year-on-year by £16/tonne, this along with feed rates increasing by 0.01 kg/litre up to March 2018 will have diluted margins by circa £10,400."

Farm overheads and other non-feed costs have also come under pressure in the 12 months to March 2018. "If the average Retail Price Index (RPI) is applied to these costs in the FBA sample, then an additional average cost of £10,771 can be added for the financial y/e March 2018."

The Scottish Farmer
9th June 2018
Nigel Davies

Increased use of beef sires hits dairy figures

A COMBINATION of youngstock shortages and increased culling rates could potentially cause an imbalance in the number of milking females in some dairy herds and, as a result, overall herd production, according to a new report.

"One of the observations of the AHDB Milk Forecasting Forum earlier this year, was that national milk production from January, 2018, to April, 2019, would be adversely affected due to historic insemination decisions to use more semen from beef sires, made during times of lower milk prices, and we're now seeing the full impacts of this in terms of youngstock numbers coming into the national herd," said Nigel Davies, Promar's national consultancy manager.

"What's more, when set against the trend of a higher rolling 12-month culling rate that we've seen in the most recent Milkminder sample, this raises the question as to whether some herds will be able to maintain the growth in herd size that they've recently achieved, or even maintain their existing herd size over the next 12 months."

MONTHLY REPORT FOR: March		2018	2017
STOCK			
Cows in herd		212.5	210.2
Cows in milk		187.8	185.3
Number of cow + heifer calvings		12 + 5	12 + 4
Number of cows leaving herd		5	5
MILK			
Total milk produced	(litres)	159193	158217
Yield per cow in milk per day	(litres)	27.3	27.5
Yield from grazed forage per cow per day	(litres)		
Yield from all forage per cow per day	(litres)	6.5	6.8
Butterfat	(%)	4.148	4.066
Protein	(%)	3.313	3.236
Urea	(mg/litre)	164	192
Cell count Hygiene		154 : 26	159 : 23
Milk price	(p/litre)	28.758	27.538
Total milk value	(£)	45780	43569
FEED			
Concentrate use per litre	(kg)	0.36	0.35
Total concentrate use	(t)	57.126	55.562
Concentrate price per tonne	(£)	220	215
Other feed cost	(£)	527	426
Total feed cost	(£)	13675	12375
Feed cost per litre	(p)	8.59	7.82
Total conc equiv at 86% dry matter	(t)	60.114	58.3
MARGINS			
Margin over purchased feed per litre	(p)	20.17	19.72
Margin over purchased feed per cow	(£)	151	148
Margin over purchased feed for herd	(£)	32105	31194

ANNUAL ROLLING RESULTS TO: March		2017	2018
STOCK			
Cows in herd		208.9	211.6
Stocking rate	(cow/ha)	2.37	2.50
Calving percentage		97.3	98.3
Replacement Rate	(%)	26.1	27.4
MILK			
Yield per cow	(litres)	8132	8373
Yield from grazed forage per cow	(litres)	1216	1270
Yield from all forage per cow	(litres)	2391	2387
Butterfat	(%)	4.027	4.048
Protein	(%)	3.245	3.287
Urea	(mg/litre)		
Cell count Hygiene		166 : 24	164 : 24
Milk price	(p/litre)	24.455	29.438
Total milk value per cow	(£)	1989	2465
FEED			
Concentrate use per litre	(kg)	0.33	0.34
Total concentrate use per cow	(t)	2.676	2.811
Concentrate price per tonne	(£)	206	221
Other feed cost per cow	(£)	20	21
Total feed cost per cow	(£)	569	643
Total feed cost per litre	(p)	7.00	7.68
Conc equiv per cow at 86% dry matter	(t)	2.909	2.944
MARGINS			
Margin over purchased feed per litre	(p)	17.45	21.76
Margin over purchased feed per cow	(£)	1419	1822
Margin over purchased feed for herd	(£)	293675	385532

The March, 2018, Milkminder matched dataset indicates that over the last 12 months, the average stay of each animal in the herd has fallen by 68 days, when compared to March, 2017, to just over three years and seven months.

To further emphasise this, while recognising that the impact of disease and compulsory culling for some individual businesses has been severe, Mr Davies said recent budget work with some of the business' less affected clients, indicates that the outcome could also be significant for them, with a likely imbalance between the expected number of animals leaving and joining the herd.

As a result, he advised affected herds to investigate and understand why additional culls were made over the last 12 months.

"With the aid of tools such as Milkminder, drilling down and mapping out the reason as to why each individual cow left the herd can be very revealing and help inform and develop effective plans to reduce future losses.

"The other part of the equation of course is having a clearly defined and consistent breeding policy that ensures a reliable flow of sufficient future replacements," concluded Mr Davies.

http://www.producebusinessuk.com/opinion/fresh-opinions/2018/06/14/the-pacific-alliance-what-is-it-all-about

The Pacific Alliance: What is it all about?

by John Giles

14 June 2018

Last week, at The London Produce Show and Conference, I was asked to moderate a panel discussion on this subject. This involved four UK-based representatives of the inward investment agencies of Peru, Chile, Mexico and Colombia – the countries who have formed what is now called the Pacific Alliance. Together, these four countries have a combined population of 210 million people and about 35 per cent of the region's Gross Domestic Product (GDP).

This is a group in Latin America that originally was formed in 2011 around a series of wide-ranging agreements in the areas of economic cooperation, trade development, environmental protocols, diplomatic arrangements (in some cases), investment and market access in an effort to boost the region's macro-economies. By 2018, it appears as if the Alliance is now ready to build much quicker momentum in achieving its objectives.

It was pointed out on a number of occasions that this was very different to the way that the European Union operates and there was no political dimension to the creation of the Alliance. The basic thinking behind its creation, however, is a recognition that there are more things in common across the region than are different, and that some of the challenges faced by all four countries are probably better off tacked together, rather than on an individual basis. Good examples are areas such as negotiating market access, especially in Asia, and looking at joint funding for trade and market promotion work.

This is a hugely ambitious project but one that seems to be gaining traction in Latin America and other parts of the world too. It was stated that up to 50 other countries, including the UK, have expressed an interest in joining the Alliance at some stage in the future. There are now 49 observer states, of which two are candidate countries in process of full membership: the Central American countries of Costa Rica and Panama.

There is often much talk about countries "working together" on joint objectives and this seems to me to be one of the ultimate tests of whether this actually can be achieved. The evidence so far is that, to date, this concept is gaining momentum. Looking at the track record of these countries in export development and their willingness to do things differently, you wouldn't bet against them achieving the stated long-term goals of the Alliance.

Some of the features and objectives of the Alliance in the agri-food sector in the future might include the following:

- The UK will continue to be a key market for the members of the Alliance in the future, and they might come together to negotiate joint market access to the UK post-Brexit.
- They want to supply a better range of products to the UK and other international markets. This likely would include more organic, exotic and Fair Trade-type products. There is also a desire to build on consumer interest in Latino-type cuisines.
- There will be an increased number of joint ventures between the four countries, with companies from Chile investing in Peru, from Mexico into Colombia and so on in order to provide a wider range of produce and funding into R&D-type projects. The use and conservation of water, for example, is an area that is an issue for all four countries, as are the wider challenges presented by climate change.
- The Alliance can be used to promote investment in new growing/production regions and boost the investment in the physical infrastructure of the four countries both internally and externally.

- The Alliance will look for enhanced access to other international markets, especially in Asia, which is a region of interest to them all. This might see joint promotional activity take place in-country and higher levels of supply chain cooperation. As an example, produce from one country could be exported to Asia using shared logistical and shipping arrangements from another. In some cases, this sort of joint activity already has started.

- Retaining the individual identity of each country in terms of market development, but at the same time, recognising that there are a number of hugely important issues such as corporate social responsibility (CSR) that impact them all.

The concept of the Pacific Alliance seems to be an exciting one and builds on the shared economic, social and cultural interests to be found across the region. There is also a desire to boost trade and investment and work together on important issues of joint interest in the environment, CSR, and market access, not only in mature markets but especially so in Asia. To me, it came across as a massive breath of fresh air.

It was admitted that the conclusion of all the fine detail the Pacific Alliance had yet to be agreed, but there was a determination to "get on with it" in the meantime. There seems to be a very strong underlying recognition that there is more to be gained in the long run by working together on these key issues than looking to preserve self-interest and worrying about "what the next door competition" (was going to gain). This seems to me very much all about the bigger picture in what is a global market and economy for these countries and what can be gained, rather than the fear of what might be lost. 1+1 has always equalled 3, but in this case, it seems that 1+1+1+1 might add up to a whole lot more as well.

John Giles, the Divisional Director of Promar International, has worked in all four countries in the past on agricultural and food marketing/supply chain projects can be contacted at john.giles@genusplc.com

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http://www.producebusinessuk.com/insight/insight-stories/2018/06/01/why-buyers-can-no-longer-expect-supply-to-come-automatically

In-depth look at UK market: Why buyers can no longer expect supply to come automatically

by Gill McShane
01 June 2018

The routes to market are changing fast in the UK, meaning well-organised growers and suppliers have more options than ever before to get their produce to customers. Buyers in all their guises, therefore, no longer can expect supply to come automatically, be it from the UK or overseas.

To understand what fresh produce suppliers will expect from their buying customers in the future and vice versa, John Giles, Divisional Director at agricultural consultancy company Promar International in the UK will join the Educational Seminar Programme at The London Produce Show and Conference 2018 on Thursday 7 June. Here, *PBUK* interviews Giles about the complexity of buying fresh produce going forward.

Q: You're presenting at The London Produce Show and Conference about the routes to market in the UK. Can you provide an overview of your seminar?

A: I'm going to explore the numerous routes to market in the UK that are developing for fresh produce suppliers, and what expectations suppliers might realistically have from their [buying] customers in the future.

Well-organised growers and distributors have more market options and opportunities than ever before to supply their produce, but the buyer (whoever they might be) can no longer expect supply to come automatically (be it from the UK or overseas) because each of these routes to market – whether they are large and mature, or niche and expanding – are in competition with one other.

This makes the job of choosing to be in the right one more demanding than ever before, and, for the buyer, it makes the task of actually buying more complex than in the past.

Q: So what's changed? What are these new routes to market in the UK?

A: In the 'old days', there were two options for selling produce on the UK market; the wholesale markets or the supermarkets, and that was pretty much it. These days, there are so many different channels, which is good for consumers who want to buy whatever they want, whenever they want.

There is still the wholesale market and the retail market – although the supermarkets have changed significantly in the past five years with the appearance of discount retailers, the growth in online shopping and the continued growth of the foodservice sector, albeit with slower growth in the past year or so.

Added to that, there are now various box schemes, grocery home delivery services, farm shops, garden centres and convenience stores, all of which provide fresh produce to the end consumer. The number of options for both UK and overseas suppliers to the UK are infinitely more than 10-15 years ago. Some enterprising UK producers are also looking at exports too.

Q: In what ways is buying more complex today?

A: No one can take for granted the produce they want to source in perhaps they way they have done before. Buyers in the UK shouldn't assume that everyone, especially from overseas sources of supply, wants to sell to them. In the past, the options were limited, and buyers were very much in control in terms of what they bought and how it was procured. Now, that is not so. There is a whole cocktail of things happening in the market too, and, for me, there's not an automatic reason why all suppliers should want to supply all of their produce to the UK and its traditional channels.

Q: What else is influencing the decision to supply the UK?

A: In the past, Europe, North America and Japan were the main markets for the big international suppliers, especially those in Southern Hemisphere countries. Now, their options are considerably more broad – they can supply the emerging markets of Asia, the Middle East, Latin America and even Africa.

Suppliers have got their eyes on other parts of the world and that might be changing their market priority. There's also increasing concern in the UK about food security, which is being accentuated by Brexit and what will happen when that comes into force. With all the changes going on, it's not guaranteed that all produce will come to the UK.

Q: How can buyers remain attractive in the face of growing competition within UK channels as well as from external markets?

A: For me, it's not just about what buyers or, indeed, suppliers need to do – it's about both sides working much more closely together and engaging with their supply chain. Whether you are one of the largest retail multiples or a much smaller, niche-scale buying business, you've got to work closely with your suppliers to get the produce you want. You need to talk sensibly to your suppliers about your game plan, help set out a vision for what you expect and how it will be achieved. You have to become partners.

If you look at the range of pressures on the supply chain – whether commercial, environmental or regulatory – the option of not working closely together is limited. Across the world's agricultural markets, there is volatility in farm gate prices, weather conditions, energy prices and exchange rates. Plus, in the case of the UK there is Brexit, and there are other concerns around food waste, plastic usage, etc.

All of these things make it challenging for both the supplier and the buyer, so trying to address all these complex issues individually will be very difficult. Everyone at every stage in the supply chain needs to be proactively engaged too – the packer, the logistics provider, the supplier of agricultural inputs, and even sometimes the consumer. The emphasis shouldn't always be on the buyer to drive change; others have to respond too.

As always with any challenge, there will be opportunities for those businesses at the top of their game, those who are well informed and those who have solid partnerships.

Q: So, what will suppliers expect from their buying customers going forward?

A: Historically, the focus has been on agreeing good, sustainable prices that enable suppliers to reinvest in their business, to make a return on their investment and to make a living. Rather than the conversation being all about price, I think growers want assurances from which ever customer they choose that they will have a long-term future, and they want part of the deal to recognise the investments they make into better and new varieties, environmental responsibility, better packaging and improved logistics. It needs to be a more holistic relationship; it can't just be about suppliers putting fruit and vegetables on a lorry, boat or plane and the customer sending money back.

Q: Buyers have certainly started to work more closely with their suppliers in this respect. Do you think their efforts need to go further?

A: Some businesses are inherently much better than others, and there have been big strides forward made in the past five to 10 years. But I don't think you can ever reach a situation where enough has been done. There are many good growers and exporters around the world, as well as in the UK, who know how to grow fruit and veg, and how to transport it in good, if not excellent, condition. The real challenge now, and it's been on the cards for a long time, is ensuring genuine sustainability of supply. This applies to following good agricultural practices, building a resilient supply chain and taking care of the environment, water and labour. Those who don't rise to this challenge will be caught out.

Q: How exactly do you envisage the collaboration between buyers and suppliers working?

A: Buyers of all types have got to try to help suppliers understand where they are going as a business. Growers and distributors want to feel inherently confident in what their customer is doing, in what they expect from their suppliers and where the buyer is going as a business.

To give one example from the agriculture industry, processing companies in the dairy sector have started to offer longer-term deals on pricing, i.e. they pay a fixed price in some cases for milk for three years. By comparison, the produce sector, where the pressures are ultimately no different to dairy farmers, contracts still often work on a season by season basis

Retailers and other buyers have to look at developing partnerships and setting out what their expectations are to give growers and distributors the confidence to supply. Don't just think about this year or next year – think about the longer term. We've got some really good produce companies in the UK who would make ideal and very good partners. They are keen to partner up with their buying customers too.

Q: What about overseas suppliers – how should they approach the new market reality in the UK?

A: Suppliers need to make a strategic decision regarding whether the UK is still a critical market. If so, they need to try to understand what's happening in the UK, how consumers are behaving and what is happening in the rest of supply chain in terms of innovation. They need to try to understand Brexit as another aspect of market regulation. There are no easy routes to market these days, including the myriad of them in the UK.

Q: Do you feel the UK is still an attractive market?

A: Yes, the UK will still be a very attractive market, even after March 2019 [when the UK leaves the European Union]. Post-Brexit, some aspects won't change, but it won't ever be quite the same in the UK, either. That said, there will still be opportunities. What Brexit will do is probably accelerate the pace of change we have seen in the past five years or so.

Growers and exporters around the world need to work out where the UK fits in terms of their long-term development. Many produce companies and countries have spent a lot of time building up their position on the UK market, and even though the attraction of emerging markets in Asia, Africa, the Middle East etc. remains very strong, these are still very challenging markets. They may have strong growth rates, but remember this growth is coming from a fairly small starting point. Emerging markets are also very competitive because everyone wants to be there.

Q: Why is the UK an appealing destination?

A: There are 65 million people living in the UK. In relative terms, it's still a wealthy market where consumers have high disposable income. The market is pretty well defined. Plus, it has a very good enabling environment. From the macro-economic perspective, doing business in the UK, compared to many other parts of the world, is good, although it may not be perfect. The legal systems work (if you need them), the banking systems are good too, and, generally, the physical infrastructure is much better than in many other parts of the world.

On top of that, the UK can't grow all the fresh produce that it needs; it's not self-sufficient and there are some things it just can't grow because of the climate. Furthermore, UK consumers are increasingly interested in where their food comes from. UK consumers also respond to promotional activity and social media. UK consumers like new products and new varieties too. We also have a set of world-class retail customers and a diverse foodservice sector.

Q: What are UK consumers demanding at present?

A: Some of the current consumer trends in the UK actually play strongly in to the hands of the fresh produce sector. There is an increasing interest in veganism and reducing meat consumption through concepts like 'Meat Free Monday'. There is still consumer interest in organics and increasing encouragement to eat a healthy, well-balanced diet. The fresh produce industry now has to stand up on its own two feet to make its own compelling argument as to why consumers should buy more fruit and veg.
