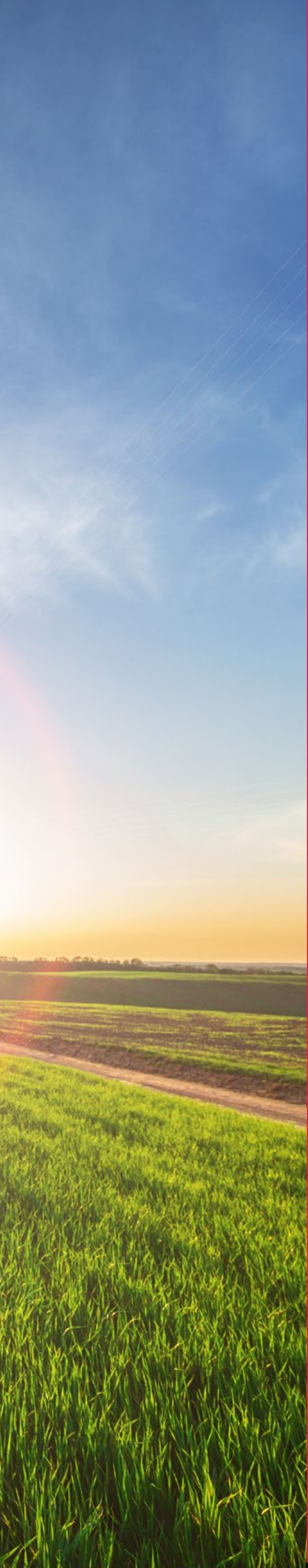
The future of farming & agriculture



Introduction

Never has it been a more interesting time for agriculture. From new technology and supply chain transformation, to geopolitical developments and the growing pressure of climate change, there are numerous factors which mean that the agricultural industry is evolving.

According to the Savills industry survey, most farmers actually believe Covid-19 could change agriculture for the better. Disrupted supply chains and labour shortages have impacted farming, but the pandemic has highlighted the importance of key workers and sectors like agriculture as vital to the country, and economy, and has also underlined the importance of domestic food produce.

We work with farmers and agribusinesses to support their currency requirements, and our team understands the challenges and opportunities of new agriculture and provides currency services and tools fit for modern practices.

Read on to discover how Covid-19 and Brexit have transformed farming, how technology is changing supply chains and introducing green farming, and the global market opportunities British farmers can take advantage of.

Supply & demand during the Covid-19 pandemic

As Covid-19 arrived on UK shores, shoppers went into stockpiling mode. While toilet roll and hand sanitiser were the most sought after items, long-like milk, eggs, tinned goods and pasta were also in high demand. Fresh fruit and vegetables also shot up in popularity as consumers were back in the home kitchen and could no longer dine out once PM Boris Johnson brought stricter social distancing measures in the form of the lockdown.

Warnings came from supermarket executives that they would put measures in place to stop such actions, but also offered reassurances that the country had enough food. However producers such as farmers faced a paradoxical situation, on one hand an increased demand for key food and drink products, but on the other hand there are labour shortages, with many workers self-isolating at home or off ill with Covid-19.

The National Farmers Union (NFU) said that up to 70,000 fruit and vegetable pickers were needed as foreign workers faced lockdown in their home countries, and couldn't come to the UK for the seasonal farm work. One of the biggest food producers in the UK, G's Fresh, confirmed to the BBC that they chartered two flights from Romania to fly workers into the UK so their crops wouldn't be spoilt. A national campaign to get those who have lost their jobs in hospitality and retail because of the lockdown attempted to plug the labour gap for farmers, offering a glimmer of hope to both food producers and those currently unemployed in the UK.

However while farmers tackle labour shortages for in-demand groceries, there is the issue of food waste, with closed restaurants, hotels and cafes forcing a lot of milk, eggs and vegetables left to rot. One in eight litres of milk produced at UK dairy farms is exported globally, with the remaining 50% going to retailers and the food service. With closed coffee shops across many countries worldwide, oversupply of milk was a real issue. Dairy Farmers of America, the country's biggest dairy cooperative, estimated farmers are dumping 3.7 million gallons of milk every single day because of disrupted supply chains.

Supporting local

In the US the Department of Agriculture's community-supported agriculture (CSA) program supports local farmers, where you pay to receive what is growing in a nearby farmer's field, opting for additional meat and dairy extras. With restaurant orders cancelled and farmers' markets on hold, such programs offer a helping hand to farmers facing a financial crunch.

And, consumers seem to appreciate a local offering, because while current evidence suggests that coronavirus doesn't spread on fruit and vegetables, it may sit better with many that less people would have handled local goods, as opposed to how many people may have picked up produce and put it back at a supermarket.

What about Brexit?

Remember Brexit, that big economical concern before Covid-19 dominated the headlines? Brexit has been a key concern for British farmers because of the implications not only for trade with the EU, but also for changes to export and import standards and the availability of seasonal workers. In addition, uncertainty over Brexit has meant that currency markets have been volatile and the pound has weakened, meaning the value of exports could decrease, putting further pressure on margins and prices.

What does the Brexit deal mean for farmers?

The government has produced flow charts for the import and export of various goods including farm produce and livestock. The charts indicate the paperwork required, the time each step takes and highlight any delays or additional costs. The government also published the planned tariff regime for imports and exports relating to the existing Brexit deal, which puts further pressure on profit margins. Until the ink is dry on the Brexit deal, there could be further amendments which change the nature and extent of tariffs and market standards.

Seasonal workers

As the deal currently stands, EU citizens will be able to carry out seasonal work on farms after Brexit. The government has confirmed that there will be no changes to the requirements in 2020 and checks can be made on any applicant's right to work until 1 January 2021. In the future, it's not just the visa requirements that may halt the arrival of seasonal farm workers from the EU; if the pound is weakened against the euro by Brexit, it may mean that the UK is less appealing as a destination to work. It may, however, mean that workers from elsewhere in the world are attracted to the UK, or there may be an increase in domestic workers. In addition, the development of new technological solutions and grants available for innovations may mean that the issue becomes less significant.

Life after CAP

Once the UK leaves the EU, funding currently available from the EU under the Common Agricultural Policy (CAP) will come to an end. The Department for Environment, Food and Rural Affairs (DEFRA) has assured farmers that it will continue to administer payments under the government's funding guarantee until the end of the current parliament's term. This was projected until 2022, although current political changes may put this aspect in doubt. If the commitment is honoured, it will relate to all funding provided for farm support under both Pillar 1 and Pillar 2 of the current CAP.

These payments will require farmers to maintain EU standards until the proposed Agriculture Bill is enshrined in law. At this point, certain requirements or the nature of payments may change. One potential benefit is that these payments from the government will be in sterling, and therefore farmers won't have to accept the risk of currency fluctuations on the payments.

In addition to continuing CAP payments until an alternative can be delivered, the Rural Payments service allows farmers to register with DEFRA and apply for grants and payments relating to the preservation of the rural environment.

There is still plenty to be ironed out, with farm groups hitting out at the UK government on its readiness to abandon a zero tariff trade deal with the EU.

Changes across the Supply Chain

The changes wrought by Brexit, Covid-19 and expanding global markets, together with the opportunity of new technologies, mean that there has been some disruption in the supply change which is leading to wholesale changes.

Supply chain partnerships seem to be one way to address the challenges of the current market. Moving away from seeing the supply chain as a means to an end, partnerships can offer greater resources and have a knock-on effect on elements such as pricing due to efficiency gains. Moving away from the transactional model allows for more bespoke solutions to supply chain challenges, but it means that many more farms and organisations may have to build global partnerships.

Innovations in the supply chain may be the key to supporting struggling areas of the industry such as agroforestry, especially for UK perennial food crops which is struggling due to globalised food pricing. While UK farmers cannot produce as cheaply as their European and international counterparts, closing the logistics gap and improving marketing messages could be a way to ensure that British goods have an opportunity to reach a wider market and that level of change will need involvement across the supply chain.

On the domestic front, farm to table services have proven to be a successful innovation. For example, Riverford Organic Farmers work with UK farmers to offer fresh, organic produce which is sold directly to consumers via vegetable boxes. Other organisations seek to sell directly to restaurants and as these services show some success, there may be an opportunity for expansion into global markets. As with expansion into new geographic regions, this will require partnership across the supply chain but could pay dividends as a way to reach new markets and highlight the quality crops and meat from British farms.

Changes to the supply chain have been brought about as the industry remains under pressure to increase productivity, reduce waste and the impact of farming on the environment. As a result, the supply chain has become much more integrated and in the coming years, it's likely that supply chain partnerships and integration could play an increasingly more significant role in the success of the farming industry.

Global Markets

Exporting British produce across the world

What is clear is that the global market for British produce is set to change, and there may be an opportunity to expand into markets further afield.

Consumer research highlights that different countries have different priorities; overall the key themes were quality, price, health and food safety. However, different countries focus on different areas – Japanese customers, for example, are particularly concerned with food safety after the Fukushima nuclear incident. Markets in the USA and Canada placed quality at the top of their list of priorities, but what is considered quality varies from place to place. In the UK, there is a resurgence for local produce after some international supply chains buckled under the pressure caused by Covid-19.

UK standards such as the Red Tractor and the Quality Standard Mark Scheme (QSM) for beef and lamb could be beneficial in some markets where quality is a priority but there will be some education needed to inform new international markets about what the standard represents. In addition to marketing campaigns promoting the benefits of British produce, cultural differences should be taken into account to expand further afield. Although it is currently a small percentage of overall exports, the Asian market for British meat grew 72% between 2012 and 2017. As British farmers look to wider horizons to sell their goods, this could expand further.

Dairy could be another area set for global expansion. For example, Hong Kong is becoming a growth market for high quality cheese and while French, Italian and Swiss cheese currently have greater awareness, investment in marketing could prevent an opportunity for producers of regional British staples such as Somerset cheddar and Yorkshire's Wensleydale cheese. Across Asia and the Gulf State, concerns over food safety mean that there could also be an opportunity for fruit and vegetable exports. Research showed that product value was linked to product appearance in many markets, but the fact that the UK has remained potato disease-free is a unique selling point for Britain's potato farmers and could matter more than the crop's appearance. In markets where quality and safety are high priorities for consumers, there may be an opportunity for a price premium to be applied to goods.

While there is still some way to go to raise the awareness of British farming on the global stage, it is an industry that is associated with quality and safety as well as tradition and heritage. Countries including the UAE and Saudi Arabia had particularly high awareness, research showed, and could be a starting point for exporters looking to expand further afield than Europe.

Importing produce from across the world

Although Brexit has raised concerns about standards, Britain does currently import produce from farms across the world. In some cases, Brexit changes could make imports more popular; for example, tariffs on honey from New Zealand could fall from 17% to 0% and grapes from Brazil could also be reduced to zero from the current 15%. This may present a challenge to local producers, but even with the removal of tariffs, other barriers may prevent more widespread imports.

Climate Change and Green Farming

Few industries are more motivated to address the issue of climate change.

A report from the Agriculture and Horticulture Development Board highlighted that while potato yields are looking better in the UK than elsewhere in Europe, British farmers have not avoided the impact of climate change. Across the UK, France, Germany, Belgium and the Netherlands, the average yield is estimated at 44.7t/ha, compared with the five-year average of 47.1t/ha. A drought in 2018 had a significant impact and the potato yield was well below average at 40.9t/ha. UK farmers benefit from better growing conditions, including irrigation, but the extreme weather is still having an impact. For example, in the UK, intense summer rainfall is increasing the number of green potatoes that cannot be sold. Farmers can't control the weather and as it becomes more unpredictable and more extreme, they will be focused on getting the best value from their crop as well as addressing how the industry can support greener farming practices to halt global warming.

The UK government has developed the Transforming Food Production Challenge which is meant to support innovations in production and technology that will cut emissions and boost production. The £20m fund follows a pilot introduced in 2016 which offered payment by results. The pilot showed significant improvements in biodiversity and production and the focus on results, rather than actions, seems to have been a beneficial approach with an average 43% increase in the number and diversity of seed bearing plants than nearby sites.

DEFRA Secretary Theresa Villiers highlighted the importance of giving farmers "greater flexibility and autonomy to deliver the best results for the environment," which is why DEFRA opted to fund an extension of the original pilot for a further two and a half years. The expectation is that the upcoming Environment Bill will include further measures to provide continuity of funding. The benefits for farmers are twofold, providing a valuable source of funding and an opportunity to contribute to the efforts to tackle climate change. As new projects and innovations are developed, there may be more partnerships between farmers and agribusinesses. Closer collaboration on projects eligible for the fund and an opportunity for technologies developed to support green practices to prove their worth could mean that new international partnerships could be the way forward to support innovation and the environment.

Traditional farming and modern technology

As well as structural changes due to market demand, technology is also supporting changes in the supply chain. In fact, technology is becoming an increasingly important factor in all areas of farming.

The labour shortage caused by the Covid-19 lockdown is not a short-term issue. Social distancing isn't going away any time soon, and the agricultural industry is going to have to come up ways to protect the workforce. It seems unlikely farmers will return to business as normal, and actually many will look to mitigating the risks of relying on foreign seasonal workers. While not all roles can be automated and such technology needs investment, agriculture could see increases in drone usage, seeding robots, autonomous tractors, and even robotic harvesters.

In their April 2020 Nature Sustainability paper, Professor in the College of Natural Science at Michigan State University Bruno Basso, and John Antle, professor of Applied Economics at Oregon State University, stated that digital agriculture is the route to sustainability. But while sensors and predictive modelling combined with AI can lead to more sustainable farming, the challenge is whether the industry wants to adopt these changes, and are there enough incentives in place, such as showing the improvements on communities and the the environment, to warrant adoption?

The potential of the Internet of Things (IoT) to gather data has proven very successful in the farming industry. One Brazilian company, for example, offers a system that uses drones and IoT sensors to gather data on pigs and their environment. Further information can be added via a simple voice app on the farmer's phone, and the data can be analysed so ensure accurate production forecasts. The data goes beyond the benefit to individual farmers – data can be shared with suppliers of everything from feed and medicines to crop performance. The IoT facilitates closer working relationships and indicates that closer, international partnerships right across the supply chain may help farms to success.

Self-driving tractors and seed-planting robots may seem like they come straight from a science fiction novel, but for many farmers this is already the reality that is helping to control labour costs and increase productivity. Satellites and cloudbased software can run aspects of the farm with real-time data and put the farmer in control of every aspect of production.

There are signs that the collaboration has already started that can help farmers harness the potential of technology. Tractor company John Deere, for example, now sells data management services that cover the performance of all farm equipment, equipment, whether manufactured by the company of not. Data analytics has become a revenue stream for the company that also provides integrated data which directly supports farmers, with real-time data and early warnings on any potential issues with equipment.

In addition to these new technologies, there has been a rise in support services as the industry seeks to go beyond using new technology to fit an old business model. Consultancy, support and strategic guidance will be essential to help farmers establish which technologies will work for their business and which can deliver improvements in cost, performance and productivity. It's likely that the most successful technology solutions will bring together products and services from multiple organisations and as partnerships become the norm, greater international connections are likely to arise alongside a service industry that supplies guidance on the choices available.

As the possibilities of new technology becomes clear, farmers and agribusinesses need to be aware of the phenomenon of "information overload" which can cause paralysis in operations. Although there is the potential for immense amounts of data to be collected, it's important to focus on those areas which offer the greatest benefit to the operation. Once those parameters have been established, service companies can standardise and even analyse the data so that technology facilitates, rather than interferes with day to day operations.

Understanding currency fluctuations

A rise in global markets and international partnerships mean that many more farms and agribusinesses will be exposed to the risk of currency fluctuations which can impact the bottom line.

There are many factors that impact a currency, such as Brexit, Covid-19 and the US-China trade war as major examples, but currencies fluctuate due to economic statistics, political changes and business confidence. As they fluctuate in relation to each other, a major change in another country will have a knock-on effect on other currencies. The biggest challenge is that given that there are so many factors, and that it involves areas such as politics, the currency market is difficult to predict. This in turn makes it difficult to set prices with overseas partners. In addition, there are some suggestions that the current economic situation may lead to a shift in buying patterns. The overall approach to your company's currency exposure will depend on a number of factors, but here are some key steps to take when planning ahead in uncertain times.

Managing currency risk

1 UNDERSTAND THE NATURE OF YOUR CURRENCY EXPOSURE

Take a look at your balance sheet and consider what fraction they are of overall incoming and outgoing funds because this will indicate your measure of risk. If it's only 10% of your business, you may think you have less to worry about than if it's currently 70% but the issue isn't quite that simple. Of course, a company with higher currency exposure bears more risk due to currency fluctuations, but you may want to look beyond the numbers at your strategic plans. You should consider where the market may be growing or shrinking and where the future opportunities lie. In trying economic times, whatever the percentage of your overall profits and losses are consumed by currency, you should aim to make the most of every penny.

2 UNDERSTAND THE CHOICES AVAILABLE

There are a number of currency tools which can help you make the most of your company's resources and still expand into further overseas markets. A forward contract allows you to lock in a prevailing rate of exchange for a set period of time. (Please note, a forward contract may require a deposit.) This can help with forward planning and provide some certainty but it carries its own risk. Currency can go up as well as down, and it depends on what is going to work best for you. In addition, there's the fact that this works best when you have a clear pipeline and this isn't always possible in farming, which relies on the weather and other uncontrollable environmental factors. If you have definite commitments then a forward contract may be the best approach. However, you can also set up a market order; this allows you to specify your target rate and the funds are transferred if that rate is reached. There are no guarantees with a market order but you can pair this with a stop-loss order which specifies the lowest limit you are willing to accept. This allows you to protect your profit margin while also having the opportunity to take advantage of movements in the market. These are both longer term strategies that require some planning, but if you operate a more agile business, you may feel like the best approach is to wait and see what the market brings and adapt accordingly. This does carry some risk, but if you work with a specialist who can keep you updated on the latest changes in the market then it could allow you to maximise your profit margin and help protect against market movements.

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SPEAK TO A SPECIALIST

All of the above products and services are available via a currency specialist but that isn't the only advantage. Currency specialists offer guidance on exchange rates and typically lower transfer fees than high street banks. You also get the benefit of expert guidance from someone who understands the foreign exchange market and has worked with similar clients, as we have a number of agricultural businesses already trading with us. Whether you're just starting to consider your currency exposure or are simply looking to review your current approach, the additional expertise can shed light on the opportunities and risks of different approaches – and you can get all this extra help for free when organising your international payments through a specialist.

Controlling currency costs

Fluctuations in the exchange rate have an impact on the cost of international payments, but it isn't the only factor. Different providers offer different rates of exchange, and even a fraction of a percentage point can make a big difference. In addition, if you're working with multiple partners across the globe, exchange fees can soon add up and can further erode the profit margin. If you're working across multiple markets around the world, then it may be time consuming to set up and deliver the broad range of currency transactions required and to keep track of cash flow when working in multiple currencies.

Managing international payments

Working in partnership with a currency specialist like moneycorp can improve the process of managing international markets and partnerships. As well as expert guidance on the currency market and available currency tools for managing risk, moneycorp provides clients with an online platform for managing international payments. Features of the platform include live statements, progress updates on international payments and the facility to make payments in multiple currencies and management controls. This approach doesn't add too many additional layers of administration or require staff with specialist expertise, but does provide the transparency and checks and balances that allow for the close management of currency costs.

Currency support for the farming industry

For many organisations, a global approach can help to offset some of the challenges of shrinking domestic markets, political changes such as Brexit and changing consumer tastes and priorities. Wherever the market is expanding, the cost of international transfers and the risk of currency exposure are likely to be a key factor in whether your plans succeed – after all, there is no point in tripling your sales through overseas markets if you find that you didn't make a penny of profit. The corporate foreign exchange service from moneycorp helps companies to manage their foreign exchange risk. Our expert team works directly with the food and drink industry and provides guidance on the foreign exchange market and insight into currency tools and market developments and how they might impact individual businesses.

moneycorp

Lee McDarby is Managing Director of Corporate Foreign Exchange and International Payments at moneycorp. He has over 15 years' experience in foreign exchange and previously worked on the legal team for DEFRA.

Contact us

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