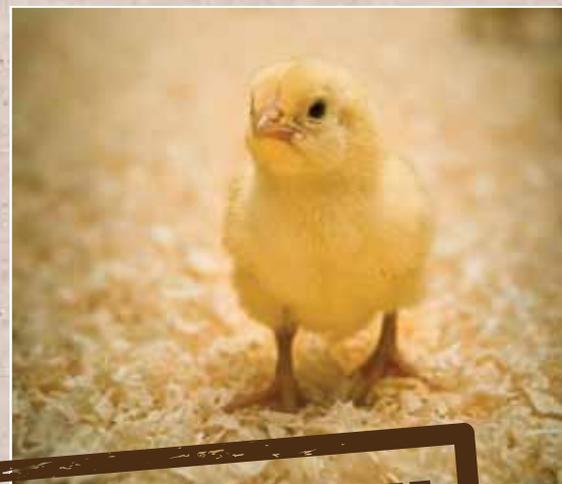


BACKING THE BUSINESS OF BRITISH FARMING



THE REPORT

BACKING THE BUSINESS OF BRITISH FARMING

Introduction – Peter Kendall, NFU President

The prospects for global agriculture have experienced a dramatic turnaround in recent years. The key drivers of population and dietary change are well documented and will influence overall demand for food. Less well documented is how we're going to achieve it. Indeed, several supply-side shocks have proved timely reminders of the challenges and fragility associated with agricultural production. For any business, confidence is critical because it determines future investment and production decisions. Confidence is particularly important to agriculture. Farm machinery, buildings and agricultural land all have long life spans. Similarly, many farming systems are based around an annual production cycle. Given such capital requirements and the long payback period, the future prospects for agriculture matter. A positive outlook from farmers is good news for agriculture and good news for the wider agri-food sector. For example, drought in North America in 2012 impacted 80 per cent of farmland, hitting crop and livestock production alike. Similarly, Russia, China and Brazil saw drought impact on farming.



The UK has not been immune from its own climatic challenges – 2012 was the wettest year on record in England and we experienced our dullest summer for more than twenty years. This was followed by a 2013 that registered the coldest March for fifty years and saw heavy snowfall in early spring. And like the current flooding on the Somerset Levels, all saw farming in the headlines as the media documented the challenges that farmers faced and sought to understand the impacts on our food supplies.

Yet UK agriculture has proved remarkably resilient as an industry. And neither should we forget that it is an industry. Our farmers are a testament to our resilience, and it is important that at the heart of our agricultural sector are viable and successful farming businesses.

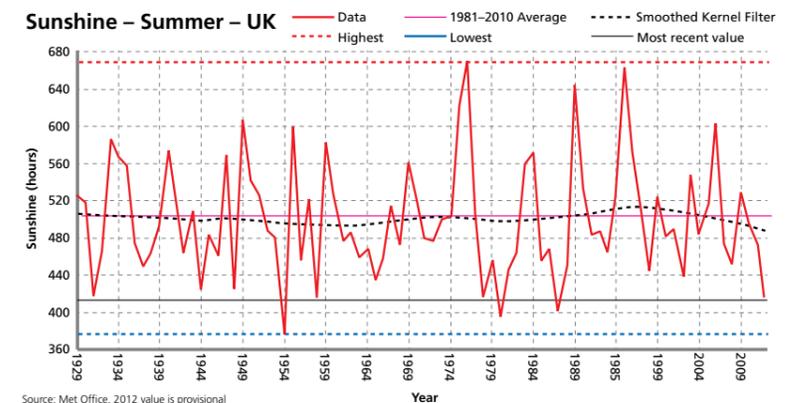
This brief report is intended to capture how farming is delivering for Britain's economy. As the last couple of years have underlined, agriculture will never be without its challenges. The sections that follow summarise the many positives and opportunities that I believe characterise agriculture.

Farmers have a vital role in ensuring a safe, traceable and high quality domestic food supply, and the collective importance of food and farming to the UK economy must not be underestimated. This is why it's so important that politicians and retailers continue to Back the Business of British Farming.

Peter Kendall, NFU President

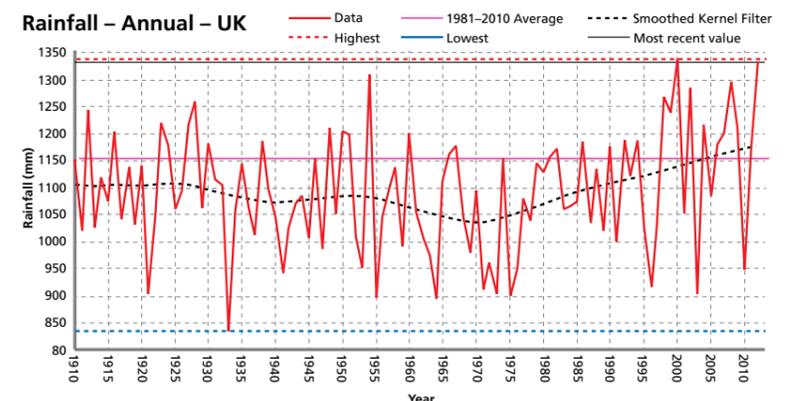


Volatile weather patterns



Source: Met Office. 2012 value is provisional

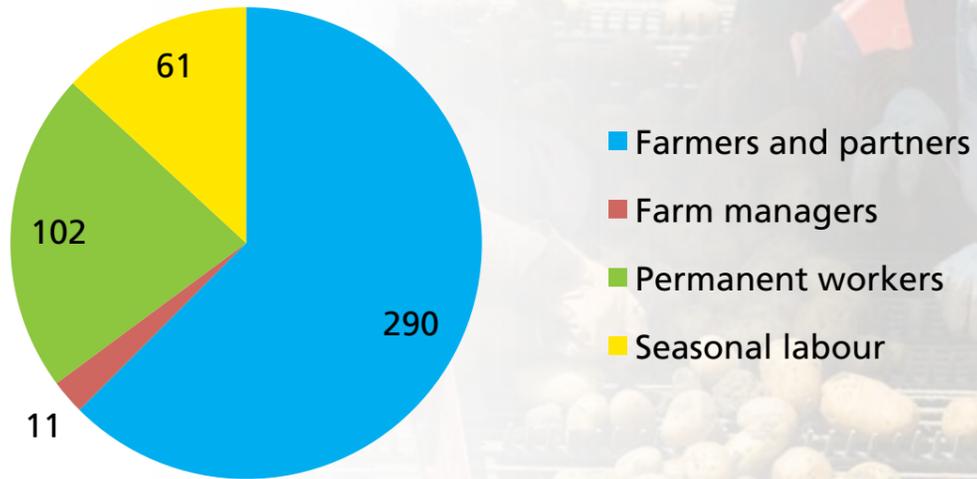
When looking at the year as a whole, 2012 saw the fewest hours of sunshine in the summer months since the late 1980s



As well as below average temperatures recorded in January and February 2013 (compared to the 1981-2010 average. Temperatures for March were well below average. The provisional UK mean temperature was 2.2 °C, which is 3.3 °C below the 1981-2010 average. It was the coldest March since 1962, and the equal second-coldest on record (going back to 1910). March was also the coldest calendar month since December 2010.

1. Our economic impact: comparing farming performance with the wider economy

UK Farm Employment 2013 (thousand persons)



UK agriculture's contribution to the economy¹ **increased** by a staggering **54 per cent** between 2007 and 2012. Indeed, agriculture's GVA in 2011 and 2012 contributed an additional **£8.6bn** more to the UK economy between 2008 and 2012 than it did in the 2003-2007 five-year period.

This is in contrast to the wider economy. In early 2008, the UK economy experienced a downturn that it has still not recovered from. From peak to trough in 2009, the economy shrank by 7.2 per cent. As 2013 drew to a close, the size of the UK economy was still smaller than it was at its peak at the beginning of 2008. The knock-on impact has been substantial. Unemployment leapt from 5.2 per cent in Q1 2008 to 7.7 per cent in Q1 2011. The drop in the economy and subsequent slow growth has been mirrored in wages and household income, with inflation eroding what little growth there has been in average weekly earnings.

Amidst such disappointing economic indicators, government, commentators and analysts alike have scoured facts and figures for evidence of the green shoots of recovery over the past five years. Late 2013 and early 2014 have delivered some positive fiscal data; GDP figures that have exceeded expectations, falls in unemployment and a slowdown in inflation.

Although much heralded, the bottom line is that the UK has effectively experienced half a decade (and counting) of 'lost' growth. Compare this to agriculture. To say that agriculture held up well through the recession is a massive understatement.

A driving force has been the increased value of the UK's agricultural output, on the back of improving commodity prices. From £16bn in 2007, our farming output had risen to **£24bn in 2012**. The value of our farming produce in the five years to 2012 was some **38 per cent** greater than in the five years between 2003 and 2007. Success stories from our manufacturing, services and construction sectors have been scarce in recent years, yet the reality is that the fields and farms of Britain have yielded impressive growth.

This has also impacted the overall income of agriculture. Although the latest figures show a year on year fall, 2012 represents the **fifth consecutive year** in which the total income from farming has exceeded **£4.5 bn**. Although below the peak seen in the mid-1990s, aggregate income has remained at a level higher than those recorded in the late 1990s/early 2000s.

1. As measured in Gross Value Added terms



2. Farming supports tens of thousands of businesses and jobs



Agriculture's importance to the UK economy is emphasised by the fact that the UK has 142,000 businesses that are registered as farm businesses for VAT purposes. In numerical terms, **this is more than the number of businesses involved in the motor trade, education, finance and insurance**, equating to 5.5 per cent of the overall total. In more rural areas, agriculture is obviously even more important to the local economy.

In Cumbria, for example, agricultural businesses account for 20 per cent of VAT registered businesses in the county. Even the nationally-dominant construction and retail sectors are distant in comparison, with their contributions of 10 per cent and 13.5 per cent respectively to Cumbrian businesses.

The farming sector is also a major employer; the latest Defra June Survey figures show that in 2013 the national agricultural workforce stood at 464,000.



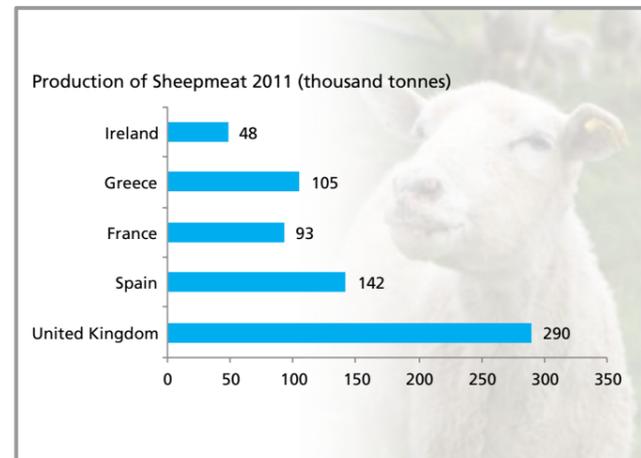
One of the factors that characterises agriculture is the dominance of family businesses. Sole traders and partnerships dominate business structures in agriculture, with more than 90 per cent of businesses run as sole traders or as family partnerships. Whilst this supports long-term decision making and a degree of resilience, such a structure is not without its challenges.

For example, a government mechanism for promoting business investment has been to reduce the main rate of corporation tax. Yet for the 92.5 per cent of farm businesses that are unincorporated, the reality is that a focus on corporation tax alone does not stimulate investment.

3. A productive industry that has scope to grow

On a European basis, the UK is among the most significant food producers in the EU.

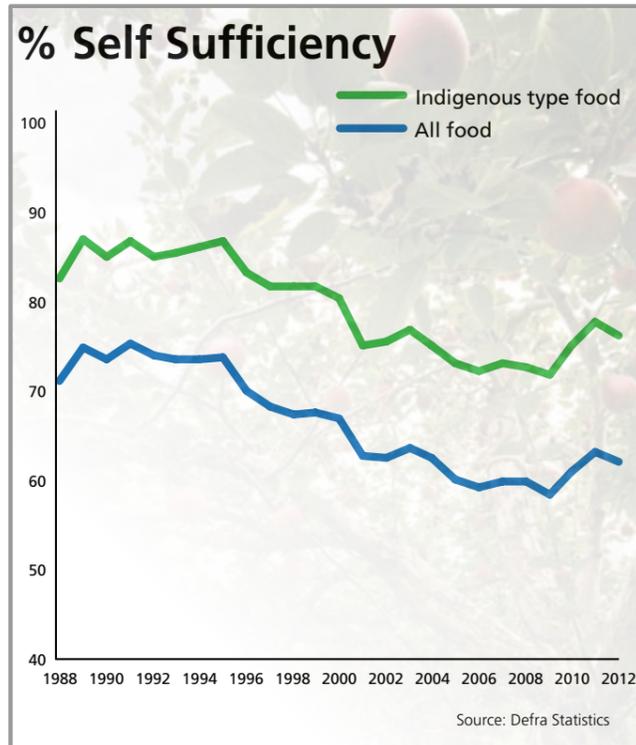
- Even with the below average harvests of 2012 and 2013, the UK is the **third largest wheat** producer in Europe.
- With more than **13bn litres of milk** produced annually, only Germany and France have a greater dairy output.
- The UK is the **largest producer of sheepmeat** in the EU, with 2012's output of **276,000 tonnes of lamb and mutton** more than double that of Spain, the EU's second largest sheepmeat producer.
- The UK is the **fourth largest producer of beef** in Europe, with our maritime climate conducive to the production of high quality, grass-fed beef.



In 2012, Britain's farmers and growers supplied 62 per cent of the nation's food, and 76 per cent of the sorts of foods that can be grown in this country. These figures have fallen in recent decades as our self sufficiency has declined.

This decline in self sufficiency is reversible.

Indeed, there are product areas where we have made some big inroads in domestic production. In 1991, for example, domestic strawberry production was 44k tonnes; in 2012 it was 96k tonnes. For asparagus, the UK produced just 1,500 tonnes in 1991 versus 5,400 tonnes in 2012. With both, we've made progress with investment in varieties and application of technology that have effectively extended the growing season here. They are still seasonal products of course, and we turn to imports to meet year-round demand.



The Self-Sufficiency ratio is estimated to be 62.1 per cent for all food in 2012 and 76.2 per cent for indigenous type food. This compares with 63.1 per cent and 77.8 per cent respectively in 2011.

Product	1991	2012
Cereals	22.6m tonnes	19.5m tonnes
Potatoes	6.4m tonnes	4.6m tonnes
Fresh veg	3.1m tonnes	2.5m tonnes
Orchard fruit	32,000 ha grown	18,000ha
Beef	1.0m tonnes	0.88m tonnes
Pigmeat	14.9m head marketed	9.8m head marketed
Sheep	0.421m tonnes	0.286m tonnes
Milk	14.4bn litres	13.5bn litres

Of course, there will always be a proportion of food that we just can't grow in the UK because we haven't got the natural ability to grow them, whether that's down to temperature, sunshine, soil type, etc. The disappointment for UK farmers is where we see production fall or stand still in those products where we should be able to compete and where we have got a natural advantage. Our wheat yields are amongst the highest in the world and good

grass growth supports our livestock industry, for example. Greater self-sufficiency does not mean limiting or reducing export; it means capitalising on what we're already good to underpin a potential improvement in farm output volumes.

Ever growing pressures on the global food system mean that it will make even more economic and environmental sense to make the most of our own food producing resources in the future. Food security is a topic that many have ignored for a number of years, yet volatility in commodity markets since 2007 has shaken global food markets. With stocks depleted and demand from emerging markets rising all the time, supply and demand have been on a knife edge. Small changes in supply prospects cause big swings in prices. Some of the world's major exporters, such as Argentina and Russia, have become more inward looking, restricting commodity exports at various times over the past five years. Rather than becoming freer and more transparent, the global food market is in some respects becoming more restrictive.

As oil prices rise, so the cost of shipping and flying food huge distances around the world is becoming more prohibitive.

Food security, a given for so many years, is firmly back on the agenda. Indeed, we have seen Defra ministers recently highlight the fact that 24 per cent of the food eaten in the UK is imported when it could be produced here. Identifying the opportunity is only the first step, but given that Defra has historically viewed agriculture as a provider of environmental benefits rather than as a business, it is certainly a positive to be seized upon.

4. British shoppers that want to back British farming

Nowhere was this more apparent than in the wake of the discovery of horsemeat in food products in the UK. In the wake of the horse meat scandal, consumers told the NFU that they wanted to see more British food on supermarket shelves.

The results of a survey commissioned by the NFU found that more than **86 per cent of shoppers are as likely or more likely to want to buy more traceable food that has been produced on British farms** and a further 78 per cent agree or strongly agree that supermarkets should sell more food from British farms.

British farmers know that consumers are faced every day with a wide choice of what food to eat. They know that the food they produce has to be high quality, tasty, fresh and affordable if consumers are going to buy it in preference to the imported alternatives. The fragility of the economy has made shoppers even more hard headed in their approach to buying food. Families face a real challenge to maintain living standards as household disposable incomes stagnate relative to inflation. Consumers are becoming thriftier, writing lists and sticking to budgets, making more of leftovers, cooking at home, making more frequent shopping trips and buying fewer items.

Even in times of economic hardship, the British public has continued to see the value in buying locally produced food. According to the Institute of Grocery Distribution (IGD), 41 per cent of shoppers are prepared to pay more for locally produced food and 47 per cent for higher welfare produce. Mintel forecasts that the retail value of local food sales was more than £6 billion in 2013.



The phenomenal growth in the popularity of local food speaks volumes for both the people who buy it and the farmers who have understood what consumers want and have played to their strengths.

There are a number of reasons why we buy food that's produced locally. For some consumers, buying local food gives them the chance to support their local economy. The continuing drive for local sourcing means that consumers can decide to invest their money into their local economy by buying food from producers near to them. By buying British food, consumers are contributing to the nation's economy and helping to drive our economic recovery.

But for many consumers, what matters is the sheer quality and taste of the unrivalled range of foods that come from across the British Isles. From Welsh lamb to West Country beef; Yorkshire rhubarb to Cumberland sausage; Lincolnshire cabbages to Kentish strawberries; Cornish new potatoes to Herefordshire apples; Stilton cheese to Dorset Blue Vinney, the choice is endless. Not only can consumers buy different foods but they can choose to buy different foods from different regions too, and not only that, they can take advantage of our changing seasons to buy fresh food when it is at its very best.

British farmers invest huge amounts of time, effort and resource into complying with standards that set them apart from other global producers and give confidence to consumers that the food that they eat has been produced to a specific set of production criteria. The Red Tractor logo, carrying the Union Flag, not only shows that food has been produced in the UK but also that it meets good standards of animal welfare as well as respect for the environment. These standards not only reinforce the already exacting requirements of UK legislation but go further in ensuring that food is produced according to the demands of consumers.

The retail sales value of food products carrying the Red Tractor logo also continues to increase and it is estimated now to be approaching £12bn per annum.

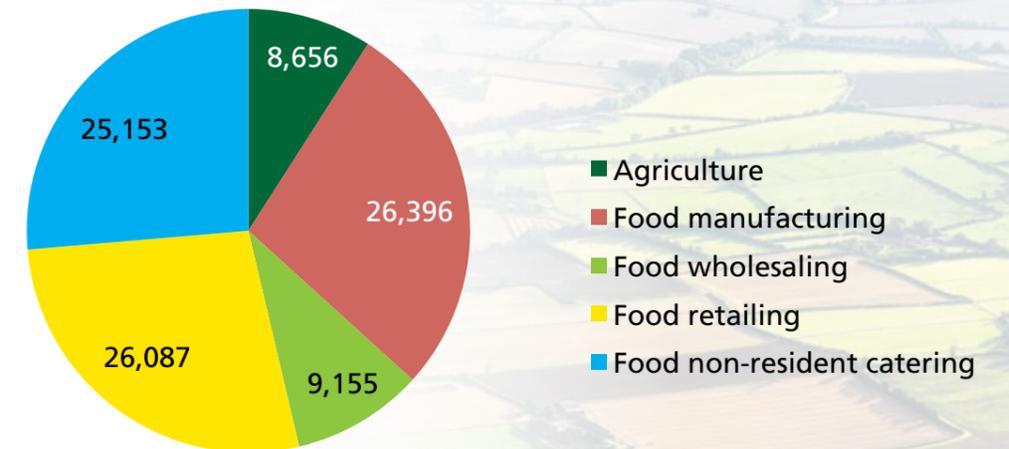
Therefore, the Red Tractor logo is by far the most widely used assurance mark in the UK market and it is used extensively on qualifying products in all the major UK supermarket chains. In parallel to the increased use of the Red Tractor logo on food products, independent surveys show that the response from consumers has been hugely encouraging.

A YouGov poll, published in April 2012, found that 64 per cent of UK shoppers, six per cent up on 2011, say they support the Red Tractor and are positively influenced by it when deciding what food to buy.

5. Agriculture's role in the wider food industry



Agri-food Sector's Contribution to National Economy GVA 2011 (£million)



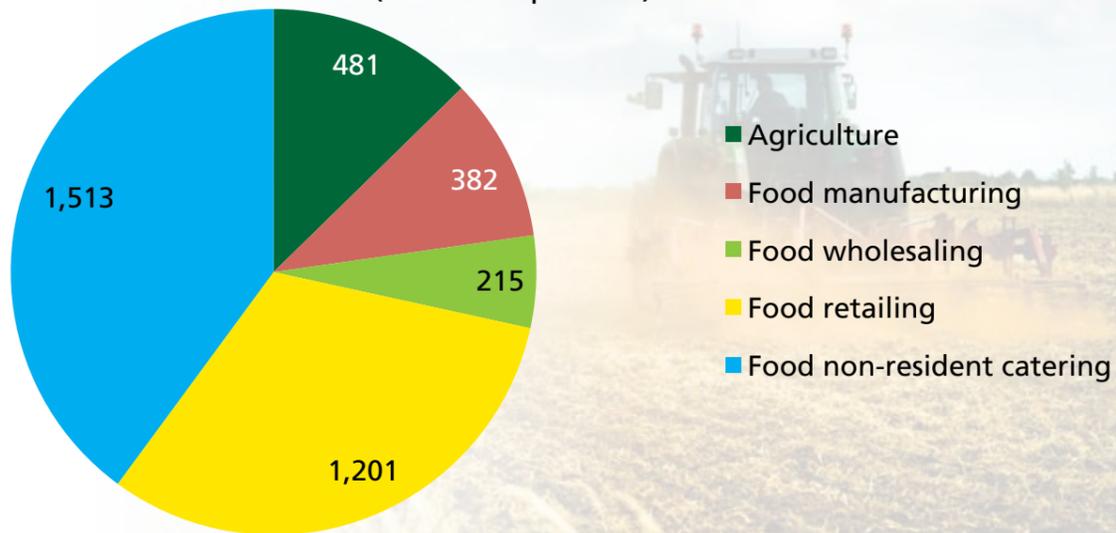
To look at agriculture alone is to only look at part of the story. Farming is the foundation stone of the UK's food and drink industry. Add in the value of its output and you are left with a total farming and food sector worth some £96bn, the equivalent of 7.3 per cent of the GVA of the UK economy. Similarly, the farming and food sectors provide more than 3.7 million jobs (see table Above).

Together, farming and food have effectively formed a precious oasis of growth and potential at a time when the economy generally has been struggling (see table on Page 10). The latest GVA figures for the sector show a 19 per cent increase in the size of the agri-food sector compared to the pre-recession levels recorded in 2007, whilst the number of people employed in the sector in 2012 was 4.8 per cent higher than pre-recession levels

For every £1 that farming contributes to the UK economy, our food manufacturers and wholesalers contribute a further £5.



Agri-food Sector Workforce 2012 (thousand persons)



Going further along the supply chain, UK shoppers spend some £187bn on food and drink products at retailers and food service outlets each year

Although farmers' share of a basket of food has decreased over time, a number of factors have contributed to a shift in attitudes of the food chain to their raw material suppliers as outlined in the previous section (increased market volatility, the discovery of horsemeat in some food products and a general recognition that food provenance matters to UK shoppers).

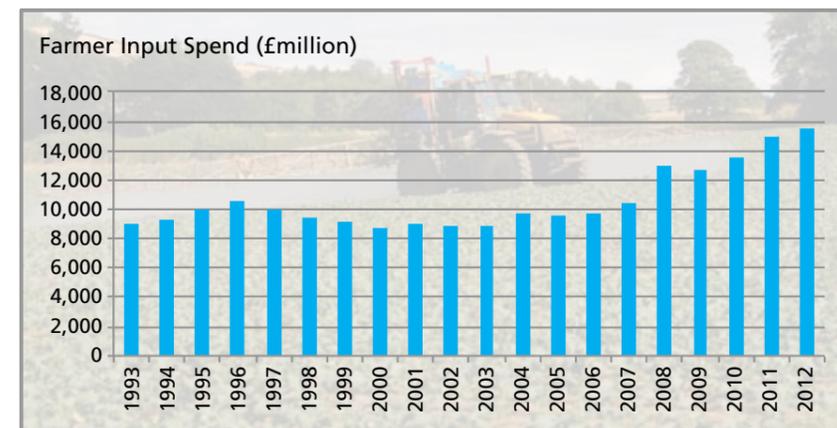
Subsequently, there have been some positive steps over the past year. Progress isn't as fast as farmers would like, but the direction of travel is to be welcomed. Whether it is a greater recognition of the costs of production (and practical) challenges faced by farmers, increased availability of contracts over a longer time period, or a move towards a relationship rather than a transactional focus, these are steps to be welcomed.

6. Farmers drive demand in the agricultural supply chain

Farming doesn't just supply the raw material for our food manufacturing sector, but the number of farming businesses generates economic growth for the farming supply chain (see chart, below).

The amount farmers spend in the supply chain has been increasing over recent years, leaping from £10.4bn in 2007 to £15.3bn

in 2012 as the costs of production of farming have increased significantly.



The key inputs of feed, fuel and fertiliser account for half of this farm expenditure, but there are a range of other items where farmer spend benefits the wider economy. From vets and farm advisers to farm accountants and rural solicitors, all will have their business fortunes influenced by the success of farming. On top of agriculture's direct contribution to the economy, the farm supply chain alone is estimated to add a further £1.1bn to the UK economy and accounts for some 12,000 jobs.

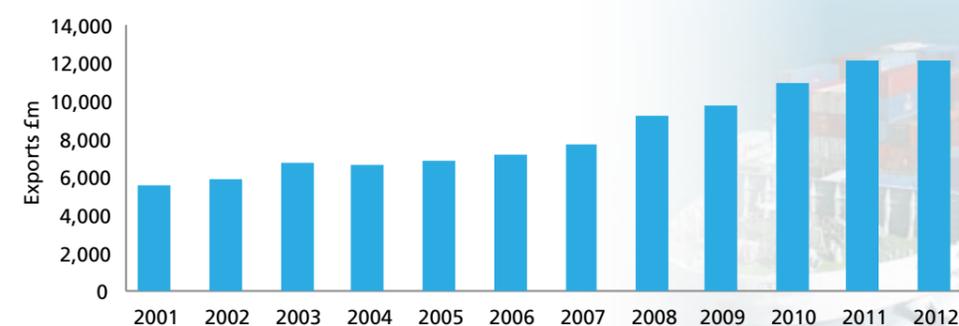
The average farm has more than £1.5m invested in the assets that are required to grow and produce our food. Whether that is land, buildings, livestock or machinery they all need maintaining,

repairing and occasionally, replacing. In the past decade nearly 129,000 new tractors have been registered in total. This is just one element of the farm machinery market, where businesses are also part of the UK's specialist engineering sector. Similarly, expenditure on farm infrastructure, whether it is farm buildings, reservoirs or farm diversification projects is of benefit to the construction industry. Put simply, spending by farm businesses has a knock on effect on the wider economy as this money is spent on a range of goods and services.

Collectively, agriculture helps underpin a wider number of businesses in rural and market towns across the country.

7. Supporting export growth

Food and non-alcoholic drink exports (£m)



Food and drink is now the UK's fourth largest exporting sector. The export of food and non-alcoholic drinks in the first half of 2013 grew by 2.5 per cent to £6.12bn compared to £5.97bn in the first half of 2012. This continues the good news for UK food exports from 2005 to 2011 there were seven consecutive years of record food and non-alcoholic drink export performance.

The context of this latest growth is important. All UK product exports at £152bn fell by 3.3 per cent in the first half of 2013

compared to the same period in 2012. In contrast, the food/non-alcoholic drinks sector has outperformed when it comes to international trade.

Agricultural goods are prominent among the stand-out performers. The dairy and meat sectors both recorded growth in the first half of 2013, increasing by 6.7 per cent and 3.2 per cent respectively.

8. Producing more than food – diversification



Agriculture has an important impact on rural communities and local economies. Farmers have long been seeking to enhance their income from sources other than farming production as a way of managing business risk and making the most of their assets. The result has been an increasingly varied range of diversified farm business activities. Diversification offers considerable scope for improving the economic viability of many farm businesses, whilst many farm diversification activities can also provide benefits for the wider rural economy – whether that's providing additional job opportunities in rural areas or simply reconnecting consumers with how their food is produced, diversification plays an

important role. More than half (56 per cent) of all farm businesses in England have some sort of diversified activity. The most popular form of diversification is the letting of farm buildings, with 37 per cent of farm businesses generating revenue from farm lets. From storage facilities and small-scale workshops through to high-quality rural offices, renting space is a particularly sensible way of making effective use of traditional farm buildings. Of course, such ventures are not without their challenges, be it broadband access, the burdens of the planning regime, or as the recession has underlined, the vagaries of the wider property market.



Diversification is a valuable addition to industry revenues. Collectively, diversification added some £440m to farming's bottom line in 2012/13, a 16 per cent increase on 2011/12 (£380m in 2011/12)

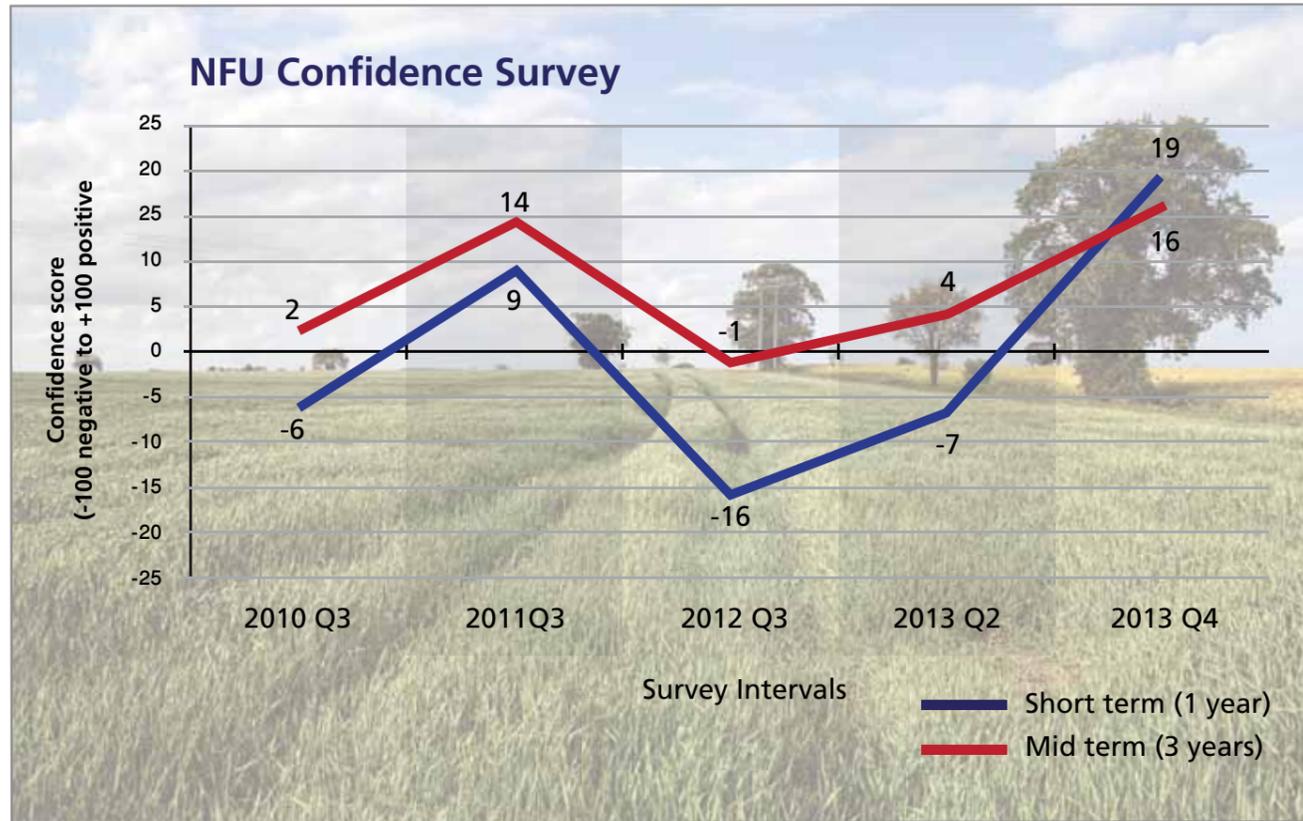
Further diversification opportunities are also presented by the renewables sector. Farmers and growers are already embracing new technologies that harness energy from the land, the sun and the wind. Government statistics show that 4.8 per cent of holdings were involved in renewables production in 2010, a figure that will have undoubtedly increased over the past couple of years. Indeed, a recent *Farmers Weekly* study in association

with Nottingham Trent University and Forum for the Future identified a rapid increase in the numbers of farmers diversifying into renewable production over the last three years. 38 per cent of respondents said they currently generated renewable energy – representing a significant increase on the latest government data.

As in many other advanced countries, the contribution of agricultural bio-energy to Britain's economy has been growing over the past decade. Biogas digesters, wind turbines large and small, solar roofs, solar fields and biomass boilers are all becoming more commonplace in the countryside – and they are very much part of the NFU's vision for the future of the agricultural economy.



9. A sector with confidence and a strong asset base



Better financial performance in agriculture is also filtering through to confidence in the sector. The 2013 NFU Confidence Survey showed a year-on-year increase in business confidence in the short and medium term as figures showed confidence levels at a four-year high (see graph above). The survey also showed higher rates of farmers stating that they are intending to increase production in the short term than was the case 12 months previously.

Of course, regulatory challenges and inconsistencies remain. The industry has always had more than its fair share of red tape, and there is the potential for this to be overlaid with 'green tape', whether driven by European or domestic policy makers. Confidence bodes well for agriculture and the wider economy, but Government must recognise that policy is an essential catalyst to translate this confidence into investment.

By its nature, farming has a strong asset base in buildings, land, equipment and livestock. The net worth of UK farming was estimated to be £220bn in 2012. This gives us a strong base to borrow against.

Agricultural borrowing has topped £15bn recently (driven by weather and cash flow challenges), but we remain a sector that is generally able to access finance and is looked on favourably by the major agricultural lenders.

In 2012 the average value of prime arable land in England rose by 10.8 per cent to £7,609 per acre. This follows an increase of 11 per cent in 2011, and over the longer term, farmland has also performed strongly. Increases in farm land of 210 per cent in the past 10 years are significantly ahead of the 51 per cent rise in the value of the FTSE 100.



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