

STILL TREADING WATER

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European Food and Farming Partnerships is a specialist agri-food business consultancy, working along the whole supply chain. It combines farming knowledge with food industry expertise to address structural, commercial, operational and relationship issues across the industry, from an objective and independent standpoint.

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AGE OF WISDOM, AGE OF FOOLISHNESS

“It was the best of times, it was the worst of time, it was the age of wisdom, it was the age of foolishness” starts A Tale of Two Cities – the famous Charles Dickens historical novel set in the time of the French Revolution. And, whilst we might not be quite at the revolution stage in the UK, these words would seem a fair summary of how we find ourselves with just six months to go until Brexit becomes a reality.

In my last article I wrote of how there was lots of posturing within government but no real progress on negotiations with the EU. Here we are, six months later, and the uncertainty remains. Worryingly, virtually nothing has changed. In March I talked about growing uncertainty in agriculture, Brexit and the wider economy, and this remains the case. If anything, the situation is getting more unstable as we move closer to March 2019, without any apparent idea of the shape of Brexit and there remains just a short window of time for a deal to be done if we are

to avoid the cliff edge of a no deal departure. Of course, what compounds this is that our own politicians can't agree. UK politics is as fractured as ever and the result is that not one political party seems capable of finding a solution that would get sufficient support to be voted through parliament, let alone be agreed by the EU negotiators.

For starters, the Tory party is splintered. Some still don't believe in Brexit at all, some seem to be pushing for a hard Brexit, whilst the cabinet's so-called 'Chequers' plan seems to be criticised by all, in that it would appear to offer no real benefits and all the negatives – cost and loss of control.

Meanwhile, the Labour party is in turmoil over accusations of anti-Semitism as well as a host of other issues, which mean they offer no real robust opposition to the government.

If it wasn't so serious, it would be funny. Two years ago, it was joked that our one country would quickly establish a coherent position on Brexit and it would be the other 27 EU member states that would spend the two years in turmoil trying to agree a stance. Instead, the reverse has been true – the EU has remained steadfast behind Barnier, whilst the UK government took 18 months to 'agree' the Chequers position, with two prominent cabinet ministers then immediately resigning because, in fact, they didn't agree with it at all.

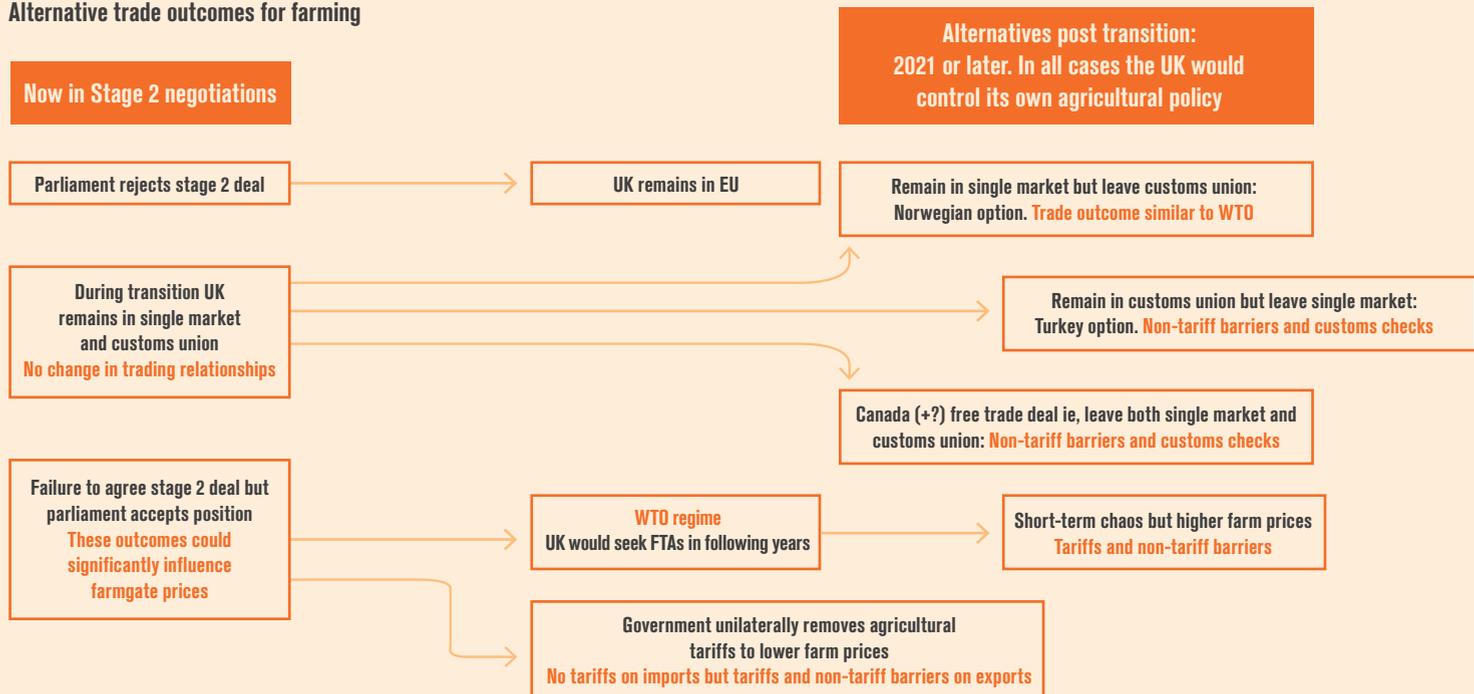
ECONOMIC CONCERNS

Putting Brexit to one side for a moment, other factors also present challenges.

The economy remains sluggish, growing at around 1.3%, with subdued consumer spending and inflation above wage growth. The wider global economy is strong, resulting in a weaker £ and this has helped support inbound tourism and exports, but this hasn't been enough to drive the economy forward. Of concern is the fact that the EU and some emerging market economies appear to be slowing. EU countries such as Italy are causing economic concern, whilst rising interest rates and a strong US\$ is putting a squeeze on emerging markets as they tend to borrow in US\$.

In contrast, the US economy appears to be currently firing on all cylinders boosted by the significant tax cutting package introduced by Trump earlier in the year. But the US position on trade, which is creating global trade tension, could over time derail the global economy if it results in the introduction of significant tariffs across a wide range of products.

Alternative trade outcomes for farming



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HIGHS AND LOWS

When it comes to the agri-food sector, commodity prices were rising in the first quarter of 2018 but fell back as we moved into the summer.

Sugar prices, for example, fell sharply whilst meat prices have softened, and vegetable oils have fallen sharply. Global cereal stocks remain high following a reasonable US harvest, and so prices that were rocketing up in the early summer, in anticipation of drought-affected supply challenges, are now trending down as it emerges that harvest was ok.

Overall then, there is a general weakness in global agri and food commodities which, whilst not dramatic, is, nonetheless, the backdrop to our current position.

The warm summer did help UK food consumption though, with higher sales of alcohol and soft drinks due to the football and the hot weather. UK grocery retailers are seeing year on year growth of around 3.5%, with the discounters still expanding aggressively, and we still have grocery price inflation, although this is falling back.

PREDICTING THE UNPREDICTABLE

Back to Brexit for a moment then and what might happen. At this stage, the options seem to be narrowing. We could remain in the EU. It is a real possibility that the government cannot get a deal that will be voted through parliament and the EU, which would result in either a general election or a new referendum.

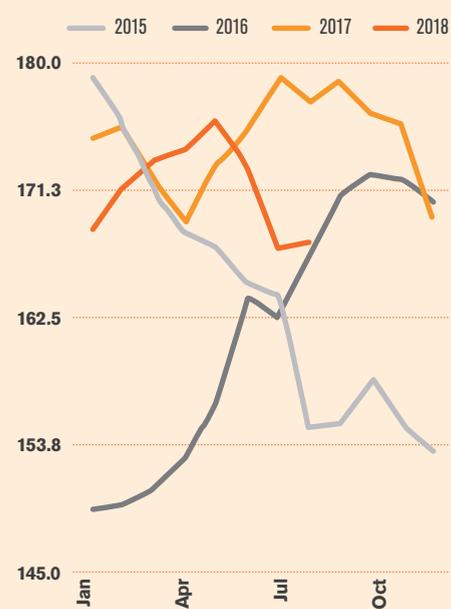
Alternatively, if they get a deal, the chances seem strong that it will either look like a Canada deal or a Norway deal, with each offering different levels of alignment with the EU. Of course, the final option is that we simply crash out of the EU in March, like a drunk leaving a party, with nothing but a sour taste in our mouths and a headache to look forward to.

A last-minute fudge seems highly probable. That could be agreeing to leave the EU and handing over the divorce money without having an agreed approach to a trade deal in place, with negotiations on the latter continuing throughout the transition period. This situation could leave us exposed as particularly weak negotiators. That said Labour might not support such an approach and if the deal can't get through Parliament then again an election or repeat referendum could result.

In summary, the situation currently remains on tender hooks. As was the case six months ago, the growth in the global economy is quietly starting to slow, with emerging markets and the EU having a wobble and the UK not faring much better. Whilst the USA is currently doing well, rising interest rates and potential trade wars may well bring that to an end. On top of all that, there is a small, but real, threat of massive disruption in the months ahead, with plenty of doom mongers suggesting total economic turmoil, from the CEO of Jaguar Land Rover predicting serious consequences for British manufacturing to Bank of England Governor, Mark Carney suggesting that house prices could fall 35 per cent. The likelihood seems to be growing that whatever happens, the government will have to go back to the country to resolve the mess that has become Brexit.

What this means for agri-food businesses is hard to predict – how can you predict the unpredictable? Strategic planning is critical, however, especially for businesses involved in importing and exporting significant quantities of food products. Decisions will have to be made in light of information as it becomes available and this presents a massive challenge for many businesses in the months ahead. To quote Mr Dickens, it certainly is the age of foolishness – let's just hope that, for someone at least, it can also be the age of wisdom before it is too late.

Global Agricultural Commodity Prices Source: FAO



Index 2002 - 2004 = 100

ARTICLE FOCUS

WHAT NEXT FOR THE AGRICULTURE BILL?

Another uncertainty on the horizon is the recently published Agriculture Bill and what that will do in terms of industry impact. Gove set out his vision in the Health and Harmony consultation and, after 43,000 respondents, he has, finally, published the outline of future legislation.

Details remain scant at this stage, but the ramping up of environmental payments and the principle of public money for public good would seem to be engrained deep within the thinking at Defra.

What is clear in the documents published thus far is that there appears to be very little focus on food

productivity and competitiveness and the question remains whether that is the right focus moving forward?

There are strong arguments that food security and availability should be at the core of future policy. After all, the issue of malnutrition continues across the globe, and not only in developing and emerging markets. There are an estimated 815m people suffering from malnutrition in the world today and so there remains a moral and political imperative to ensure that any support provides for improvements in technical efficiency as well as protection of the environment and provision of public good. Global agriculture needs to produce 50 per cent more food in the next 30 years in order to feed a growing population and, as a rich and fertile country with advanced agricultural practices, surely we must ensure we play our part in providing adequate, safe food for all.