Financial future for UK agriculture

Allan Wilkinson
Head of Agrifoods
allanwilkinson@hsbc.com
+44 (0) 7836 536 150

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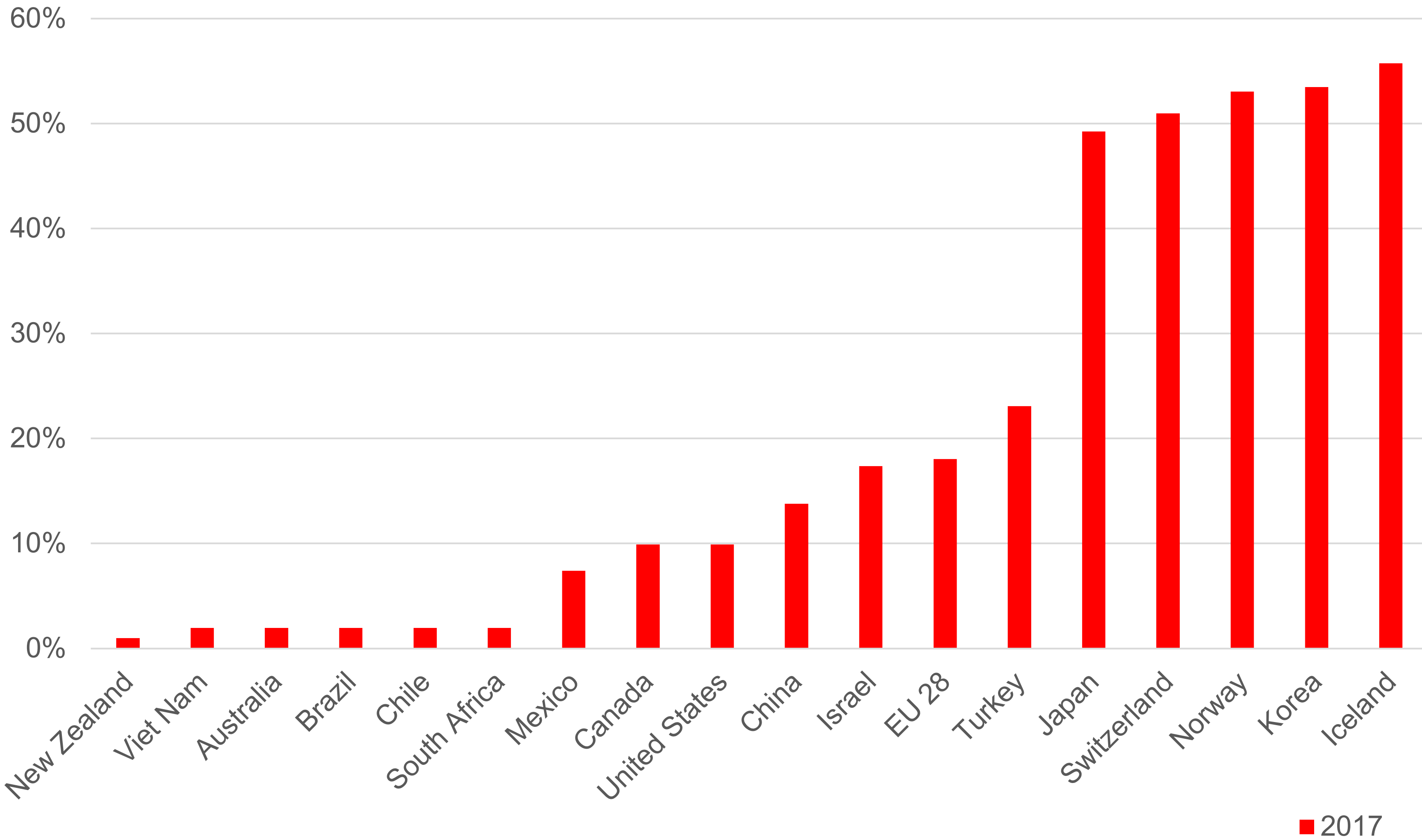
Producer Support Estimate

Large spread in the support offered across the OECD



PSE is given by the OECD’s and measures support to agriculture. Specifically, it measures policy transfers to agricultural producers as a share of gross farm receipts.

Source: HSBC, FDF

UK Food and Drink Industry Supply Chain

AHDB

64 million consumers in the UK

c10 retailers and c10 food service

c7,800 food processors

c140,000 registered UK farmers

Source: HSBC, CompanyWatch

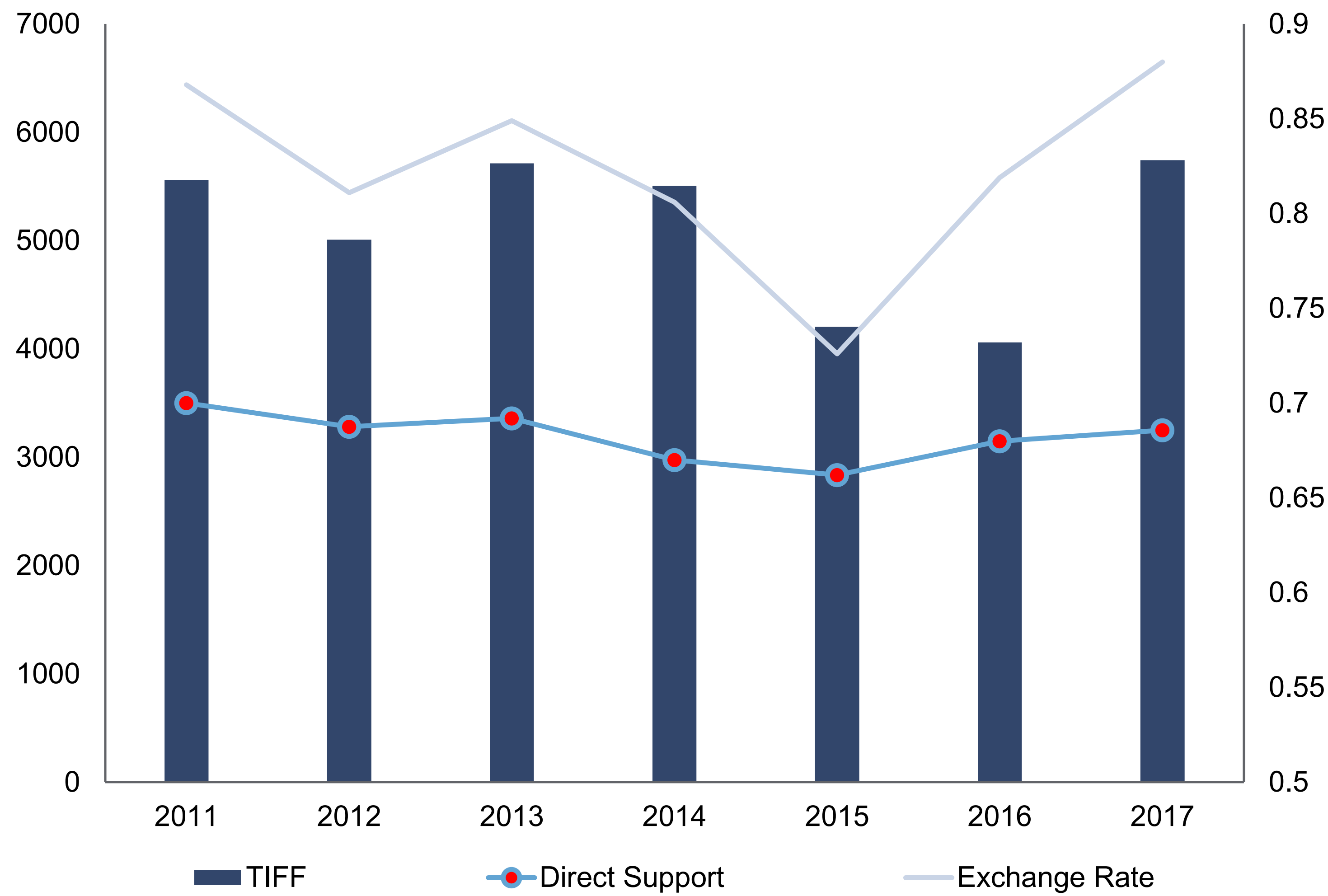
Farm Incomes and Direct Support

Post-Brexit subsidies likely to be reduced

Total Income from Farming and Direct Support to farmers on the left axis in millions of pounds and the annual average exchange rate vs the Euro on the right axis

Total Income from Farming is estimated to be 41% higher in real terms in 2017 which is an increase of GBP1,683m to GBP5,743m (in real terms)

Total Income from Farming compared to Direct Support – (£m)



Source: DEFRA

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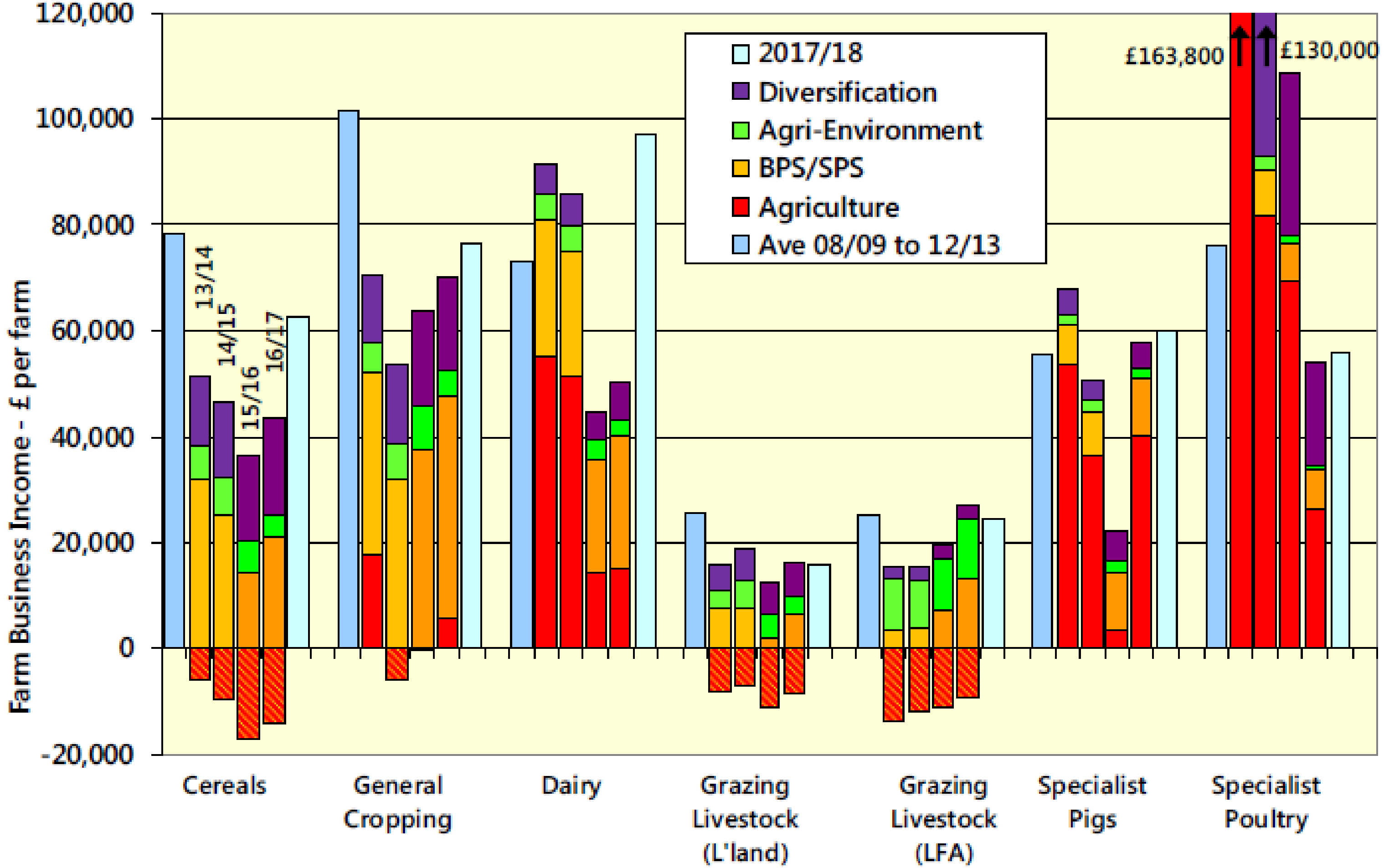
Sectors will be impacted differently based

FARM BUSINESS INCOME (ENGLAND), _Real Terms 2016/17 Prices_ – Source: Farm Business Survey



Source: Farm Business Survey, Agro Business Consultants

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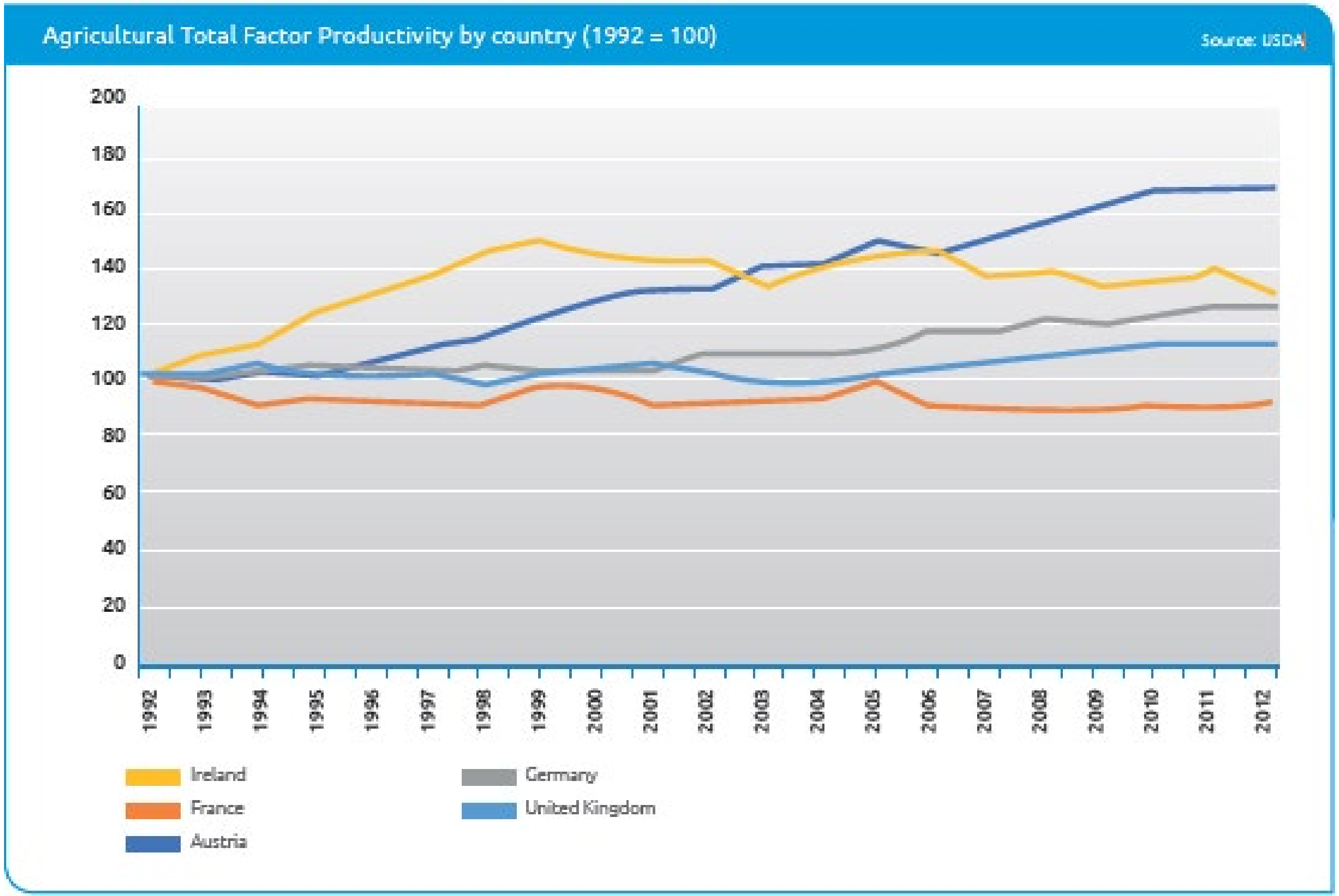
Total Factor Productivity – UK compared to similar Agricultural economies

The annual average growth in TFP in the UK has been c1.6% since early seventies.

However, growth is slowing and have been only 0.8% over the last decade.

Between 2001 and 2010 the average TFP growth was just above 1% for the UK while it was 2.4% in France, 3.0% in Germany and 3.8% in the Netherlands.



Total Factor Productivity (TFP) refers to the portion of output not explained by the amount of labour and capital input used in production

Source: AHDB, USDA

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Food and Drink Exports

Our take on the Sector – Products Traded

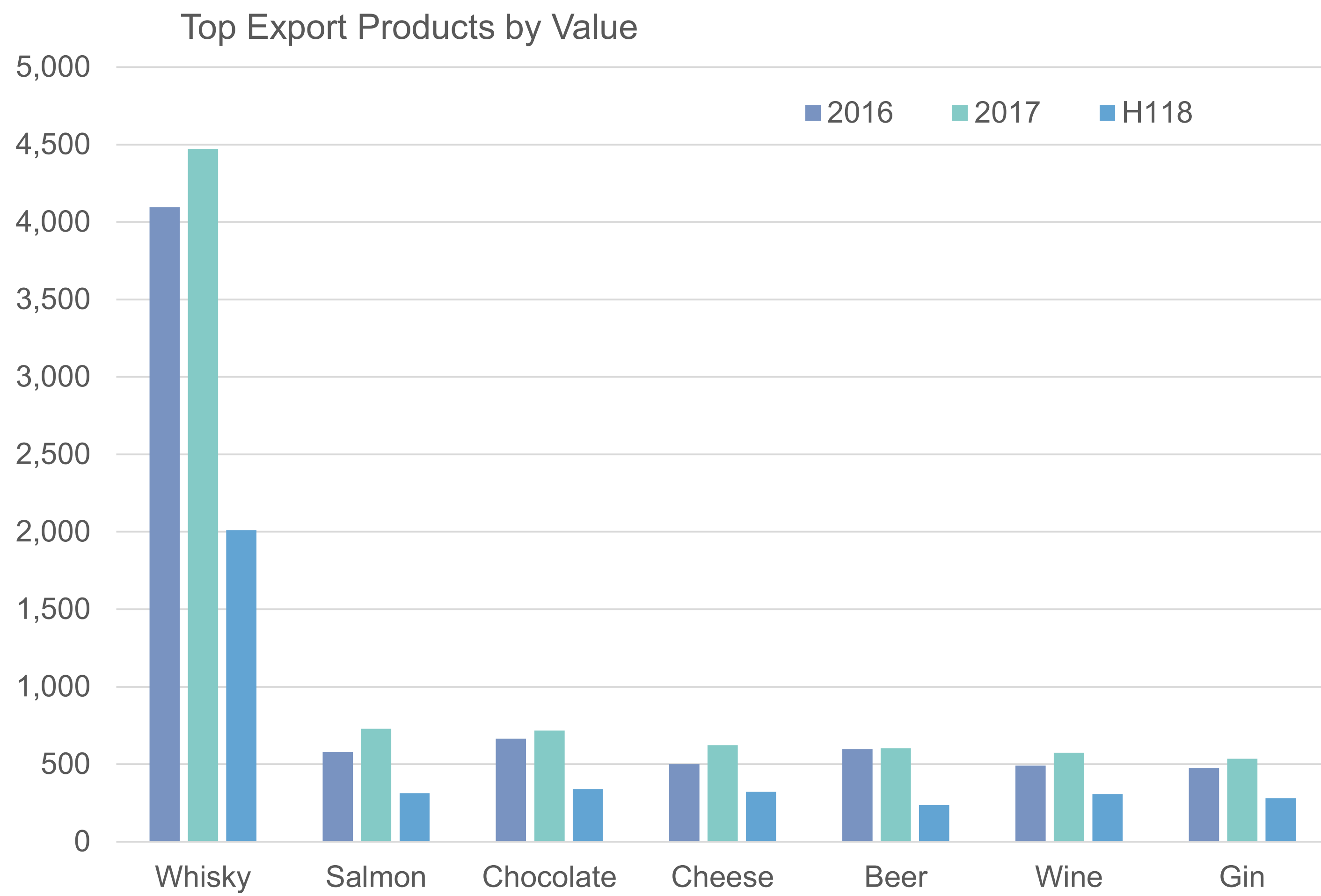
Trade continues to a big focus for the industry and the industry bodies

The trade deficit is now at an all time high and the trend is pointing upwards

Whisky is making up the lion's share of exported products and its not that long ago since the value of whisky exported was higher than the next ten products combined

The EU remains the UK's largest trade partner

Food & Drink Trade with the EU and the World



Source: HSBC, FDF

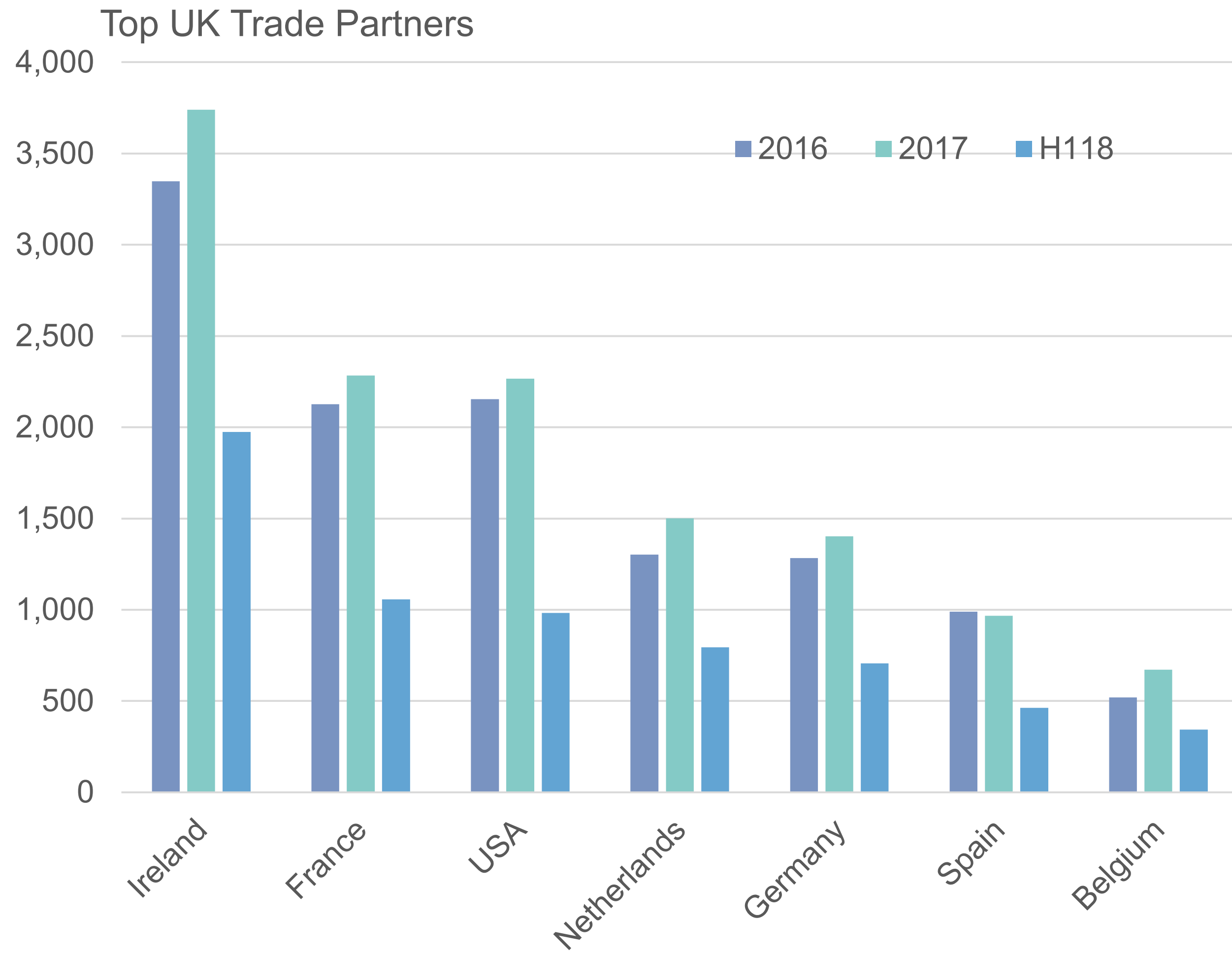
Food and Drink Exports

Top Trade Partners

Food & Drink Trade with the EU and the World

- The trade deficit continues to grow – despite the movement in FX
- UK population expected to continue to increase
- Majority of trade are with near EU countries

F&D Exports	2017	H118
Total	£22.1bn	£10.7bn
EU-27 %	60.2%	62.8%
Trade Deficit	-£24.1bn	-£12.1bn
Branded	£5.8bn	£2.8bn
EU-27 %	66.3%	71.4%



Source: Farm Business Survey, Agro Business Consultants

AHDB

Consumer Trends

- Convenience, innovation and outlets
- The Environment
- Millennials
- Vegetarians, Vegans and Flexitarians

Producer Trends

- Direct access to consumers
- International start-ups
- Standards and short supply chains
- Branded vs own label

Source: HSBC, FDF

Brexit
Key Topics and challenges

Brexit - the food industry is the most affected UK sector in most outcomes Uncertainty remains and any decision reached will go to the wire in timescale

Disruption next March and April at borders seems likely unless a deal is made

UK farm industry size and structure as direct support diminishes and is potentially eradicated in 7 years?

Trade

- Trade Friction
- Interrelation with standards
- Real Tariffs
- VAT – the first 20% is the worst

Labour

- Seasonal and permanent
- Issue accelerated by Brexit
- Automation
- New tech

Borders

- Process
- Labelling and packaging
- Initial disruption

Support

- Stability since 1973
- Sectors
- Value to the public

Source: FDF, DEFRA, HSBC

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The big topics for the Global Food and Farming industry over the next 5 years

- **Agricultural support and Government interaction**
- **Brexit factors**
- **Changing demographics/ millennials and functional foods**
- **Environment – water – CO_2 – soil quality**
- **Health agenda – safety/ obesity/ taxation to change behaviours**
- **Productivity – plus technology acceptance and deployment**
- **Retailer related impacts – Amazon et al**
- **Standards – what, when and how?**
- **Trade policy – against a rising background of protectionism**
- **Waste management – Blue Planet effect on plastic**

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Where does UK Agriculture stand?

- **We have some of the best farmers in class across all sectors – world class**
- **We have a highly respected food industry, some iconic brands and production processes**
- **We have a highly respected R&D sector**
- **We do look fragmented at Food Expos / in view of key peers**
- **We have a falling self sufficiency / stagnant TFP**
- **We have a rising trade deficit**
- **We look like the curate's egg – good in parts**

Necessity is the mother of all invention – and we are at that point.

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