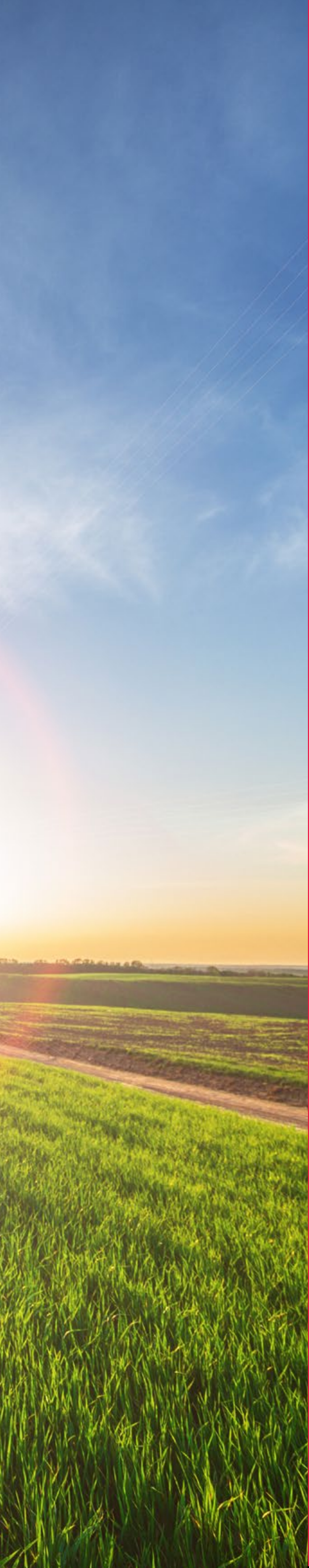
Keeping pace with the global revolution in agriculture



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

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.

What about Brexit?

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, the uncertainty over Brexit has meant that currency markets have been volatile and the pound has weakened. This means that 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.

What happens to goods travelling to and from Northern Ireland?

The new Brexit deal removed the controversial Irish backstop plan. The change led the DUP to reject the deal, which amounts to a commercial border between Northern Ireland and the rest of the UK. Despite government assurances that there would only be "light-touch checks" and that trade would continue "unfettered," any goods travelling to or from Northern Ireland will require declaration forms and therefore require additional resources.

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. 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.

Preparing for no deal

Despite the latest developments and the decreased likelihood that the UK will leave the EU without a deal following the EU's second extension, it may be worth considering the cost of no-deal and the impact on a business.

Requirements include export health certificates (EHC) for each product and destination. The UK currently complies with EU standards, but the paperwork will still be required. You can apply for the certificate online using the Department of Agriculture, Environment and Rural Affairs system, and search for the paperwork required in each country. As well as the EHC, you'll need to complete an export application form and any additional paperwork required for each country. Your consignment will need to be inspected by a named, official APHA vet or local authority inspector, and this should ideally be booked seven days before the export date.

Once the paperwork is complete, you will also need to consider the cost of any additional tariffs on your exported goods, whether to the EU or elsewhere in the world. Along with fluctuations in the currency market, this could have an impact on margins and prices. Exporting to the EU in the event of no-deal isn't impossible, but may require some changes to the supply chain and possibly a readjustment to consider the most viable markets in terms of price and delivery.

Designated ports have been allocated to move internationally protected animals and plants, including types of fish, birds and rosewood, in the event of a 'no deal' EU exit. As well as the requirement for a CITES document accompanying all such shipments as required beyond the EU, ports such as Belfast Seaport, Dover, Eurotunnel and Holyhead are meant to provide the sufficient capacity to accommodate the additional processes required.

Advice from the Government suggests that while much of the 60% of British goods exported to the EU will be subject to tariffs, 88% of imports will be tariff-free. There is concern that this means that British farmers cannot compete on a level playing field and could damage the industry even if the measures are implemented on a temporary basis. Along with price, aspects such as quality and the fact that domestic products will have a lower carbon footprint will become increasingly important for farmers looking to compete with imports.

What happens next with Brexit?

While MPs did approve the Prime Minister's amended EU Withdrawal Bill, the three-day timetable for debate and approval was rejected. This put the process on pause, pending the decision of the EU about a delay to the deadline which had been requested as per the requirements of the Benn Act.

General Election currency considerations

As soon as the delay until the end of January 2020 was granted by the EU, Boris Johnson renewed his calls for a General Election. Now that the date of the next General Election has been announced for 12th December, the whole Brexit process may be thrown into disarray. Parliament will be on hiatus during the campaign period, which means no further progress will be made. The General Election brings more uncertainties - opinion polls, fresh calls for a second referendum and further parliamentary deadlock - and these are likely to cast a shadow over the pound that causes further volatility.

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.

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. For example, while the Sunday roast may be a staple in many European countries, Asian markets may be the ideal market for trotters, pigs' ears and other parts of the fifth quarter and this could expand the market potential. 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.

Overcoming the challenges of payments to Brazil

While Brazil may present an opportunity in terms of market potential, there are some specific challenges relating to trading with the country. This is due to the fact that the Brazilian real is a restricted currency that cannot be sent directly into Brazil. In most cases, individuals and companies must send their native currency for conversion on arrival in Brazil and often this comes at a poor rate of exchange.

Exchange rates aren't the only issue when sending money to Brazil. All funds sent must be registered with the Central Bank of Brazil (Banco Central do Brasil). Incorrect registration can lead to further complications with repatriation. In addition, transfers are often slow and it can be difficult to secure a guaranteed delivery date, which can be difficult when looking to build strong relationships with Brazilian partners.

How we can help

Thanks to the acquisition of Brazilian foreign exchange company Novo Mundo Corretora de Câmbio earlier in the year, moneycorp can now offer a much more cost effective and efficient way to send money to and from Brazil. With an established presence across São Paulo, Curitiba, Rio de Janeiro, Belo Horizonte and Porto Alegre, moneycorp can now offer a comprehensive range of currency services in country.

The moneycorp Brazil team can process paperwork and approve trades without any costs or obligations to use the service. Funds can be wired directly with the bank and there is an average transfer time of two days. As well as great exchange rates and significantly lower transfer fees than banks, transfers with moneycorp will not require all paperwork to be translated into Portuguese, saving time and money.

As a licensed FX institution with the approval of Brazil's President and the Central Bank, moneycorp offers the following benefits:

- Greater transparency on rates and the opportunity to fix the rate of exchange for a transfer
- Reduction in the transfer time and transfer fees
- Automatic registration of all transfers with the Central Bank to facilitate future repatriation
- Less paperwork and no requirement to translate documentation into Portuguese

The advantages of the moneycorp Brazil office highlight one of the many benefits that we offer farmers and agribusinesses. With offices all over the world, our local knowledge and extensive global network for currency payments provides an efficient, cost effective service which can help farmers to expand into new markets across the world.

Changes across the Supply Chain

The changes wrought by Brexit 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.

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.

From smart monitoring via sensors and drones to autonomous farming vehicles, technology may become the key driving factor of change in the farming industry. Primary technologies including the use of Artificial Intelligence (AI), blockchain and the Internet of Things (IoT) to increase yields, lower costs and reduce the environmental impact of farming and the overall supply chains. The tools often help farms to increase their resilience in the fact of extreme weather and help to develop new innovations to increase productivity.

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 cloud-based 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, 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.

Another area ripe for applications within farming is blockchain. For example, Cargill has developed an open source blockchain solution which offers reusable digital tools for supply chain use cases, including food safety and traceability. The open source aspect highlights the spirit of collaboration across the industry because the solution does not just apply to the company's products. For Cargill, the project allows for the exploration of the full potential of blockchain technology within the industry and establishes its position at the heart of industry-wide innovation with the potential to connect to new clients and suppliers right across the supply chain.

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 so many factors that impact a currency – situations such as Brexit and the US-China trade war are 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.

3

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.

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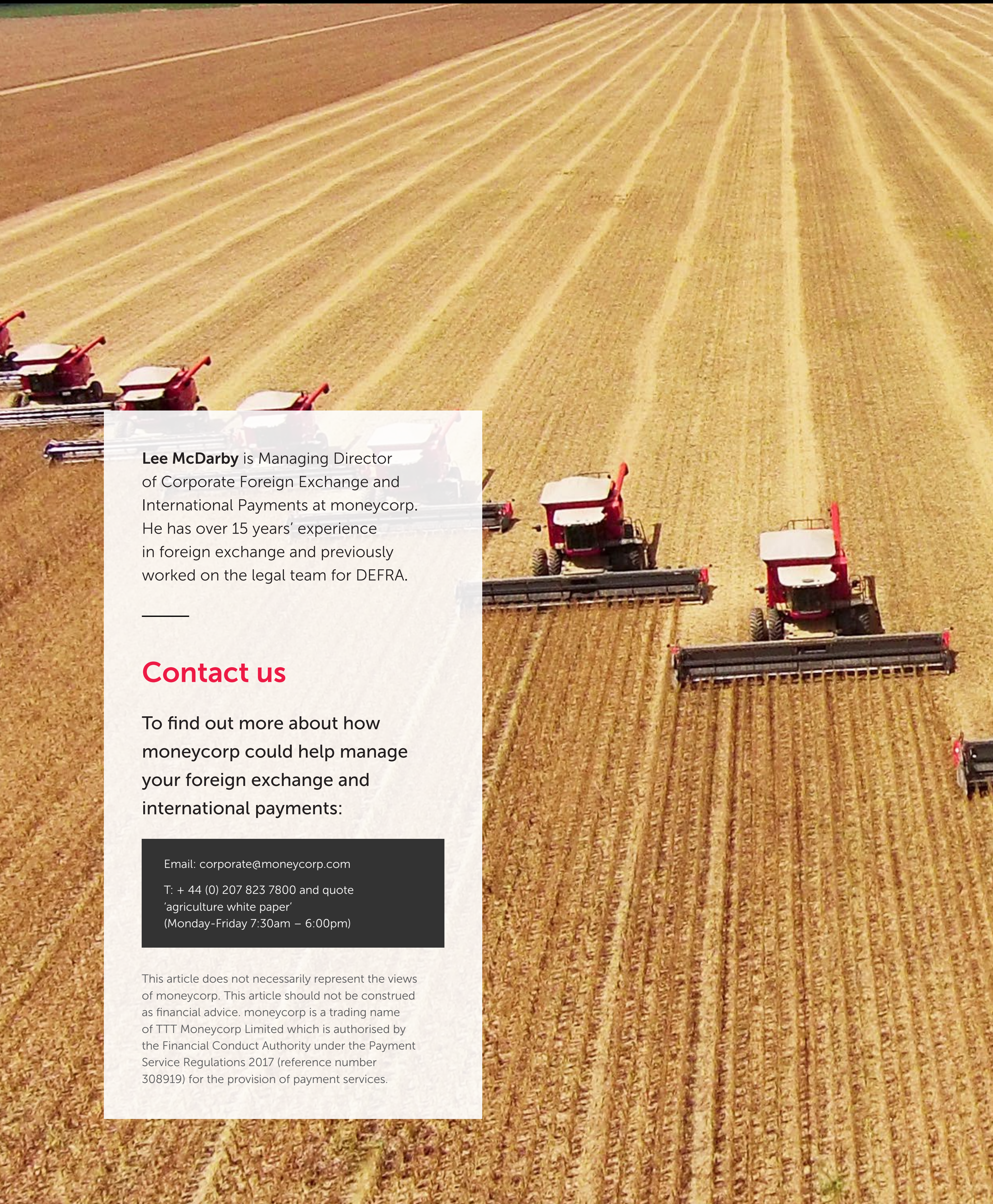

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Contact us

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