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Cheaper land

Does farm subsidies reform mean cheaper land for vineyards?

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29 March 2019 will be a watershed. Currently, the 33.6 million that voted in the referendum watch with increasing disbelief as UK leaders attempt to negotiate an exit from the European Union while parties fight openly among themselves. And as for the exit process this appears to do no more than stagger from side to side like a passenger aboard a cross channel ferry in rough seas! Nevertheless, the prime minister is emphatic we will leave the EU next year, we just have to wait to see if that is with or without a deal!

As divorce edges nearer most want the answer to one key question “How will departure impact the wider economy and, more particularly, individual sectors?”

From one perspective, the future for the UK land-based sector became clearer on 12 September when Michael Gove, secretary of state for

Environment, Food and Rural Affairs, released the Agriculture Bill outlining how subsidies will work after we leave the EU. In the simplest terms the Bill proposes that by 2027 direct payments based on the quantity of land held by a farmer or land owner will be reduced to zero. A new scheme, Environmental Land Management (ELM), will be available from 2025 which will reward occupiers for managing their land in an environmentally sympathetic way. To justify the billion or two needed to fund the new scheme the government has adopted the phrase “public money for public goods”. We must wait to see what that actually means!

Why is this relevant to the English viticulture sector particularly as many vineyards do not claim subsidy and, if they do, the income is often insignificant compared to revenue from grapes and wine? The answer is straight forward. Over the last 50 years agriculture has received subsidies from a multitude

of schemes and while payments have varied they have all had a significant impact on land use and availability. This trend is sure to continue.

Most farmers are likely to continue growing crops such as wheat and barley or maintain grass for livestock. But as the current subsidy scheme is delinked from a base land area, others might explore new uses for their land. This could include letting for viticulture purposes.

The new regime is also likely to have an impact on the capital value of land. In recent years, prices have increased significantly; volatility in other investment classes, advantageous inheritance tax and capital gains tax rules and scarcity have all played their part. But equally, strong subsidy payments have lead to higher rents. Together these factors have combined to make land an attractive and safe investment. Thus, as subsidies start to fall, rents will follow and land prices are likely to soften. This cloud’s silver lining could be cheaper land for vineyard expansion.

The message here is clear. Reform of subsidies resulting in lower farming incomes is likely to weaken confidence and potentially create exciting opportunities for those requiring land.

There is a footnote. If vineyard expansion becomes cheaper does that automatically make it a wise decision? For various reasons the cost of producing grapes in the UK is high. Labour is significant partly because the sector relies on imported staff for key management operations. Darcy Gander of Vineworks recently said it is already difficult to find enough labour to meet the needs of vineyards already established. Could the combination of more grapes and a labour shortage create a new challenge? Perhaps.

All sectors will face challenges as the UK finds its feet in the brave new world, and those that find solutions will thrive and prosper. Brexit will create an environment where there will be winners and losers. But for the UK wine sector perhaps 2019 will turn out to be a very good year!



New to viticulture?

Top tips for establishing a vineyard.

Timescale and cash flow

- ◆ Vines can have a productive life of 20 years but do not reach maturity until year five. In the first two years there is virtually no income to offset the substantial establishment costs. Understanding the financial implications in advance is essential.

Management

- ◆ Vines are management hungry, attention to detail is essential. Successful vineyards are run by those who have the time and commitment.

Site

- ◆ Vines can thrive in a range of soil types but it is imperative the soil is prepared carefully prior to planting. Varieties and root stock should be chosen to suit specific soil conditions which may vary widely across the vineyard. A south facing aspect, elevation below 300 ft and protection from prevailing winds are ideal. Land should be free draining, this can be rectified with drainage systems. The importance of soil preparation before vine establishment cannot be over emphasized.

Grape producer and/or winemaker

- ◆ Who will buy the grapes? Is a long-term contract available? If the intention is to make wine who will do this and where?

Labour

- ◆ Planting, pruning, harvesting and so on require a lot of labour. Is it available now and in the future?

Scale

- ◆ Will the venture be big enough to employ a vineyard manager and staff able to undertake tasks such as spraying or will it be a smaller operation requiring the services of specialist contractors? Are these available?

Grape varieties

- ◆ Many vineyards have established classic sparkling varieties; chardonnay, pinot noir and pinot meunier. Is there room in the market for more of these or should other varieties be chosen to satisfy other production methods such as charmat?

The wider business

- ◆ Are there opportunities to incorporate the vineyard/winery into the existing business to take advantage of resources such as labour and buildings. Could tourism be incorporated to aid sustainability?

One final thought

- ◆ For those with clear vision, adequate funds and sufficient management time available, there will be exciting opportunities ahead. And although only part of the argument, it is worth noting that vines planted in the year we leave the EU will reach maturity in 2024 and then by 2027, when direct subsidy payments end, could be producing a meaningful return.