

Subsidies should be removed gradually

This Christmas the bearded old fellow in the red overcoat was under pressure. Already burdened by the task of delivering Millennium Falcons and Chewbacca costumes to thousands of Star Wars fans, he could not ignore a troubled force from an unusual source!

In previous years farmers were delighted if the single farm payment (SFP) cheque arrived in December. But if it crept into January this was only a minor problem. This year was different, the chubby man's sensory antenna was overwhelmed by a reoccurring message: "Please Santa, bring me my SFP now!"

In times like these the subsidy is an undeniable lifeline. Yes it is true that owner occupiers have strong balance sheets underwritten by buoyant land values seemingly unaffected by disastrous farm profitability. But a high net worth is pretty academic if there isn't any cash in the bank. The only solution is to borrow more or sell something, neither of which are particularly palatable. For tenants one or both of these solutions will be unavailable making the delayed arrival of the SFP not just inconvenient but potentially much worse.

If we were looking for a conclusion then, when commodity prices are depressed, the farming industry needs the subsidy and can't survive without it. But rather than being the saviour, is the current basic payment scheme actually the greatest threat to the long term prosperity of the industry?

Recently the prospects for new entrants came under the spot lamp. The November farming conference at Ardingly focussed on the main challenges facing the next generation and, not surprisingly, the difficulty of securing land was identified as the main barrier. There are a number of reasons for this but there can be no doubt that the current subsidy system proliferates the problem. As the rules stand the occupier can claim subsidy irrespective of whether he produces anything or not and this key factor has a profound impact on how and by whom land is used.

To illustrate the effects consider this example. The owner of 300 acres of arable has his land farmed on a contract farming arrangement. When prices are good all the land is cropped but when they are low the owner, quite understandably, leaves land fallow rather than risking an unprofitable crop. For the subsidy receiving owner this is the obvious answer, but the effect on the contractor is significant. With a fluctuating arable area the contractor cannot plan with any certainty. This discourages investment in more efficient modern equipment and also makes financiers cautious and less willing to lend.

So am I advocating the withdrawal of subsidies with the objective of getting land into the hands of true farmers so that the industry becomes leaner, fitter and more capable of competing in the world market? The answer is yes but not in the brutal way New Zealand abandoned subsidies in the

1980s. Winding down support, eventually to zero, will have to be gradual. This will be the only way our European partners will convince their more militant electorate that a subsidy free agriculture would eventually be good for farming and the wider economy.

In England there is another important factor which needs to be addressed. The introduction of the farm business tenancy in 1995 was intended to open up the land letting market and to make it easier for fixed term tenancies to be granted to established and new farmers alike. This worked quite well to start with. But when the SFP was born in 2005 the market quite quickly moved to short term tenancies, often less than five years. An impact of the regular letting and re letting has been to drive up rents as farmers compete for land. On the face of it landlords are doing well but, in reality, short term lets actively discourage tenants investing in the land. They can't pay high rents on short agreements and also invest – why would they?

So if Santa is listening, his gift could be the strength and courage the key influencers will need to make the industry fit for the challenges it faces in future.

Happy new year and may the force be with you!



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