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Professionals in the Countryside



Focus On What You Can Control

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Smell the Coffee



- A generation's comfort of area payments removed
- Impact of climate change and change to net zero
- New markets
- New technologies
- Energy and power issues
- Regulatory expectations

The focus is on the business

We have responsibility



Shakespeare's Choice

“The fault, dear Brutus, is not in our stars,
but in ourselves, for we are underlings.”

Julius Caesar, Act 1, Scene 2

OR

“There is a tide in the affairs of men.

Which, taken at the flood, leads on to fortune”

Julius Caesar Act 4, Scene 3

Taking control over your own business

Where do you aim to be in 10 years?

Manage change before it manages you

The Business of Farming is Farming as a Business

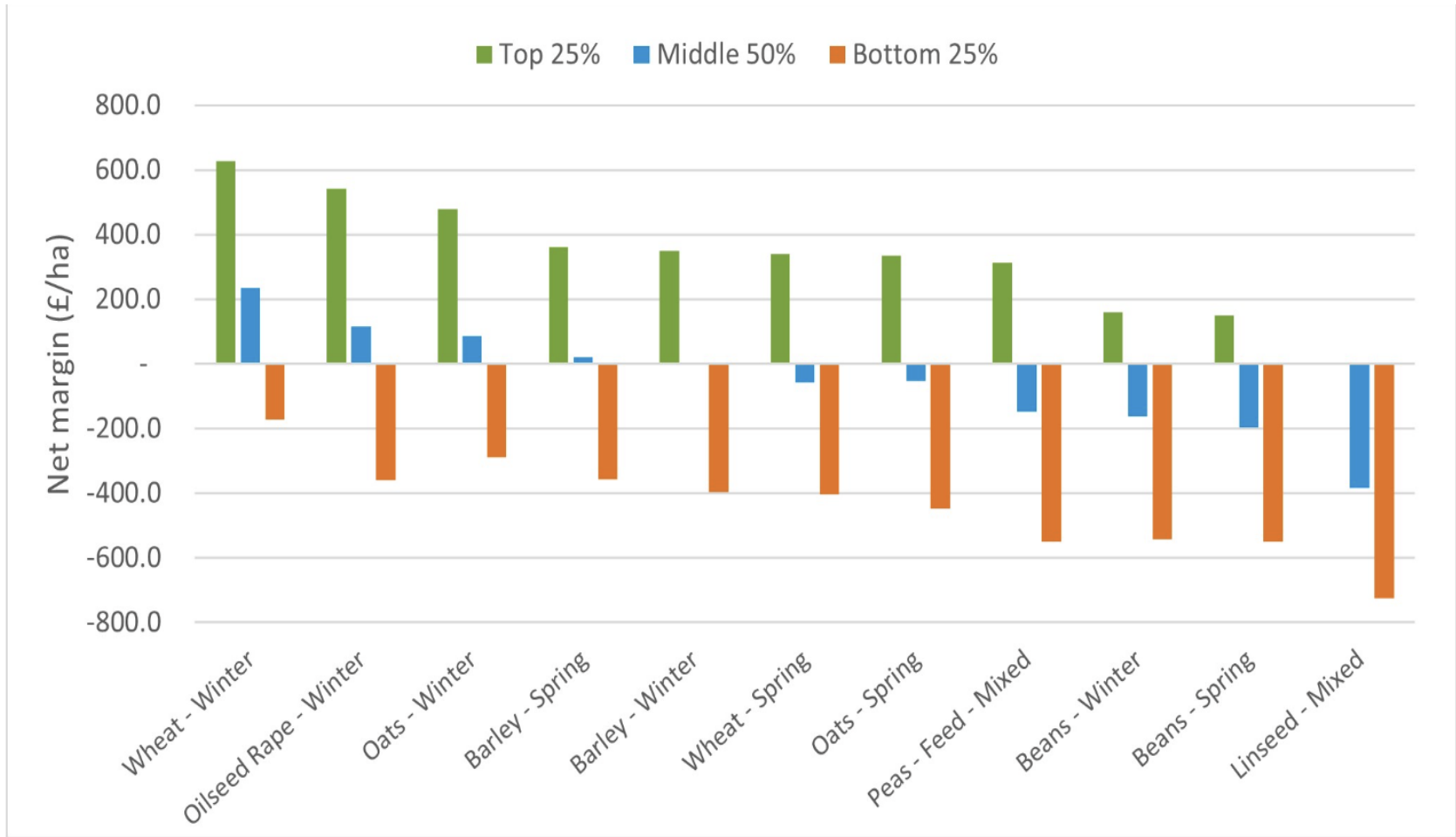
There are landowners with other objectives

- Farming for land management or environmental purposes

Some have identity, lifestyle, hobby, philosophy, ...

BUT for income, investment, employment and food production, it is a business

AHDB – Crops – 2017-21



Net Margins - Benchmarking Survey

DEFRA's Twin Track Policy



- See the whole jigsaw
- Farming becomes an unsupported business, making business decisions
 - Policy will aid investment and innovation
- Government, wanting environmental change, offers agreements: “Something for something”
 - Being developed as money comes from BPS
- Some changes in approach
 - After 30 years, policy no longer about payments
 - Policy evolving, not EU-type spasms then fixed
 - Focus more on outcomes, not prescriptions

De-Linking: The Future is Near



- “De-linking” **ALL** English Basic Payment from any land and farming decisions from 2024
 - Entitlements will last be used in May 2023
- Reference amount based on average BPS pre-penalty for 2020, 2021 and 2022
 - Affected by business changes in these years
 - Provided a claim (minimum 5ha) made in 2023
 - Progressive reductions then applied – gone by 2028
- The death of cross compliance; real end of BPS
 - Where is the Regulatory Baseline?

Across UK

- **Wales** – Adopt Sustainable Farming from 2025
 - Universal level of commitment - worth the money?
 - Optional and Collaborative levels
 - Capital support for productivity
 - Has all Basic Payment gone by 2029?
- **Scotland** – Policy framed by climate change
 - 31% reduction in emissions by 2032
 - Also biodiversity and productivity
 - Area payments to be 50% conditional from 2025
 - “Transformation”, “culture change”, land use change
- **N Ireland** – move to environment – when?

Farmers' Individual Answers



- We enter the third post-War age – one of risk, uncertainty and shocks - A time of change
 - Markets, Technologies, Climate, Policies ...
 - A generation's change in a decade
 - Unwinding area payments (since 1993), responding to climate change (by 2050?)
- Many messages, much distraction
- The answers will be individual and varied
 - Made by farmers supported by advice
 - No single formula, all tools needed

Look at the Figures

- Production matters much more than payments
 - UK agricultural output is c.£25bn
 - Ex-CAP money is c.£3bn, much has gone in costs
 - £22bn from production
- 10% change in price/yield > 50% of £3bn
- England's phased withdrawal gives time for values, structures, markets to adjust
 - See markets as dynamic, finding value

Do not waste this time

The Distractions

- Talk of new public or private income streams
- New schemes? These are not BPS recycled
 - They are to buy/help change which will have costs
 - Suit some who need change little or want change
 - Not suit others – too much change for the money
 - Options not salvation, view on their merits
- Private environmental finance?
 - DEFRA's aim - £500m in 2027, £1bn in 2030
 - Again buying change, often radical
 - Not all agricultural or even rural

Biodiversity

- The kinder language for climate change
 - Rebuilding nature's bank (Dasgupta)
 - Halting decline by 2030 – demanding target
- Biodiversity Net Gain – to unlock development
 - Gives value – but expect small scale (4,000 ha/year)? Worth it over 30+ years?
 - Much may be compatible with continued farming
 - Will environmental groups underbid farmers?
- Habitats under CS Plus – 300,000ha by 2030
- BUT what is “30 x 30”?
 - England looks 2.5m ha light – where/how to find?

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Carbon Spot the Real Issue

“All that Glisters is not Gold”

The Scale of Climate Change



- Net zero by 2050 – “the biggest transition in human history”
 - Do not underestimate the scale of climate change
 - Do not underestimate what has to be done to reach net zero
- Much more climate change already baked in
 - With flood, storm, drought, stress, heat, fire
- We have to adapt to what we do not mitigate
- We are to learn how to farm through this
 - It will need all available tools

Some Key Themes

- See the sheer scale of change coming
 - Supply chain risks and pressures
 - Land use – carbon, renewable energy
 - Flood management
 - Buildings – design, heating
 - Average rural house uses 35% more carbon than an urban one – because of heating
 - Infrastructure - electrification
- Path to 2050: look beyond immediate targets
 - Early effects on rural uses

The Carbon Paradoxes

- Carbon is very important but of low value
- Farming overestimates its role for others but underestimates what it will need to do
- There is little value in offsetting
 - Farm level quantum is too small and value too low
 - But it matters too much to see
- Supply chains will expect move toward net zero
 - Why give away the easy gains?
- The personal liabilities could be long term
 - Risks are underestimated – fear seller's remorse

How Little Value?

- The Green Alliance report to last OFC, *“Natural Capital: The Battle for Control”* looked at a market from farming in carbon:
 - even at £50/t (three times current values?)
 - carbon would only meet half of CAP money
 - “assuming it is all measurable, verifiable and paid for”.
- True carbon sequestration is for a century
 - With what fetters, penalties, buffers, insurance?
- We offer a cottage industry with small volumes at low prices for the transaction costs

Carbon: A Case

- Microsoft – Wilmot Farms Deal as part of Microsoft reducing its emissions
- WF – 10,000 acres of Australian cattle ranch
£275,000 for level to rise from 4.5% to 6%
– 40,000 tonnes (below average size for MS deals)
- What has been bought and sold?
- Is that a restrictive covenant? Does the farmer have any rights in carbon? Penalties on what breaches? For how long?
- Can you be a farmer if you have *sold* carbon?

Woodland and Carbon

- Unless kept for a century, woodland only defers emissions – still helpful but
 - Carbon is emitted on felling unless in construction
 - Risks of disease, fire, storm
 - Keeping credits back as a buffer reduces value
- WCG Scheme auction prices at c.£20/t
 - 80 year old oak wood - £800/acre of carbon
 - Under Forestry Act, so can only replant
- Does additionality mean there is anything else left to sell? Public access?
 - Most soils can store more carbon?

Look at the Facts

- What is being sold? At what price?
 - How fettered is the landowner?
- On what terms? Who has control?
 - How is change large/small then handled?
- For what price?
 - Capital or revenue? Tax consequences?
- What are the associated costs?
 - The agreement, monitoring and assurance
- When to deal?
- Is it worth it?

Look at the Farm: Inset not Offset

- Agriculture is 8%+ of UK emissions
 - The volume has been flat for some years
 - As other emissions fall that share will grow
- Supply chains will expect farmers to move towards net zero – schemes help?
 - Produce purchasers - even lenders?
- Know what you have
 - Start carbon auditing to manage this
 - Look at NI Soil Nutrient Health Scheme
 - See carbon as investment not an output

Additionality – Really?



- Can deals be stacked? – adding payments
- What is left to sell after the last deal?
 - State scheme, offsetting for development or infrastructure, a water company agreement,
- The issue of additionality – how defined?
 - DEFRA will not pay for same thing twice
 - BSI - Do not pay for something that would happen anyway – *a tougher definition*
- Selling a tree for carbon and biodiversity?

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Business Productivity

Time of Farming Change

Take Care of

What You Can Control

The Problem

- UK agriculture has overall tracked the exchange rate, not got more efficient
- Since 1964
 - UK agricultural productivity growth 0.9% pa
 - Dutch growth 3.5% a year
 - If UK had matched US since 2000, farming would have been £4.3bn better by 2013
- Issues – skills, investment, innovation, ...
- Higher performance farmers do better

UK Farming Outpaced

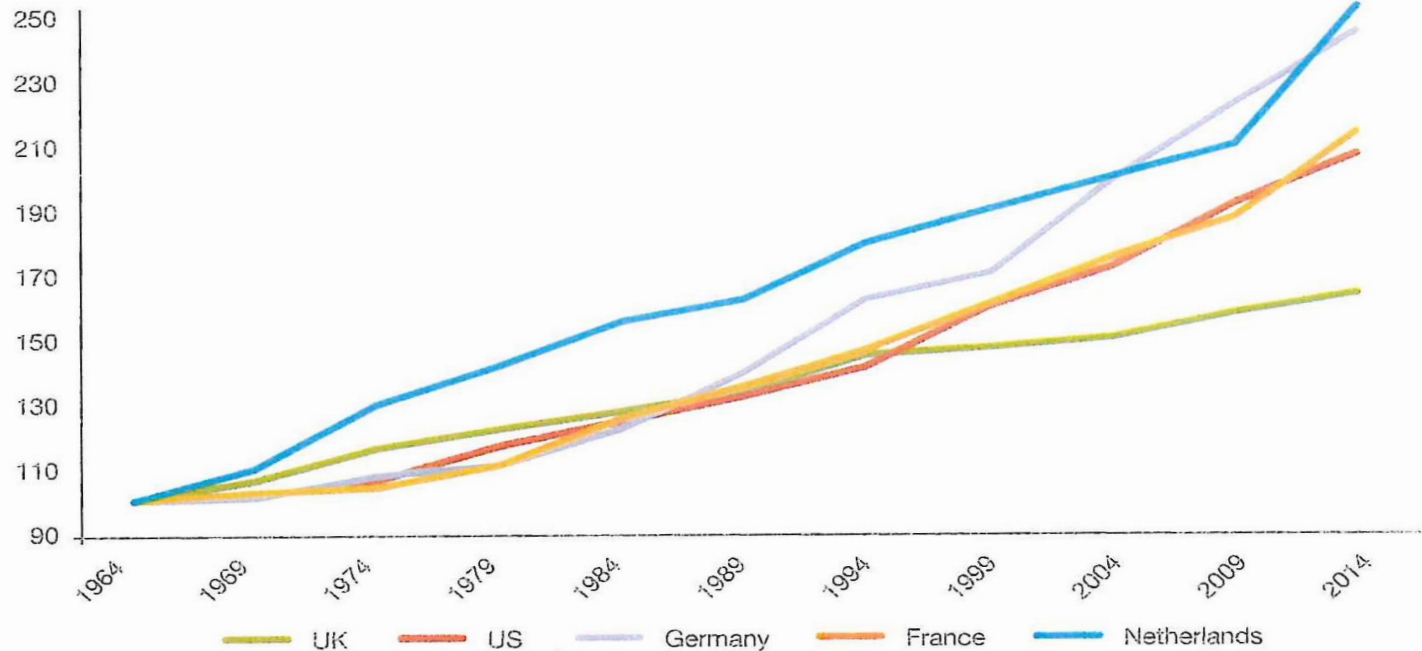


Figure 1. Total factor productivity (TFP) annual growth 1964–2014

Productivity Pays for All



“Productivity isn't everything, but, in the long run, it is almost everything.”

Paul Krugman

The Age of Diminishing Expectations, 1994

- The efficient use of resources to produce output – not necessarily more output
- Improving it is the key to living standards
- Effectively - competitiveness

Ways Out?

- Requires change, not comfort
 - Being willing to make the change
- Growth – increasing the ability to pay
- Turns on improving productivity
 - The efficiency of turning inputs into outputs
 - Skills, investment, innovation – how to promote?
 - “Supply-side” reforms – making business easier
- Renewables at scale
 - Lowering energy cost, giving independence
 - Much to be done in the energy market

The Range of Performance



Going Farming? Start with £100

- Grazing livestock – top Q - £112; bottom £47
- A quarter devalued their inputs by more than half

Add Subsidy, Environment and Other Business

- Grazing – 53% achieved more than £100
 - Top quartile £134; Bottom quartile £73
- Cereals – 55%

The Price Problem

- Productivity is a financial assessment
- UK farmers invested to improve labour productivity
- Physical efficiency improved
- The competition for margin in supply chain
 - Squeeze on prices – 1980 wheat = c.£600/t
- High value output enterprises under heavy sustained pressure
 - Scale of working capital and risk for squeezed reward. What might change?

Some Ways of Change



- Key changes are likely in the **WHO** of farming
 - Who comes into farming? Who goes out?
 - Generational succession – in family or not?
 - Facilitating issues – advice, housing, etc
- Key changes are likely in the **HOW** of farming
 - Production, structural, *technological*, marketing and land use changes
- How to manage these changes well?
- **How to find and hold commercial margin?**

Watch How We Restructure



- Catching up on 30 years
 - Many owners and tenants may find this daunting
 - Giving opportunities for proficient future farmers
 - Land use to move in agriculture and to new uses
- FBTs – consider terms and lengths of lettings,
 - Templates are for adapting
 - Flexibility more used where seen as needed
 - Slurry scheme may need 8 years security
- Contract farming and joint ventures
- Look for agreements to create and enable value, not transfer or destroy it

Looking at Tenancies

- The lettings market is primarily bare land not farms – often smaller blocks
 - Houses will only get more difficult
- The let sector needs new lettings to thrive
 - New access for proficient farmers
 - Access to land without carrying its capital cost
 - Owners finding value in letting, not farming badly
 - The productivity stimulus of contestable markets
- Land may come most from small owners, not estates, and land from tenants who go out

Some Steps on the Way



- We need to remove obstacles to letting
 - Open owners' minds to it – end of BPS is a start
 - Owners need confidence to let to trusted farmers
- Understand variety of FBTs
 - Larger, equipped holdings let for longer periods
 - 25% of FBTs let for a case-specific period
 - Others doing what seems normal
 - Soils, schemes, investment can shape length
- Success of Irish Income Tax relief
 - The positive stimulus achieving change
 - Changing APR would be counter productive

Shape the Mutual Deal for Land



- What is the business agreement?
 - What the parties' objectives?
 - Who is to do what? Who is to spend what?
 - What are the commitments?
 - How is it to end? How are matters resolved then?
- Test agreement and payment for risk
- Decide the right vehicle for the agreement
 - Tenancy, contract, joint venture, etc
- Record terms – templates are a starting point
 - How are any differences to be resolved?

Advice as Value

“... advice should be seen as an investment in the capacity of farmers and farms rather than a cost ...”

Welsh Government

Sustainable Farming and our Land

Paragraph 1.48

Quality and Chemistry of Trusted Adviser



Valuer: Trusted Adviser

- Trusted adviser to farmers and owners
 - Helping explain and manage change
 - **Client-based, not mission-based**
- Aiding review
 - Business appraisal and review
 - Environmental resources and values
 - Options and constraints
- Helping decide ways forward
- Brokering change in the business and family
- Implementing decisions

The Value of Advice



- The external view
 - Getting things in perspective
 - Look at other farms and a broader experience
 - Value of a safe challenger
- Social support and knowledge exchange
- Professional
 - Specialist help on a technical issue
 - Rounded appraisal, strategic advice and support
- Facilitation
 - Helping the conversation – family and others

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Some Conclusions

General Realities

- Farming is the engine of the business
 - Top quartile shows what can be done
- The risk is displacement activity, distracted from the business in hope of easy answers
- Carbon will need to be inset in the business and emissions reduced
 - Why make life harder by giving carbon away?
- Environmental schemes, public and private, are options not salvation
- 30 years of delayed structural change

Take Positive Control

- The farmer controls the business
- Businesses need good management
 - Watching cost, risk and reward
- Sustainability, environment and carbon will be integral – good businesses manage all
 - Soils are one key part – building resilience
- Recognise that markets are dynamic
 - Farmers act in those markets
- Skills, innovation, investment for the future
- Shape business/land agreements to create value

Large Issues; Personal Answers

- These are taken forward by each landowner and farmer finding their answers
- No absolute answers in a liberal society
- Will see a less standardised rural economy
- Personal preferences from hunkering down to seizing opportunity well
- Encouraging people to take the better answers
 - Negotiating obstacles
 - **Managing change well before it manages us**

Key Messages

- This is bigger than government
 - Time to take responsibility
- Manage change before it manages you
- Where do you want to be in 10 years time?
- Use the transition period
- Review technology and innovation
- Giving opportunities for good businesses
 - Enterprise, innovation and profit
 - How to give opportunity to the best?

THINK NOW, TALK, DECIDE, ACT

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These Are Our Choices

Questions?