

Liberalized land market and gradual subsidy decoupling; competition between farms and challenge for the agro-ecological transition.

A case study in different agricultural regions of Wales.

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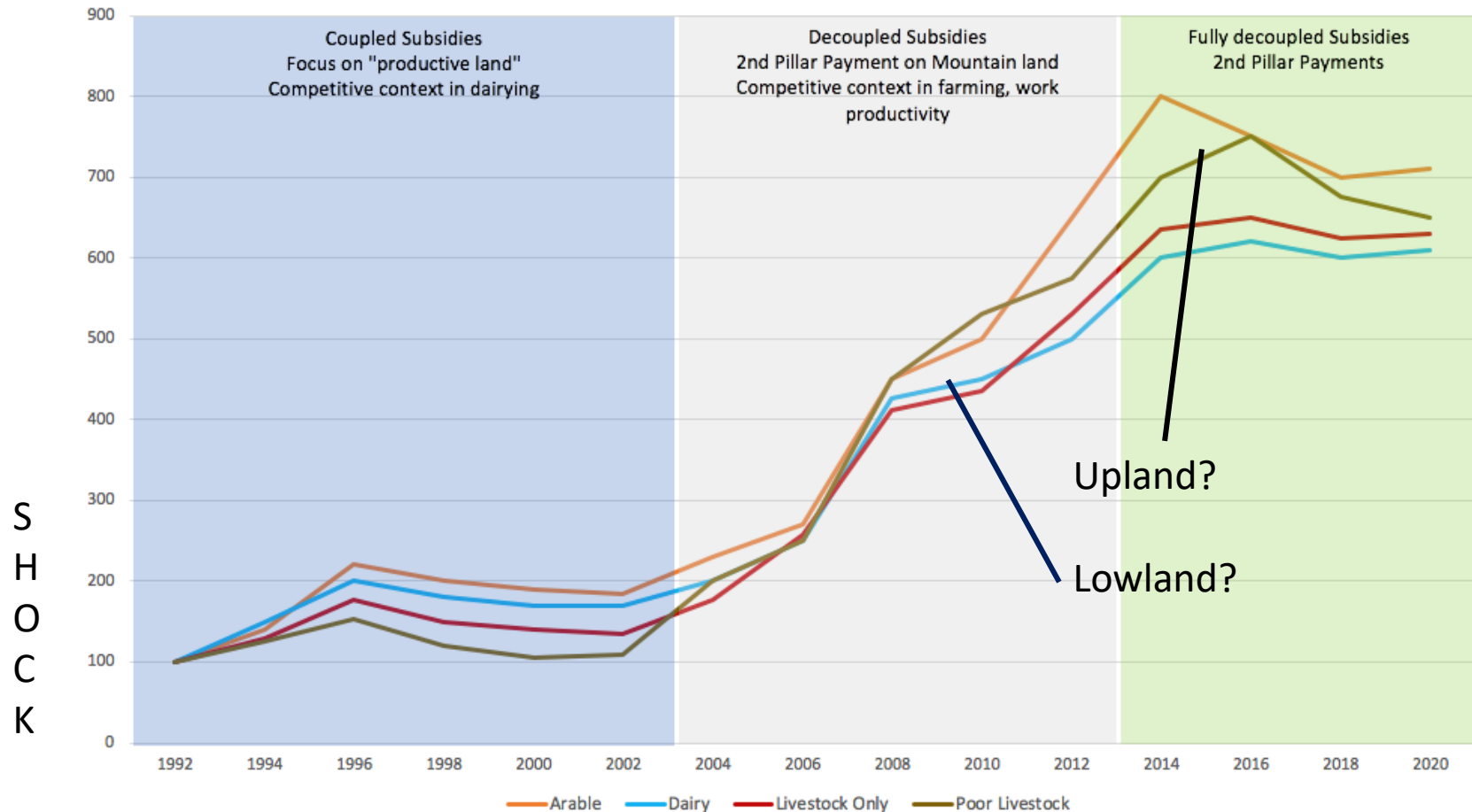
Llywodraeth Cymru
Welsh Government



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Compared evolution of the price paid for different quality of land England and Wales
(Base 100 1992) (Savills, 2020)



- ❑ We witnessed a farm expansion and differentiation after the liberal shock of the 1990s (Lenormand *et al.* 2021) while the land market gradually expanded linked to decoupling, according to literature; but there is very little data available to understand how important a factor it was for farms, and there is a wide diversity of approaches to access land and differences between landscapes...
- ❑ With Brexit (Policy, trade), the policy focus is set to evolve but the land market has not been included in the thinking.

Research Questions

To try to understand those elements, we would like to know:

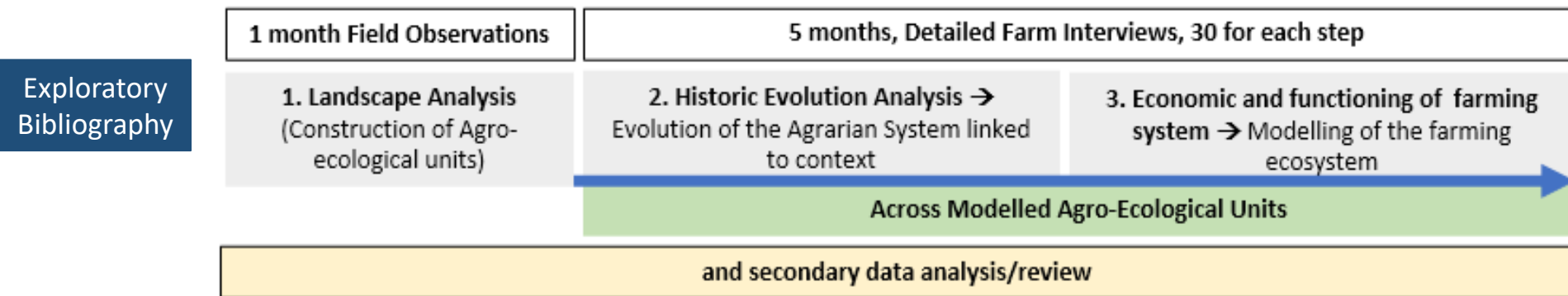
- ☐ How did the land market liberalisation impact farm evolution in Wales, in the wider context of Agricultural Policy change - and in different conditions?
- ☐ What was the impact of liberalisation on the sustainability of farms?
- ☐ What lessons do we need to draw on the eve of a second shock?



Method: The Agrarian Diagnosis, an original approach to the landholding challenge

The agrarian diagnosis a tool to study small agricultural areas:

- ❑ A **multi-disciplinary** approach with extensive and detailed fieldwork (6 months).
- ❑ A work method theorized by the Agricultural Development research team at AgroParisTech over the last 50 years (Cochet and Devienne 2007). 3 co-dependent fieldwork phases, deeply intertwined.
- ❑ Considering current farming practices as the result of the history and bio-climatic conditions of the landscape in a societal landscape.



- ❑ A fine-grain diagnosis integrating different scales → Understand operating logic and processes of each production system and prioritise between the different constraints faced.
- ❑ Therefore, it's an adequate tool to understand combined roles played by CAP reforms and functioning of land market (in relation to one another).

2 case-studies in Wales to answer those questions; one lowland and one upland area



Wales/Cymru

South-Pembrokeshire Study Area
South-Wales Hills
A diversified milkfield, a climatic gradient.
Strong oceanic influence.

Bala, The Upper Dee Vale Study Area
North West Wales Uplands
Focused on Beef and Sheep production, different altitude steps from the Valley to the middle altitude Mountain.

"Continuous grass growth, early, sum, late..."

Lowland Hills, small and wet or large and dry

Dominant Dairy

Diversified



Bocage

Grass based

Wet and warm

☐ Mostly farmer-owned, estates have disappeared over time

Shorter grass growing season

Colder

Upland Semi-Mountainous

The “rougher” the larger at the beginning.

Hills and Rough Grazing mountains

Beef and Sheep Specialized
Gradient of “meatiness”



Climbing from the Alluvial valley to the Hill and then the Mountain, 3 altitude agro-ecological steps

- ❑ Landholding is a mix of owner-occupied farms and relatively traditional, large estates (privately owned or by landowning institutions like NGOs or investment funds, electricity companies...)

Introduction: From a secure environment for farms to an increasingly selective context. The land-market an under-researched influence?

> **1948 – Post-War a secure farming environment for consolidating family farms**

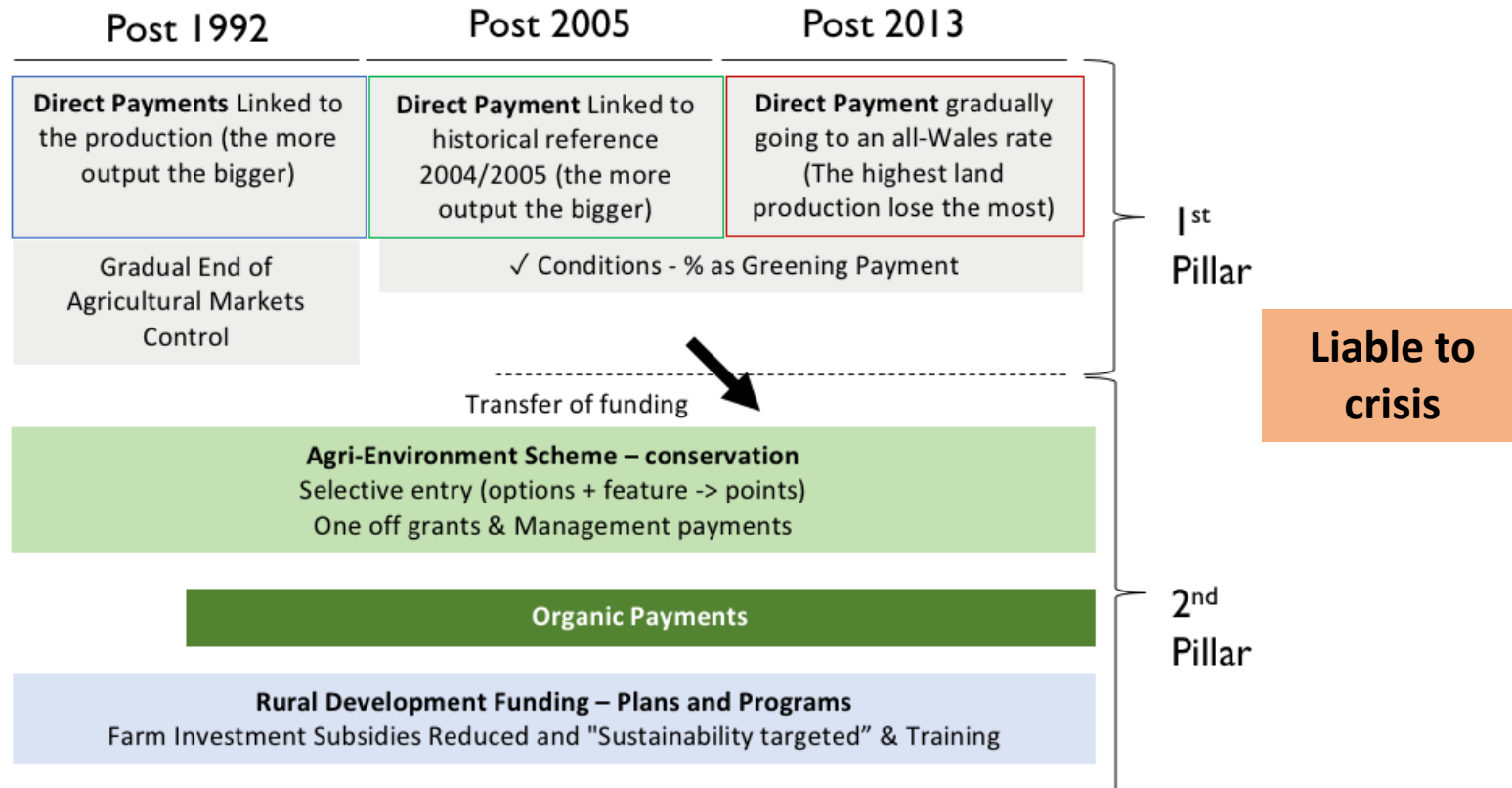
- ❑ **Agricultural Market Control**; import duties, market prices regulated / guaranteed
- ❑ **Subsidies for investments** geared towards an increase in ag production and specialization (regional and on farms)
- ❑ **Heavily regulated tenancy system (1948, 1986)**, lifetime tenancies, tenant-favouring...
- ❑ **Public sector farm leases** – County council farms, a ladder into farming
- ❑ **From 1980s, inheritance tax relief for active farmers.**

→ Move towards farm ownership, larger specialized farms, no need for structural tools as in France due to the agrarian history.

Goals similar to the EEC before the UK joined it

Introduction: From a secure environment for farms to an increasingly selective context. The land-market an under-researched influence?

> 1992 – A gradual liberalisation of the environment around farming giving a competitive context



- ❑ Gradual Phasing out of County Council Farms due to financial constraints
- ❑ Quotas were tradeable as a commodity in the UK
- ❑ Scrapped secured tenancies and introduction of a new type of tenancies in 1995, on a consensus

Introduction: From a secure environment for farms to an increasingly selective context. The land-market an under-researched influence?

Range of Tenancies, from 1995 a best-price approach for land prices with landlords in control (Interviews during fieldwork by the author 2019 and 2020, Butler et al (2008), B. Rohé 2018)

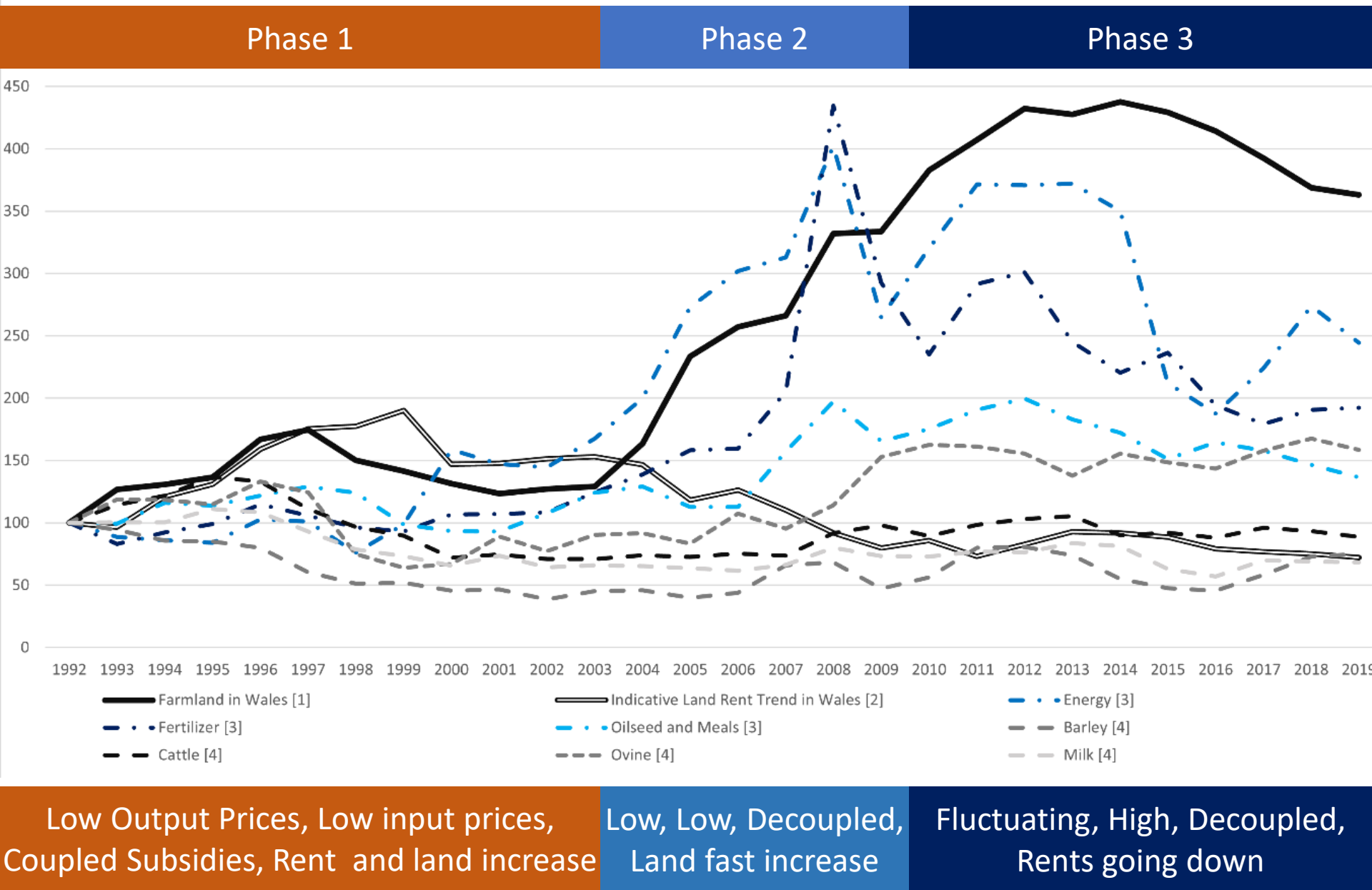
	Type of Agreement		Length of the Agreement	Breakpoint	Lease price for land
Formal	Full Agricultural Tenancy (FAT) 1986 Not available anymore. Land and Buildings		Very Long Term - Lifetime lease until retirement (county council farm) - 3 generations (private landlord)	At the end of the agreement If no direct succession	CAP subsidies to the farmer. Regular rent reviews (every 3 years) Agreement on improvements/investments and possible compensations. Relatively low compared to FBT. Price per acre or holding price.
	Farm Business Tenancy (FBT) Since 1995 Bare Land (and Buildings)		Medium to Long-Term min : 1 year max : 15-30 year Average: 5 years	<2year : At the end of the agreement >2year : At least 2 years before	CAP subsidies to the farmer (except grey agreements, except high rent to integrate CAP payments) By tender/application or by agreement between the parties. Agreement on improvements/investments/management and possible compensation. High compared to FAT. Price per acre or holding price.
	Grazing License Bare Land		Short to Medium Uncertain max: 2 years	At the agreement's end. Unregulated.	CAP subsidies to the farmer (except 11months agreements) Right to graze. Possible restrictions of use. Higher compared to FAT, lower than FBTs, possible amicable agreements.
Informal	Gentleman/Handshake Agreement Bare Land		Short to Medium Uncertain Length : <1year Mostly: 11 months	At the agreement's end. Unregulated.	CAP subsidies to the landowner (except amicable agreement) Prices vary strongly. Depending on the closeness of management from the landlord; - Services included in the rent (Fertiliser, hedges...) - State and quality of the land and improvements agreed - Multiple users or Restrictions of use Usually higher than FBTs, except amicable cases. Price per acre.
	Output Specific	Fodder Grower	Very Short Term Harvest the crop	« At will » Unregulated.	CAP subsidies to the landowner Only having the right to harvest the crop (grass, cereals...). Management by the landlord. Usually by bidding, tender or agreement. Price per acre.
		« Grazing » Bare Land	Very Short Term Months maximum	« At will » Unregulated.	CAP subsidies to the landowner Right to graze during a specific time. Price per head.
Formal	Contract Farming, Sharefarming, Partnership Land, Building, Capital and Work.		Medium to Long-Term 1 year to 30 years	« At will » Following the agreement's rules.	CAP subsidies included in the land value remuneration. Agreement negotiation.

- ❑ Further expansion via renting to mitigate the difficult context.
- ❑ Tenancy reform of 1995 was deemed a milestone facilitating renting, several types of unregulated ways of renting-out land were already available to landowners (Cf Fig. 1).
- ❑ Particularly difficult to follow

Results: Historical approach to differentiation and the land market

Compared price evolution for farmgate outputs and a range of production factors from 1992 to 2019

[1]Savills 2021 [2]Farm Accountancy Network Data 2009 [3] World Bank Data 2020 [4] FAOSTAT 2021

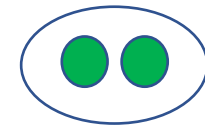


Results: Historical approach; Phase 1: The land market an enabler

- ❑ **Context:** ☹ Numerous barriers to expansion (quotas, high borrowing costs...) and then extremely challenging markets. 😊 But FBTs introduction and cheap inputs.
Renting > Buying, lesser threshold to extension; but remained a mix (taxation, loans...)
- ❑ **Supply:** Release of land, not only by large landowners but also by retiring farmers hard hit by crisis → renting = risk-free income, incentivized by quotas → particularly on milk
- ❑ **Demand:** Responses to maintain remuneration: High inputs high output labour productivity focused, either slow or fast increase depending on the needs.

PEMBROKESHIRE

- **More retirements + supply for renting.**
- **Retirement/Pre-retirement possibility to lease out quotas reduce land intensity**
- Expansion fast → Favour renting, end up with a dispersed supply of land, uncertain terms
- Expansion slow → More time, more choice
- ↘ ↗ Inputs ↗ intensity ↗ 2-speed markets
- In turn enables the return of potato farming



Split

BALA

- **Less retirement vs lowlands – less supply of land**
- **Subsidy Compensation good on beef and sheep**
- Lower demand for land compared to lowlands
- Demand from farms with large family expanding rapidly.
- → ↗ Inputs ↗ intensity



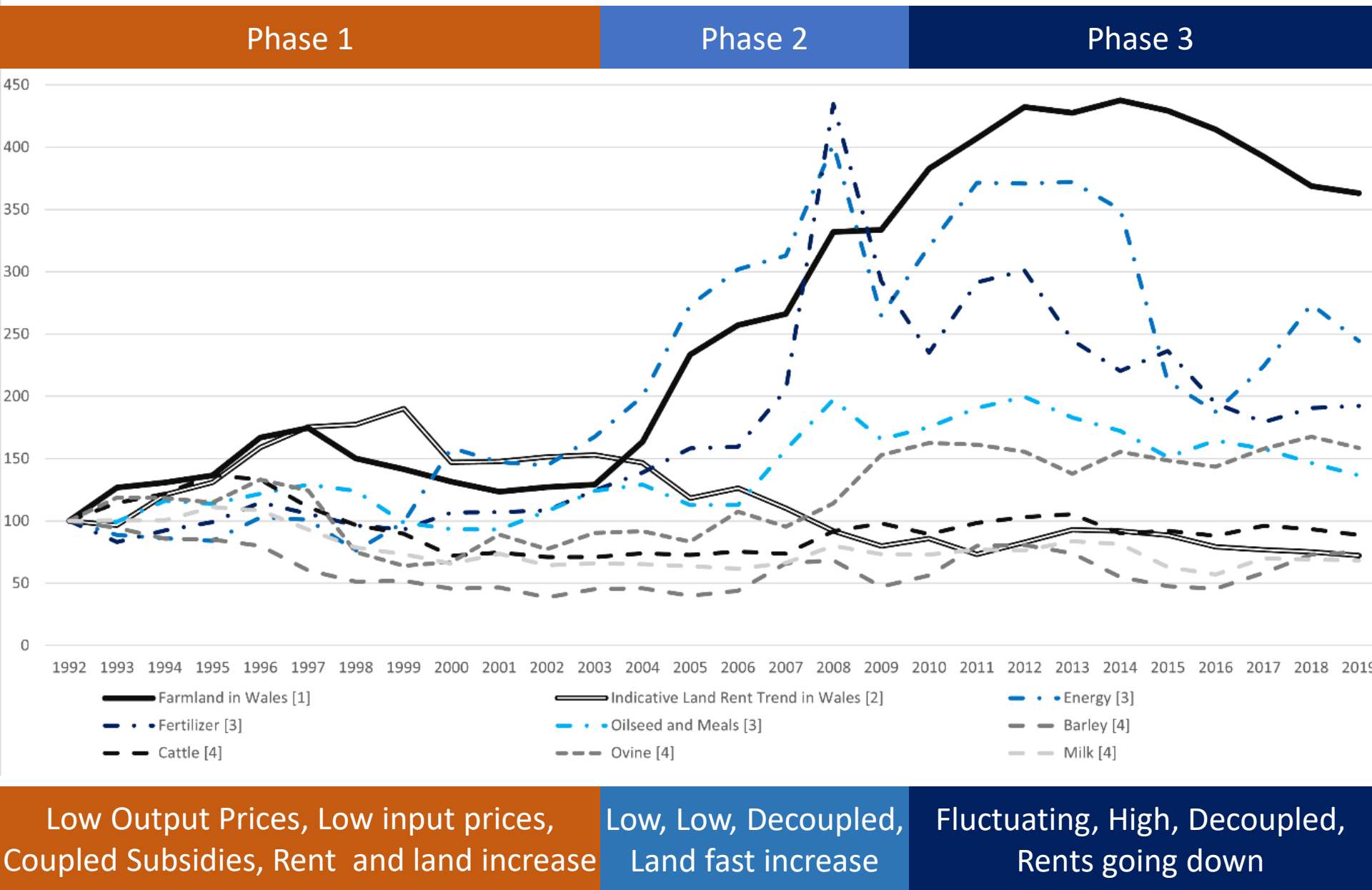
Mountain

- Not favourable for high production strategy
- Still some land sales
- ↗ Pillar 2 subsidy

Results: Historical approach to differentiation and the land market

Compared price evolution for farmgate outputs and a range of production factors from 1992 to 2019

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Results: Historical approach; Phase 2 and 3: The decoupling

- ❑ **Context:** ☹ Less barriers to expansion (X quotas, ∇ high borrowing costs...) but fluctuating markets and later costly inputs

Buying > Renting, more interesting as a strategy

- ❑ **Supply:** Lesser release of land, by large landowners but also by retiring farmers → Retain for the subsidy → Now + retirement beef and sheep, uplands.
- ❑ **Demand:** Increased pressure from other buyers. Farm responses to maintain remuneration; expansion, differentiation product type for higher income (Organic, Autumn milk) or Low inputs high work productivity systems. Or go part-time/diversify.

PEMBROKESHIRE

- **No more quotas, but decoupled payments. Still some retirements but overall a lesser supply. Subsidy stripped land increasingly.**
- Continuous demand from different systems as farms expanded.
- **Increased price of land and leases. Very low amount of formal leases.**
- Amicable leases for beef and sheep farm
- ∇ ↗ Inputs ∇ ↗ intensity



Further split

BALA

- **More retirements vs lowlands – higher offer, increasingly stripped from subsidy. Subsidy less and less interesting for small and more for large farms.**
- Continuous demand for more land due to expansion.
- High demand from farms newly developing high added value productions (dairy, poultry, heifers rearing...)
- → ↗ Inputs ↗ intensity

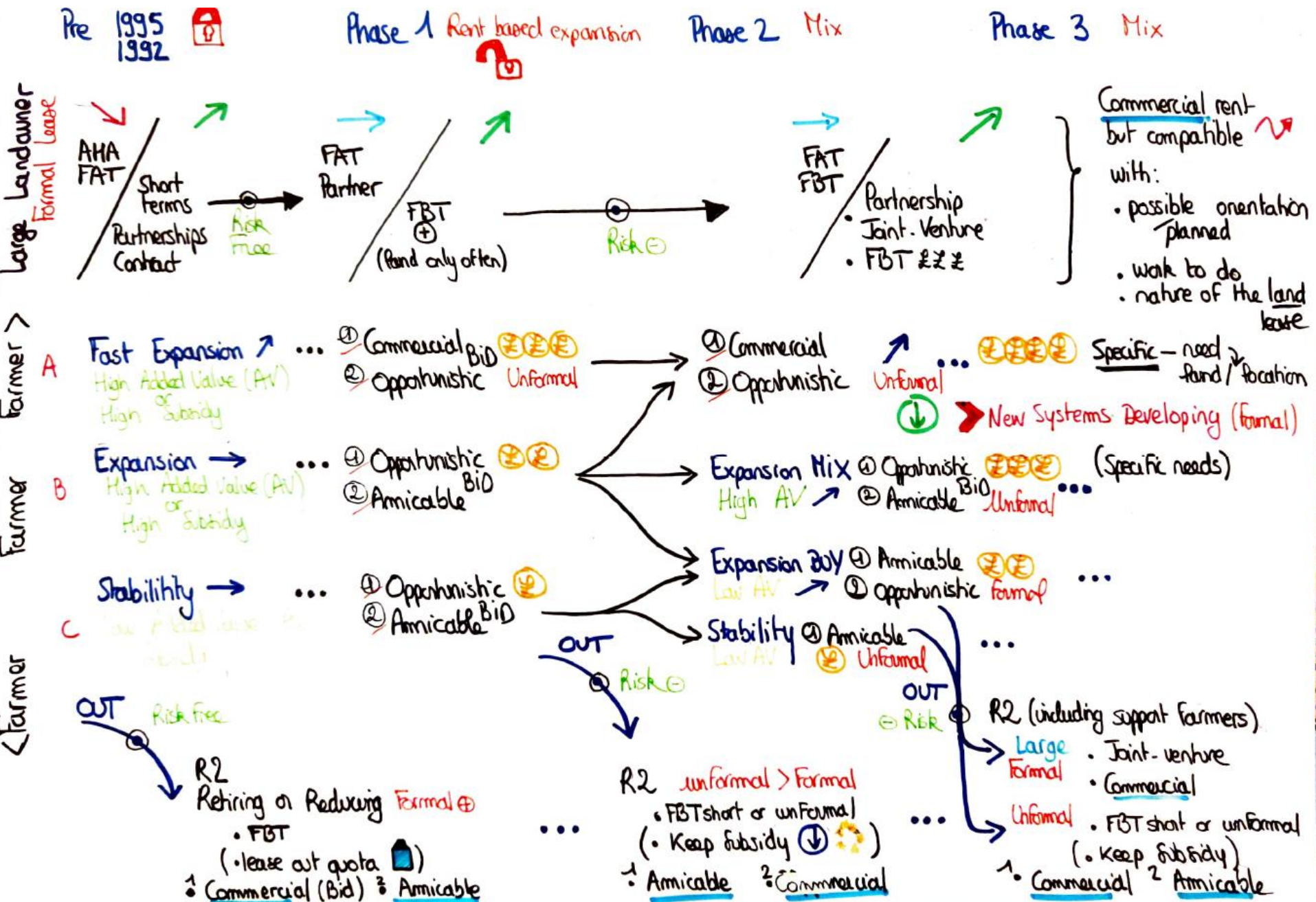
Split



Mountain

- ↗ ↗ Pillar 2 subsidy
- No more sales

Summary: Historical approach; Phase 1, 2 and 3



Results: Historical approach; Phase 2 and 3: Importance of land in farming system choices

	Farm Characteristics			
	Outputs	Specialisation	Farm Organisation	Renting type
Pembrokeshire	Dairy	Spring Calving, 300 Cows, Low Input Low Output for Dairy, Grass based. Smaller acreage Greater Output.	Family at Core (with staff) + (Support farm)	(Long term stable, medium price lease) Additional land high priced, precarious.
	Dairy	200 Cows Medium Sized, All year round, relatively High Output High Input. Crops.	Family at Core (with staff)+ (Support farm)	High price precarious and Opportunity moderate precarious
	Dairy	Large over 500 Cows, High Input High Output High Yield, Crops and high land use intensity.	Family at Core (with staff)+ Support farm	High price precarious and Opportunity high priced precarious
	Organic Dairy	100-200 Cows, Medium sized, increased acreage and crops vs reduced inputs, lower yield.	Family Farm	Opportunity, Moderate price, stable lease.
	Dairy	90 Cows, Small, Low input low output for dairy. Grass Based.	Family Farm	Opportunity, Moderate price, stable lease.
	Beef and Sheep	Large Beef and Sheep, over 200 heads, finish all rapidly with crops.	Family at Core (with staff)	Mix of Opportunity cheap lease, precarious and stable.
	Organic Beef and Sheep	Small organic, under 80 heads, less output less input.	Family Farm	Opportunity, low price, stable lease.

Fast developing, need certain bio-physical, grouped characteristics

Needs to be silage grade but gradually consolidates orientation

Need more acreage and grouped for the same amount of livestock

Can operate a dispersed supply of land but requires big block given the size of the flock/herd

Need more acreage for the same amount of livestock.

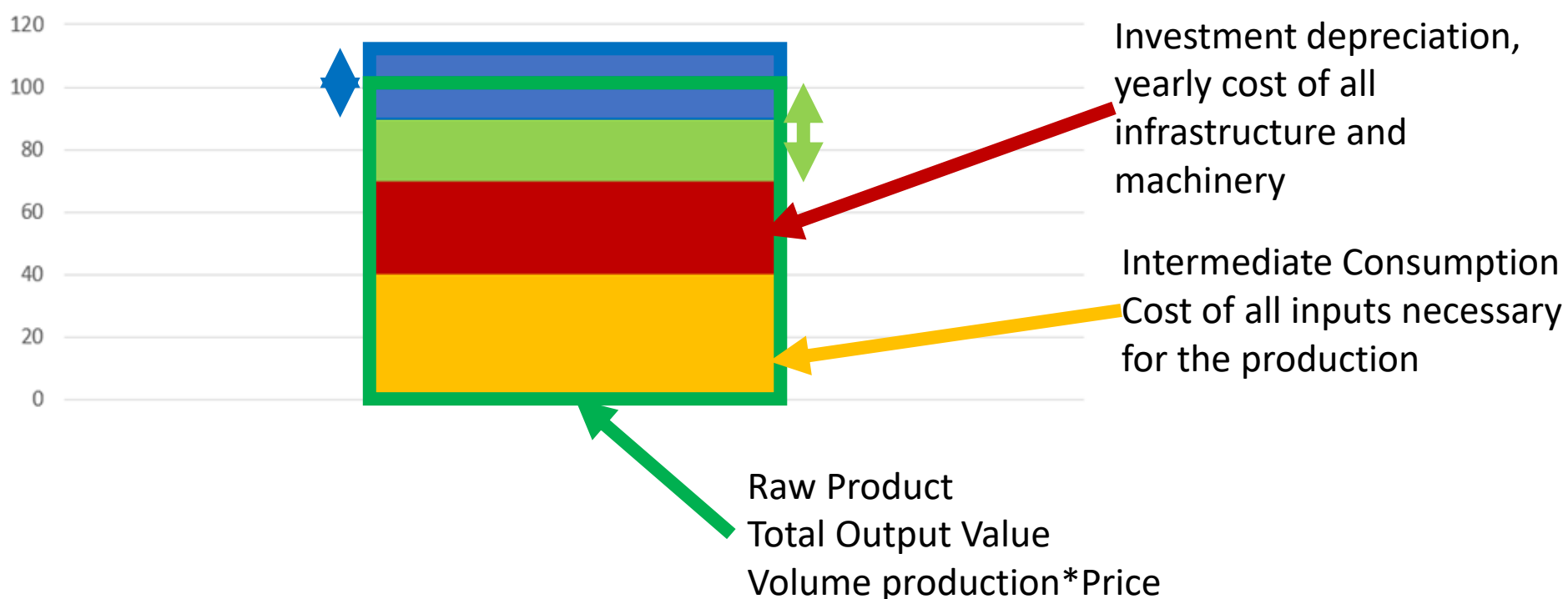
Different profiles, different interactions with the land market

Results: Economic Analysis, the approach of the Agrarian Diagnosis

- ❑ A long-term family farm approach to economic performance
- ❑ Hypothesis: For an average year from the farmer's point of view

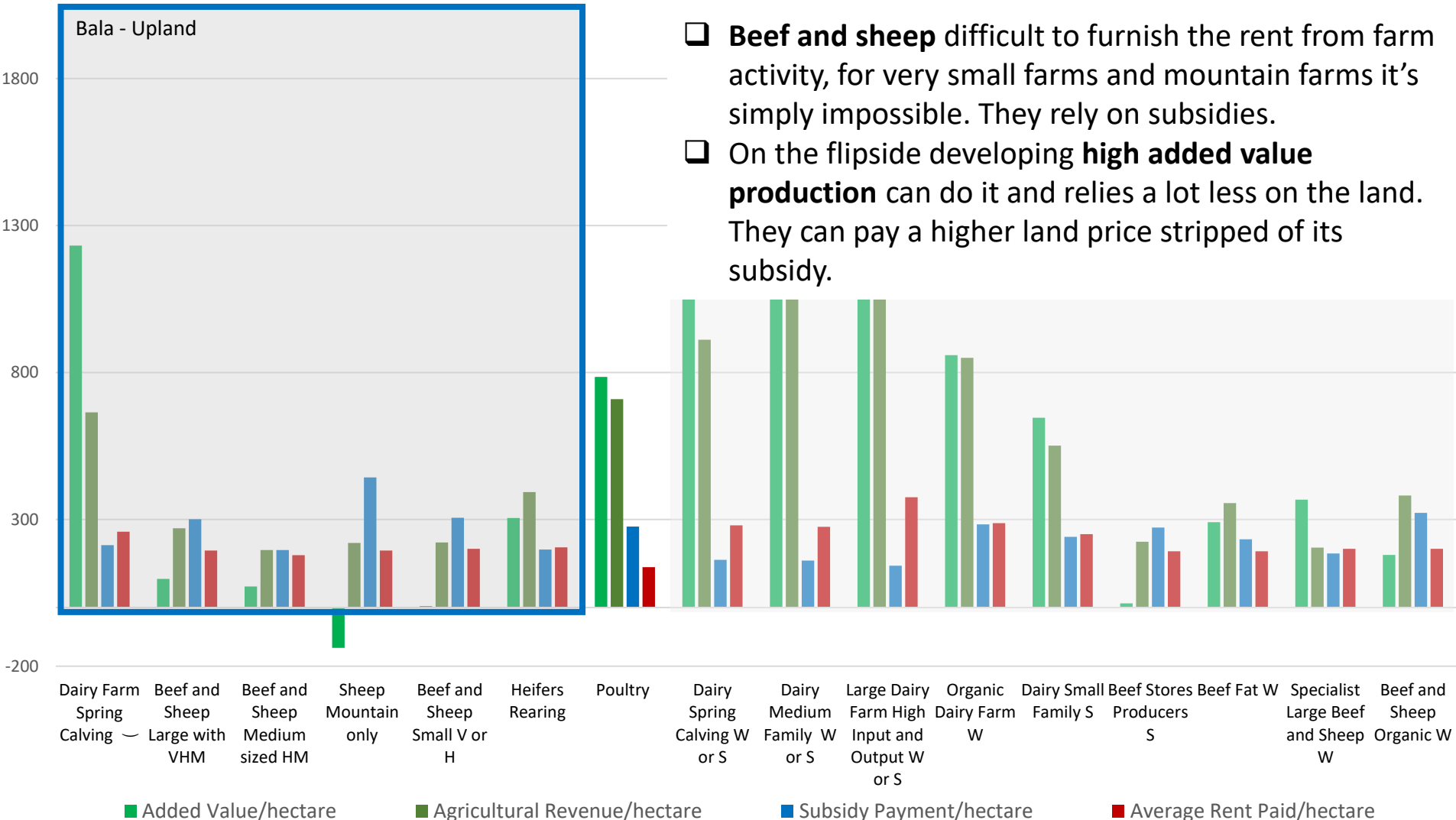
Added Value = Raw Product – Intermediary
Consumption – Investment Depreciation
Creation of economic value out of the farming activity

Agricultural Revenue before taxes
Added Value – Rent – Taxes – Salary +
Subsidies



Results: Economic Analysis, the opportunity to take more land to expand

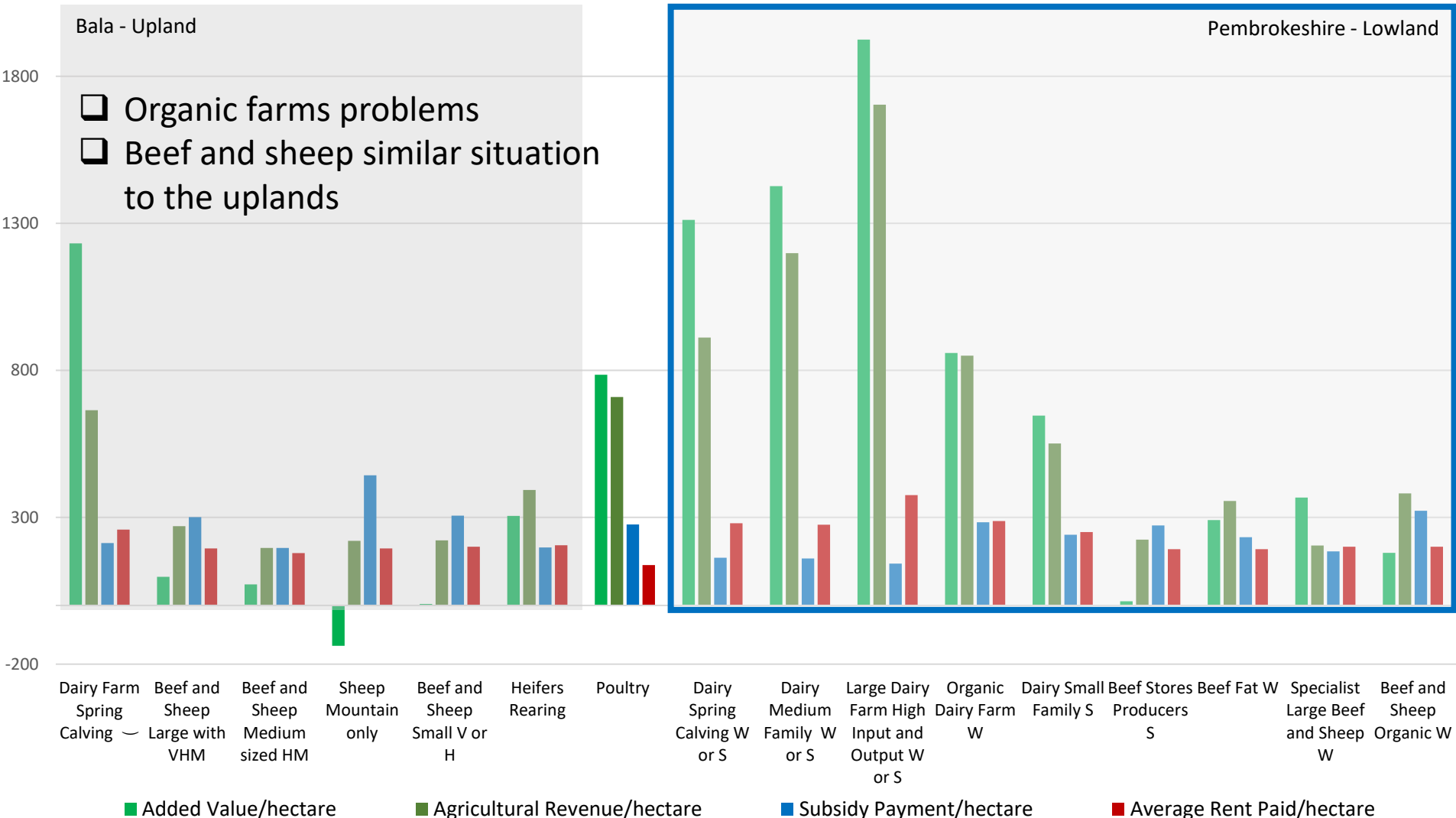
Farming in Wales, Economic Performance per Hectare for different Modelled Farm Classes Compared to Subsidies, Land Renting or Owning the land (all values in €2018). From fieldwork and agrarian diagnosis, 2019, 2020. V- Valley H- Hill land M - Mountain lan



- ❑ **Beef and sheep** difficult to furnish the rent from farm activity, for very small farms and mountain farms it's simply impossible. They rely on subsidies.
- ❑ On the flipside developing **high added value production** can do it and relies a lot less on the land. They can pay a higher land price stripped of its subsidy.

Results: Economic Analysis, the opportunity to take more land to expand

Farming in Wales, Economic Performance per Hectare for different Modelled Farm Classes Compared to Subsidies, Land Renting or Owning the land (all values in €2018). From fieldwork and agrarian diagnosis, 2019, 2020. V- Valley H- Hill land M - Mountain lan



Rent levels are adjusted to the added value of the farming systems
2 Speed Renting Market

Conclusion and Discussion

While we enter a period of significant changes in Wales:

- ❑ **How did the land market liberalisation impact farm evolution in Wales in the wider context of Agricultural Policy change, and in different conditions?**
- ❑ **What was the impact of liberalisation on the sustainability of farms?**
 - The land market is **an important driver of farm evolution**, playing a part in farm differentiation and expansion but also **retirement**. The opportunity it offered combined with the tax framework **incentivised farmers to remain in control**.
 - We witnessed the emergence of a **2-speed land market**, but the highest bidder strategy dominates leading to a continuously competitive context for land access.
 - The “laissez-faire” and run-down of the few tools existing, in a liberal **context enabled extreme differentiation and specialisation of farms**, with choices increasingly leading to an overall dependence on inputs and higher labour productivity and land intensity, or higher dependence on subsidies.
- ❑ **What lessons do we need to draw on the eve of a second shock?**
 - **Setting up a sustainable system (3 pillars) requires stability** over the farm's period of operation (Devienne 2019). The **Welsh Government** with reduced funding compared to the CAP era has a willingness to set a new vision to steer farms towards a sustainable model for farms, **which will clash with drivers of the land market**.
 - **Lack of consistent/independent monitoring and data is a problem**. We need to then be able to come up with appropriate structural tools.

Thanks for listening. Feel free to ask questions now or later...

More resources <http://theolenormand.mystrikingly.com/>

Any additional questions feel free to contact me directly:

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