

26th February 2003 Farming in 2003. A sustainable business?

A crisis of business sustainability is brewing on UK farms.

In all its hard work in developing and publishing its Strategy for Sustainable Farming and Food the Government appears to have overlooked a rather crucial point. There can be no sustainability in UK agriculture without a return to true commodity profitability. If the whole of the recent Curry Commission report can be summed up by the word reconnection up and down the food chain with consumers and the environment, then the key message of the RASE is for reconnection with economic reality.

"I can think of no other industry that runs a hugely unprofitable core business and spends all its time cross subsidising it from diversification, new ventures and even the owner's pocket," says RASE chief executive Mike Calvert.

"Very soon British agriculture will overtake ocean yacht racing as the most expensive rich man's hobby."

Total income from farming (TIFF) in 2001 was estimated by DEFRA to be £1.7 billion. Set against total subsidies paid to UK agriculture in the year of £2.5 billion it shows an industry with real trading figures £800 million in the red.

"Early signs are that the 2002 figures show an improvement, but much more is required," says RASE head of policy Angela Lea. "It is encouraging to see that some within the industry are making economic progress. But it makes no sense for anyone to chase diversified income on or off the farm, simply to fund an intrinsically non-profitable core business. We fear that unless the Government, the farming industry and the whole of the food chain acts promptly, further reductions in productivity and a further deterioration of our rural infrastructure is likely."

These days most farmers place a huge reliance on income derived from areas other than crops and livestock. Diversified assets in the form of office conversions, let properties and small business units are propping up what many see as the real business of farming. And of course the cross subsidy of farming extends well beyond the farm itself.

In a recent farm survey across 100,000 hectares it has been found that in the last five years the proportion of total farm output derived from food production has fallen from 70% to 55%.

Latest figures from the Inland Revenue show as little as 40 per cent of universal farm revenues coming from agriculture and horticulture. In the United States it is reckoned that only 10 per cent of farm household income actually derives from the farm. The fear is that the UK is heading towards a similar figure.

Even the Government admits that farm incomes are running at their lowest level since the Great Depression of the 1930s. In real terms TIFF is some 70 per cent below its peak in 1995.

A recent survey by the Institute of Chartered Accountants in England and Wales shows two highly unsustainable ways that farmers are running their finances. Many medium sized to large farms are not producing sufficient profit to cover their proprietor's drawings. In fact in many cases cash is flowing in the other direction with proprietor's money being transferred into the business. The simple analysis is that it makes no sense to subsidise farming in this way. It is financially unsustainable.

If we gaze across the Atlantic to the United States there is a rather different Government model of sustainable agriculture. It's one which requires massive state intervention. The latest US Farm Bill provides for over \$85 billion a year of subsidy into farming, rural development, food safety and nutrition with the sustainability of natural resources and the environment one of its key objectives.

It is not good enough for the UK Government to state that at the heart of unprofitable agriculture lies low productivity. For the vast majority of farmers the root of poor returns is the low price of the commodities they produce.

Whatever else you might label Cambridgeshire farmer Oliver Walston, it is hard to accuse his farming operations of being inefficient and of low productivity. Each year he analyses his performance and circulates

the figures.

He has three men on 800 hectares of arable land. In 2002 he had the second best wheat harvest ever, record breaking yields of sugar beet and a good crop of oilseed rape. Taking wheat, in 2001 the farm averaged yields of 7.7 tonnes a hectare with a price of £80 a tonne. In 2002 the yield was 9.3 tonnes a hectare with a price of £49 a tonne at harvest (£55 a tonne in December).

"You don't have to be a mathematical genius to see that a thirty per cent fall in price is not compensated by a twenty percent rise in output," says Oliver Walston. He does admit to last year receiving £155,000 of EU subsidy but despite this has only just broken even on the farm account in both the last two years.

And however hard you analyse the situation, diversification in business and income streams does not correct the intrinsic lack of profit – economic unsustainability of broad acre farming. Oliver Walston has a livery stable, let properties, income from journalism, but no quick fix for low returns on arable commodities.

But taking the Walston model there is little comfort in how the Government intends to monitor future developments in economic sustainability.

It wants "a farming sector focused on the market, successfully producing food and non food crops in a more efficient way, to help enhance the incomes of competitive farm businesses." It will measure this outcome by looking at greater value added per head (per worker). It also wants greater efficiency in the total food chain – indicated by higher productivity of food and drink processing and a reduced burden on taxpayers and the rest of the economy.

That quick fix is proving hard to find.

In her speech to the Oxford Farming Conference in January 2003, DEFRA secretary of state Margaret Beckett addressed the theme of a route to sustainable UK agriculture. Amongst all the words on organic development, re-skilling and environment protection there was virtually nothing about improving the profitability of real farming.

"We shall take steps to help farmers secure better returns for their products. More money will be available both for marketing and processing grants and for measures to promote the production and sale of quality regional food," said Mrs Beckett.

Little of cheer then for the broad acre farmer. One Wiltshire arable producer has calculated that his £100,000 of wheat off the farm is worth £7.2 million by the time it is sold on retail shelves as bread and cakes. But quite how he gears up to take advantage of the mark - up is something of a mystery.

"One could be forgiven for thinking that Whitehall's silence on the crippling low prices for farm commodities is a tacit acceptance that in a globalised market they are powerless to act," says Mike Calvert.

"Alternatively an even more depressing conclusion is that they are prepared to see UK domestic agriculture be exported to those parts of the world with lowest production costs. At present the Black Sea grain producers would be a good example."

One ray of hope is provided by farm income figures from across the rest of the EU. The fact that farm incomes are relatively healthy in at least seven of the current fifteen shows that national policies can be directed to achieve farm profitability.

Ends

Editor's notes:

1. Many of these issues will be profiled at the RASE's Royal Show being held from 29th June to 3rd July 2003 at Stoneleigh Park, Warwickshire. www.royalshow.org.uk
2. The article may be abridged with prior permission from the RASE.
3. The Royal Agricultural Society of England promotes a long term perspective for British farming. Since 1840 the Society has encouraged science and technology transfer, showcased most effectively at the Royal Show and in the technical events programme. It also contributes to the policy debate and leads agricultural education in schools.
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