VIEWPOINT

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Opportunity agriculture

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ABSTRACT

Rental values for farmland in the United Kingdom seem to bear little relation to the land's productive capacity. One of the culprits is short-termism, encouraged by shorter and shorter durations of the standard instrument, the Farm Business Tenancy. Following on from his report, *Opportunity Agriculture*, to the 2014 Oxford Farming Conference, the author argues for alternative models of land tenancy, especially those based on shared ventures.

KEYWORDS: land; tenancy; share-farming; rent; United Kingdom

Most readers of this journal will know that rental values for arable land in the UK – at least those for land offered on Farm Business Tenancies – have experienced a good deal of upward pressure in recent years, driven partly by competition for a limited resource but also reflecting several profitable years for arable farming.

Tender rents – even for Grade 3, cereals-and-oilseeds land – have frequently been offered at £500 per hectare and more[2], even though these levels begin to look increasingly questionable as commodities value slump back to 2010 levels. The determination to win land, even with the ambition of spreading costs and working assets harder, seems untempered by prudence or a medium- or long-term view.

It is this absence of a longer-term view which interests me. Land which is paid for 'through the nose' will inevitably attract less care, attention to detail, or investment than that which is owned or where greater margins can be achieved. As I discussed with a client of mine recently, considering tendering for one of the better farms in the district: "do you really want to commit a quarter of a million pounds in rent, working capital and interest before you've even harvested anything, with the prospect of making only twenty or even thirty thousand pounds net profit?". As it transpired, we were not among those casting bids. But I can imagine the outcome – a clutch of bids in excess of £500/ha, and the landlord has the option to take the highest one. What can go wrong? If the tenant gets into difficulties in a year, so what? There will be plenty of frustrated under-bidders who will welcome another bite of the cherry, and will be prepared to put their hands in their pockets to do so.

The downside of this, it seems to be, is that it is so catastrophically short-term in nature. Land that is not looked after will take years to put right, and, despite the continued growth in capital values, I cannot believe most landlords don't consider the longer-term state of their asset.

All this leads me to question whether there are better alternatives to the 'standard model' – short-term Farm Business Tenancies (FBTs) – which have become shorter and shorter in length. When they were introduced in 1995 at a time of critical reform for the tenanted sector, twenty or thirty-year FBTs were expected. Now most are offered on three- or five-year terms and it is not unusual to find one- or two-year arrangements. There's not much profit in there, if it takes you three seasons to put right the soil structure, nutrient status and drainage mess left by your predecessor.

So the question at the centre of this remains: what alternatives may be out there? What other arrangements could be developed for the occupation of land, the sharing of risk and reward between parties, where interests are more closely aligned? This was one of the central points in a paper published at the Oxford Farming Conference in January. Working with the University of Reading and a leading agricultural research firm, I was asked by the conference directors to explore the opportunities which British agriculture might face in the coming decade, and suggest changes in farm structure or priorities for investment which may become necessary, if UK farming was to be 'sustainably competitive', ten years in the future.

The issue of land occupation and tenure models might seem small; irrelevant, when one considers the 'bigger picture'. Most of those who work in agriculture know that, with a world population which has already eclipsed seven billion, and with another two billion people expected by mid-century, food production is going to have to increase output - and fast. For instance, average UK cereal yields grew by one tonne per hectare every decade from 1980 to the end of the century. But yields have now begun to plateau: although varieties are continually being developed with better disease resistance or more desirable food characteristics, the best wheat growers struggle to achieve more than 12 tonnes per hectare and the UK average is 8.5. And yet we know that wheat, as it stands today (i.e. with no genetic manipulation) has a theoretical potential yield of nearly 20 tonnes per hectare.

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[2] In mid-September 2014, £1 was approximately equivalent to €1.26 and $US1.63 (www.xe.com)

Thirty years ago, Britain had an enviable network of government-backed research stations which generated and distributed new knowledge in most sectors of agriculture. Nowadays, most research has to be funded by the private sector and therefore, companies focus on developing products on which they can recoup their investment within a relatively short timescale. In the field of crop protection this has become the norm – it takes seven years to get a new pesticide product from development to full market approval, allowing perhaps another seven years of sales before the product is possibly revoked, superseded or replaced by a competitor's.

In the last few years, government has acknowledged that the dismantling of the research-and-development structure in the late 1980s had to be addressed, and has launched the Agri-Tech Strategy and its Catalyst Fund, to pump-prime fresh research and development in food production. This followed an influential report called Feeding the Future, published in 2012, which was the industry's own effort to determine research-and-development priorities for primary food production.

So the big challenges truly are huge, and there is hope to be found in the science. But there will also be opportunities for farmers as the world looks to them to produce more food and green energy, and it is not unreasonable to expect that we might see these opportunities within the next decade. But what might they look like? And how could you predict them?

The reality is that new investors continue to be attracted to agricultural land as an asset class. Investors want returns from operation (farming) plus the capital growth they have come to expect, particularly in the UK. Our study found that a growing divergence could emerge between those who own land and those who operate it. Investors don't want necessarily to outsource management and operation - they want to see some return from this too.

So we come back to the central problem. What models are out there to achieve this? Why should standard tenancies or contract-farming be (more or less) the only ways?

Consider this as one possible outcome: there will be more opportunities as contractors for investors who run their own operations. And opportunities in contract-farming for those who adopt the tried and tested model. But those who want to retain ownership of the operating entity, and at the same time want their 'manager' totally involved, on-side and motivated in the same way they are, may consider alternative structures where interests are better aligned.

Many readers will know how popular share-farming, or share-milking, has become in New Zealand over the last twenty or so years. In a share-milking example, one farmer typically provides the land, buildings and some of the fixed equipment, while the share-milker provides the cows, some working capital, and the management, labour and skill. But here's the crucial difference. Instead of simply getting a basic payment for services, plus a share of profits (like a contract farming agreement) the share-milker is invested in the business himself. And over time that investment grows, as the business (hopefully) makes more money and appreciates in value.

One of the reasons why this has been so popular in New Zealand is that it has created a way for new people (not necessarily farmers' sons and daughters, although they might be) to enter farming and own some or, eventually, all of their own business. I'm not suggesting this model will simply be rolled out here, although it's not unknown, mainly in the dairy sector. What this report suggests is that there is potential to develop new business models and structures, which align interests more effectively than, say, a two-year Farm Business Tenancy.

And 'investors' needn't necessarily exclude family farming businesses or trusts - in fact there is no reason why family farming businesses should not be at the heart of UK agriculture in ten years' time as they are today. But with an increase in average farm sizes, an upscaling in technology and machinery, and growing interest from 'outside' investors in land and farming, it seems likely that these businesses may be bigger - perhaps have a board rather than just family partners - and be working in new ways. With the changes in population growth and demand for food, farming is once again being called on to innovate. There seems no reason why that shouldn't apply to methods of land occupation and management, too.

About the author

Ian Ashbridge is a farm business consultant and advisor with property firm Bidwells, managing arable farms and providing strategic advice for UK and overseas clients. He has practical experience of a range of farming systems and is involved with agribusiness development projects in Africa and south-east Asia. A former Business and Economics Editor for the journal Farmers Weekly, Ian sits on the national council of the Institute of Agricultural Management. He is a Visiting Lecturer in Farm Business Management at the Royal Agricultural University.

Ian is the main author of *Opportunity Agriculture*, a report commissioned by the Oxford Farming Conference with the brief to look at what needs to change in UK agriculture in the next decade to make it sustainably competitive. The project team started by trying to establish a definitive picture of the industry today, and where the immediate 'direction of travel' might be taking it. This involved studying every sector of UK agriculture, the food chain, and the UK's relative position in the world, and trying to set down what was already known.

In some cases this was quite straightforward – the deal agreed in Brussels last year on the replacement to the Single Payment Scheme will run until 2019. Other aspects of the future are harder to predict, and the Oxford Farming conference wanted a 'better than guess' assessment. So the team turned to the industry – 100 farmers and 50 other professional like grain traders, agronomists, banks – and said: "This is where it looks like we're going today - where do you believe this 'direction of travel' will take us?" Analysing the transcripts of those interviews resulted in a series of statements – more than 40 – which were put in front of a panel of ten expert witnesses, to test whether they were genuine probabilities, or commonly-believed myths. Those that survived, that stood up to scrutiny, went on to shape the report's conclusions.

A free copy of the report can be downloaded from the Oxford Farming Conference website at www.ofc.org.uk.