Measuring the economic resilience of Scottish farms

SRUC

The Challenge

How resilient are farmers to future shocks due to market prices and policy changes? As we move to leave the EU's Common Agricultural Policy, there are opportunities to explore new arrangements and protocols for promoting viability within the rural economy.

Policy Implication

Recent discussions have focused on risk management tools, either through agricultural support, or why farmers do not voluntarily adopt measures such as forward contracts and insurance. Farmers may not be aware of risk management tools or mechanisms which are not tailored for their specific needs. Prior to the research we thought that different sectors have different challenges, yet we found similar effects of bad years on both arable and livestock sectors. It would seem that there are similarities across farm types and they all face periods of non-viability.

Research

A long term survey of 500 Scottish farm businesses were grouped into five types:

1. Viable farms: rates of return for income minus capital costs (incl. land) exceed minimum wages as set by the Scottish Agricultural Wages Board;

2. Resilient farms: viable farms who maintain viability status for at least 3 years;

3. Robust farms: viable farms who maintain viability with 50% subsidy removed for at least 3 years.

4. Sustainable farms: farms who do not meet the minimum wage threshold, but have at least 50% of total income from non-farm sources;

5. Vulnerable farms: farms that do not meet the minimum wage threshold and do not have income from non-farming sources.

Results

20% of Scottish farms are considered resilient and around 40% of Scottish farms are vulnerable.

Viability is persistent whilst non-viability is more transitory. Implying that policy support income does not negate variability shocks. That Income support subsidies negate the perceived need by farmers to invest in insurance schemes is arguably a matter of farmers being unaware of appropriate risk management tools.

Patterns of non-viability are similar across different sectors. The effects of bad years on both arable and livestock sectors are similar. At this general level there may be homogeneity across farm types and they all face periods of non-viability. Transitions into and out of viability are driven by fixed and variable factors.

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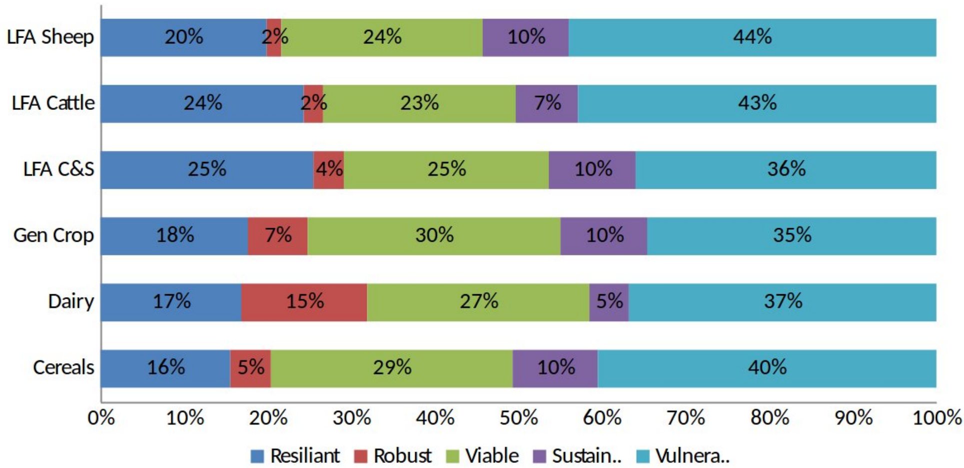

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About

The Land Economy, Environment and Society (LEES) Research Group is one of the largest groupings of economists and social scientists working in the rural, agricultural and land based sectors in the UK. Our vision is to be recognised as one of the leading centres for agricultural and wider rural economic and social research globally, benefiting the land use sector, the environment and rural communities.