



Farmer Responses to Brexit: Adoption of Risk Management Behaviours

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Summary

The UK's proposed withdrawal from the European Union presents multiple uncertainties for farm management planning. However, as farmers have to deal with nature and fluctuating input and output prices, a number of tools and practices are available to help producers manage short term production and market uncertainties. This briefing note outlines the results of a survey of 2,494 farmers, crofters and smallholders, run during the summer of 2018, on their intentions towards Brexit uncertainty and adoption of risk management tools.

Findings reveal that most farmers, crofters and smallholders were uncertain around the potential impacts of Brexit on their business meaning they were not proactively engaged in risk management behaviours. Those who had made changes to manage Brexit risks tended to focus on making changes to their production systems, though some were looking to contracts with supply chain agents as a means of ensuring more business stability against Brexit uncertainty.

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1.0 Introduction

Farmers' face a range of production and market uncertainties on an annual basis and, as such, multiple tools and instruments have emerged which allow some mitigation of adverse effects on financial outcomes at the farm level. Agriculture is dependent on nature and is also faced with significant input and output price volatility that leads to unique challenges in how to manage uncertainty. Traditionally farmers managed uncertainty by having a diverse mix of enterprises (e.g. beef, sheep and grain) but in the last 20 years more farmers have move towards increased specialisation, intensification and efficiency of production systems as a means of maximising returns. This specialism has required changing system efficiencies and management of risks through, for example, the adoption of new technologies and uptake of best practice. Moreover, despite heavy levels of trade protection in the EU there are still risks from market fluctuations set through global supply and demand. A recent SPICe briefing (Thomas, 2018) identified a range of risk management tools that other countries have adopted (summarised below) but concluded that their use has limited scope in Scotland due to high direct Common Agricultural Policy payments providing a market support mechanism.

Table 1. Support Mechanisms for Agriculture in Selected Countries

Country/Jurisdiction	Guaranteed Annual Direct Payment	Additional Forms of Support	Producer Support Estimate ¹ (%)
EU	Yes	Market tools/Direct payments/ Pillar 2	18.9
US	No	Crop Insurance/Commodity Programmes	9.4
Canada	No	Business Risk Management Programmes	9.4
Australia	No	Taxation Measures and Disaster Relief	1.3
New Zealand	No	Natural Disaster Relief	0.7

Source: Thomas, 2018 from Northern Ireland Assembly, 2018

During times of policy uncertainty, such as CAP reform or changes to support payment requirements, a body of literature tends to emerge focusing on the management of, and the impacts of, the policy change on farm investment and management behaviours (Rickard, 2004; Tranter *et al.*, 2007; Sorrentino *et al.*, 2011; Breen *et al.*, 2005; Bougherara and Latruffe, 2010; Barnes *et al.*, 2017). Reviewing this evidence suggests that little has changed over time, and when faced policy uncertainties farmers react in a predictable manner – particularly reducing investments until there is policy clarity or simply continuing unabated.

2.0 Method

A telephone-based survey of Scottish farmers, crofters and smallholders was conducted over the summer of 2018. A spatially representative sample of 11,000 businesses was selected using information from the Scottish Government's June Agricultural Census (JAC) stratified by region, business size and farm type. For a large scale survey such as this, the

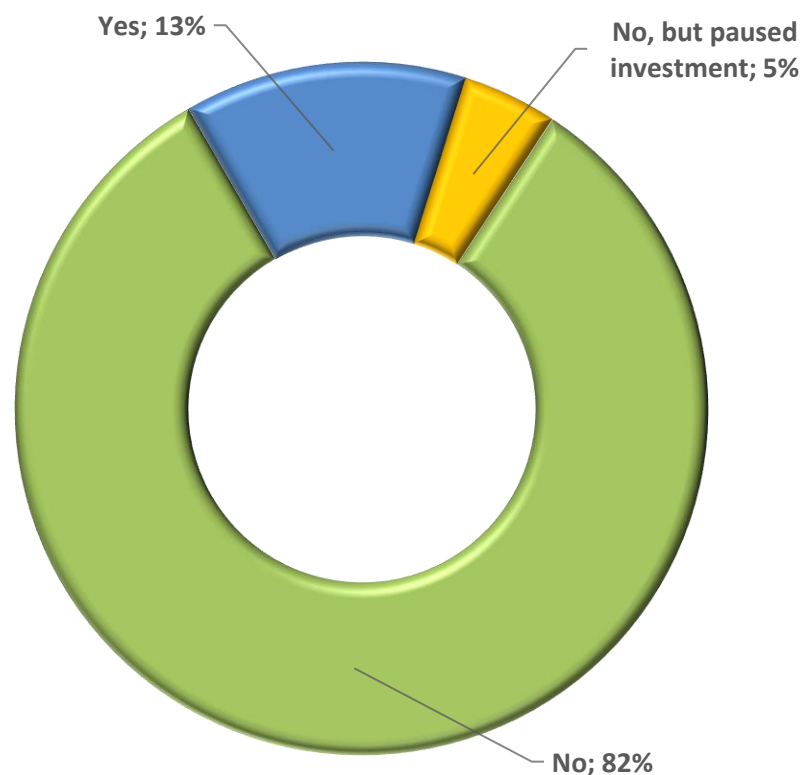
¹ The Producer Support Estimate (PSE) is an indicator of the gross financial transfers arising from policy measures that are made by consumers and taxpayers to support agricultural producers.

JAC sampling framework is the most appropriate as it gives national level coverage and detailed information on agricultural activity, and it means that background information requirements are minimised. As the JAC reports at an agricultural holding level the data was aggregated (where appropriate) to business level² in order to ensure the sampling framework was as representative of Scottish agriculture as possible. A total of 2,494 farmers, crofters and smallholders engaged with the survey, 24 per cent of whom were female.

3.0 Results

The pie chart below shows the whether those interviewed had started to make changes in their business as a result of the Brexit process. The results clearly shows the underlying uncertainty or indifference towards the Brexit process with 82% of farmers, crofters and smallholders not making behavioural changes. Whilst 5% said that they had not made changes to how their business operates they had actively made a decision to suspended investment in agriculture as a result of Brexit. Around 13% of the farmers, crofters and smallholders interviewed were actively making changes to their business model in preparation for Brexit.

Figure 1. Have applied or started to make changes to the business/holding because of Brexit



3.1 Characteristics of Planning Responses

The table below shows the spread between characteristics to the above questions. These are presented as percentages per row so highlight the differences between the differing categories to responses. A chi square test showed the following significant differences:

² A farm or croft business may be made up of multiple agricultural holdings

- Farmers and smallholders within the North East were less likely to be actively preparing for Brexit compared to other regions.
- Very small farms, crofts and smallholdings were less likely to be making Brexit preparations compared to other size groups,
- Compared to other age groups, farmers, crofters and smallholders over 65 years of age were less likely to be making business changes in preparation for Brexit.
- Those not in receipt of direct CAP (pillar I) support were less likely to be taking steps towards preparing for Brexit compared to those receiving direct support.

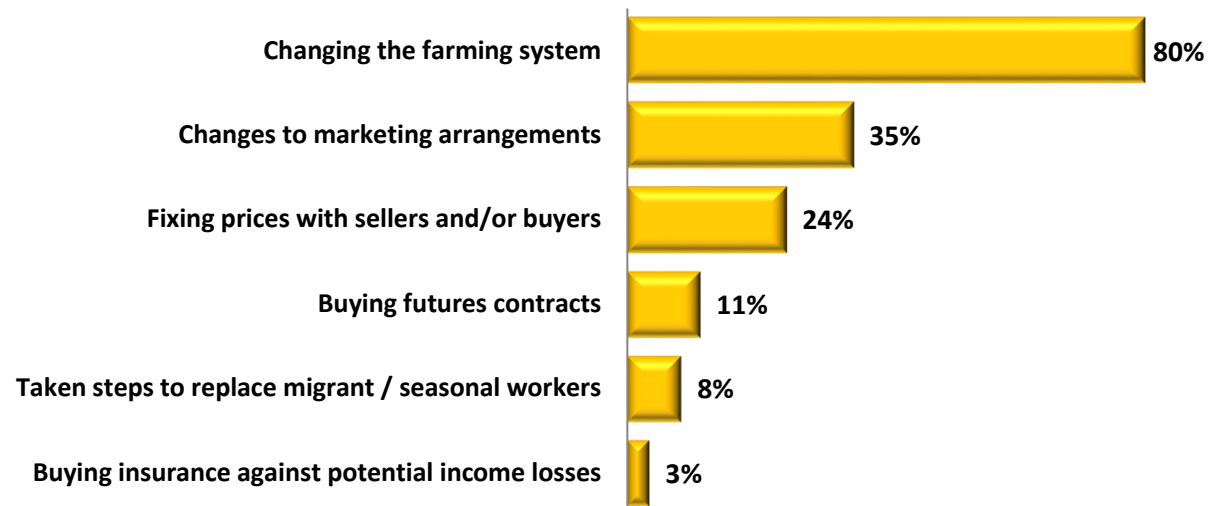
Table 2. General characteristics of the response to making business changes in preparation for Brexit, row percentages

	Characteristic	No Change	Paused Investment	Making Brexit Preparations
System	Arable (<i>n</i> = 336)	83%	4%	14%
	Livestock (<i>n</i> = 1,696)	82%	5%	14%
	Mixed (<i>n</i> = 457)	85%	4%	11%
Ag Region	Eastern (<i>n</i> = 481)	78%	5%	18%
	Highlands & Islands (<i>n</i> = 886)	85%	4%	11%
	North East (<i>n</i> = 314)	86%	5%	9%
	Southern (<i>n</i> = 732)	80%	5%	15%
	West Central (<i>n</i> = 76)	86%	4%	11%
Size	Very Small (<i>n</i> = 733)	90%	3%	6%
	Small (<i>n</i> = 388)	85%	5%	10%
	Medium (<i>n</i> = 245)	81%	2%	16%
	Large (<i>n</i> = 465)	77%	6%	16%
	Very Large (<i>n</i> = 658)	76%	5%	19%
LFA status	Non-LFA (<i>n</i> = 717)	83%	4%	13%
	LFA (<i>n</i> = 1,772)	82%	5%	13%
Gender	Female (<i>n</i> = 612)	88%	3%	9%
	Male (<i>n</i> = 1,856)	81%	5%	15%
	Not Dec (<i>n</i> = 21)	86%	0%	14%
Age	<45 (<i>n</i> = 334)	72%	5%	23%
	45-64 (<i>n</i> = 1,340)	81%	5%	15%
	>65 (<i>n</i> = 815)	90%	3%	7%
Tenure	Mixed (<i>n</i> = 431)	77%	6%	17%
	Owned (<i>n</i> = 1,592)	83%	4%	12%
	Tenant (<i>n</i> = 466)	84%	3%	13%
Croft	Croft (<i>n</i> = 322)	89%	4%	7%
	Not Croft (<i>n</i> = 2,167)	81%	4%	14%
CAP Support	No Direct Payment (<i>n</i> = 424)	90%	3%	7%
	Direct Payment (<i>n</i> = 2,037)	81%	5%	14%
New Entrants	Established (<i>n</i> = 2,289)	83%	4%	13%
	New Entrant (<i>n</i> = 200)	79%	4%	17%

3.2. Adoption of risk management tools

The 328 interviewees that were actively preparing for Brexit other than simply stalling investment (n=110) were further queried around what they were doing on their farm/croft/smallholding in preparation for, or as a result of Brexit.

Figure 2. Adoption of risk management approaches to those actively planning for Brexit



Clearly the key Brexit management tool used was to make changes to the farming system to allow it to be more robust against potential Brexit challenges, or to benefit from perceived Brexit opportunities. Additionally, around a third of those making Brexit preparations were actively engaging in looking for new marketing arrangements with a quarter seeking to fix input and output prices in advance. Notably only around 10% of those making active Brexit preparations were buying futures and similar forward marketing contracts and only a small number were taking steps towards replacement of migrant workers (this however may be a large proportion of those that use seasonal/migrant workers).

4.0 Summary

Only a small number of Scottish farmers were found to be actively preparing for Brexit in late 2018. This is explained through lack of clarity in, or indifference to, the effects of Brexit at the farm level and is particularly driven by the message that direct payments will continue in the post Brexit period, at least in the short term. Moreover, those who are actively planning for Brexit are mostly focusing on actions which are more feasible within a short time frame and accessible to the industry. That is changes to their farming system, through changing size and mixtures of enterprises, but also seeking agreements within the supply chain to provide more surety in planning for the year.

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