



147th EAAE Seminar
CAP Impact on Economic Growth and
Sustainability of Agriculture and Rural Areas
October 7-8, 2015
Bulgaria, Sofia

Passive Farming: Hindering Agricultural Development or Preserving Valuable Landscapes?

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Passive farming

- landowners who manage their entire agricultural area as fallow (set-aside), *i.e.* do not produce any agricultural commodities
- has emerged as a consequence of
 - decoupling the direct payments from production
 - no upper limit on the area of fallow
 - the entire farm can be managed passively as long as they keep the land in *Good Agricultural and Environmental Condition* (GAEC).





Lock-in effect

- perceived as a problem by farmers' organisations in Sweden (little known at EU level)
- occurs when land managed by a passive farmer could be used in production by an active farmers
- in this case it slows down structural change and hinders agricultural development
- risk of increased number of passive farmers if:
 - access to more land is limited
 - national equalization of payments (increase payments in marginal areas)
 - production doesn't justify the land rental price even though willing to rent, *i.e.* low productivity and hence profitability in marginal areas.



Aim

- evaluate the factors that might influence the level of passive farming instead of letting out the land
- deduce whether or not is obstructing agricultural development through land lock-in.



Land-use decisions

- farm: $\pi^F > 0$ and $\pi^F > \pi^M$ and $\pi^F > R-TRC$
- maintain: $\pi^M > R-TRC$ and $\pi^M > 0$ and $\pi^M > \pi^F$
- let-out: $\pi^F < R-TRC$ and $R > R^{min}$ and $R > \pi^M$
- abandon

- tenant maximum rental price is:

$$R^{\max} = (p + s - c^L)Y - f(\theta^L) + SFP$$

- landowner minimum lease price is:

$$R^{\min} = SFP - MAIN(\theta) + TRC$$

- rental agreement occurs when:

$$R^{\min} < R < R^{\max}$$



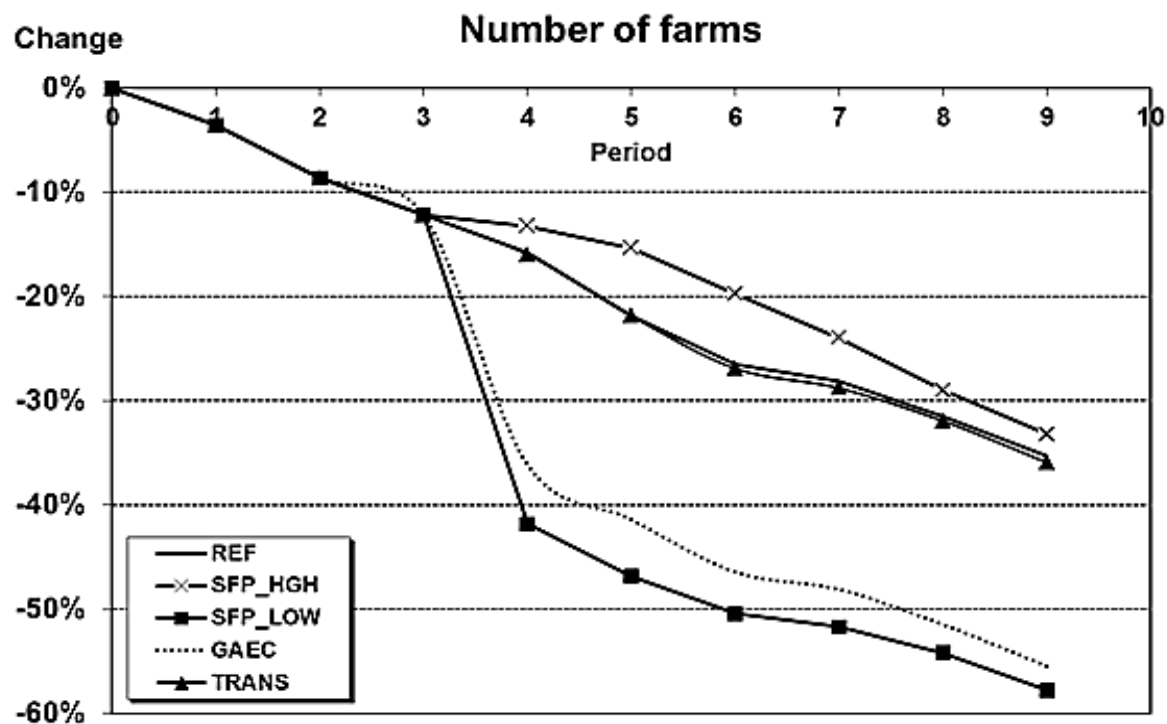
Scenarios analyzed in AgriPolis

- I. continuation of the old CAP (**REF**)
- II. increase SFP by 20% (**SFP_HGH**)
- III. reduce SFP by 20% (**SFP_LOW**)
- IV. impose stricter land management requirement by 150 SEK/ha (**GAEC**)
- V. higher transaction costs by 150 SEK/ha (**TRANSK**).



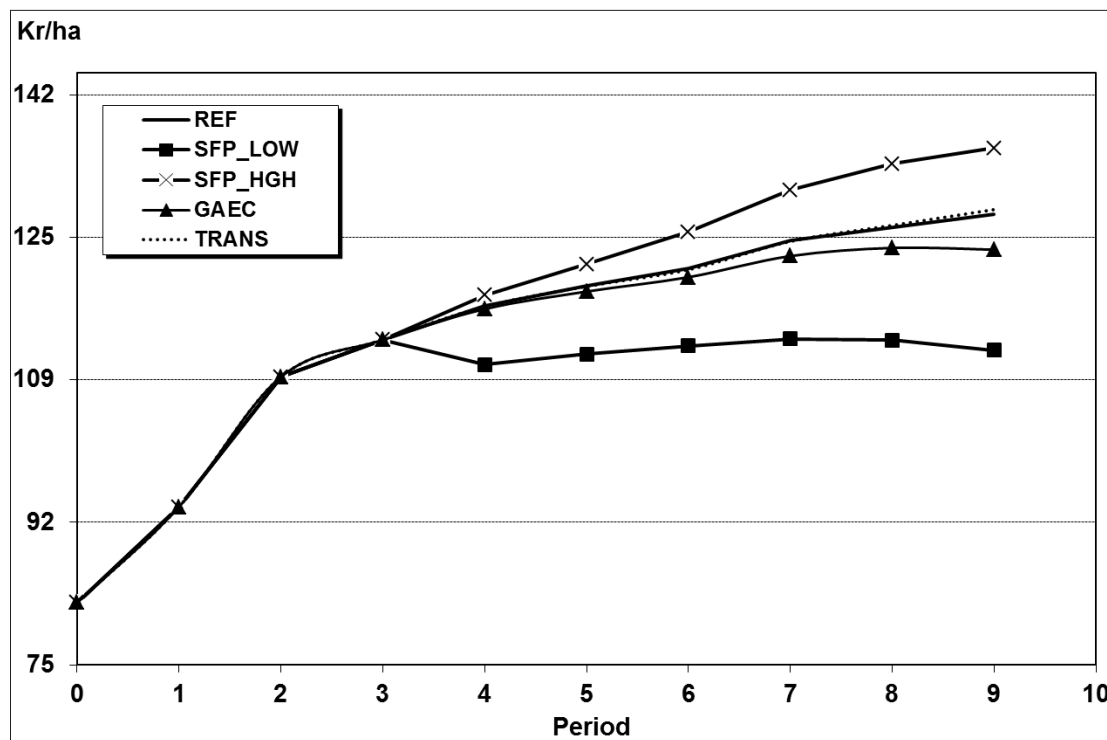


Structural change





Rental price

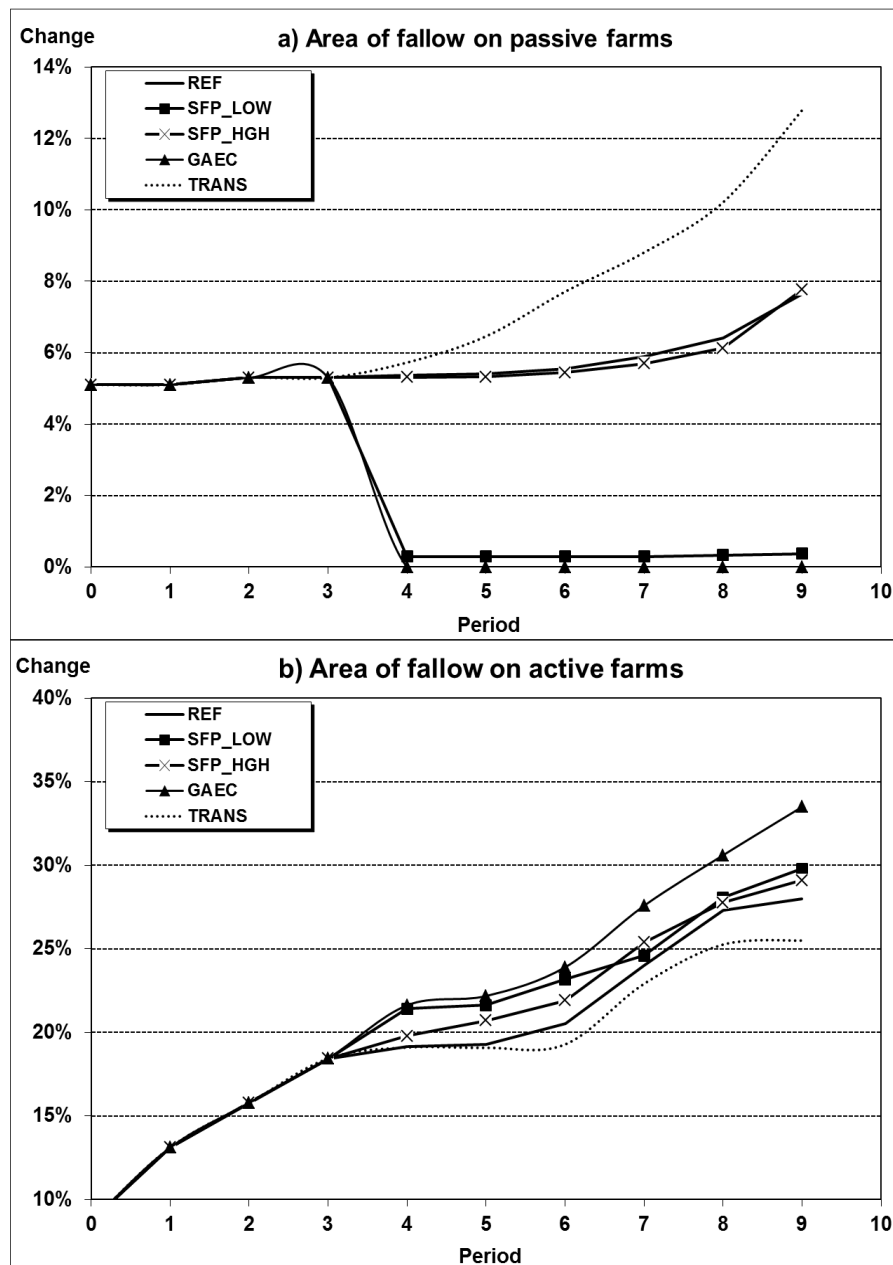


Higher payment capitalized in higher land rental prices without affecting the scope of passive agriculture.



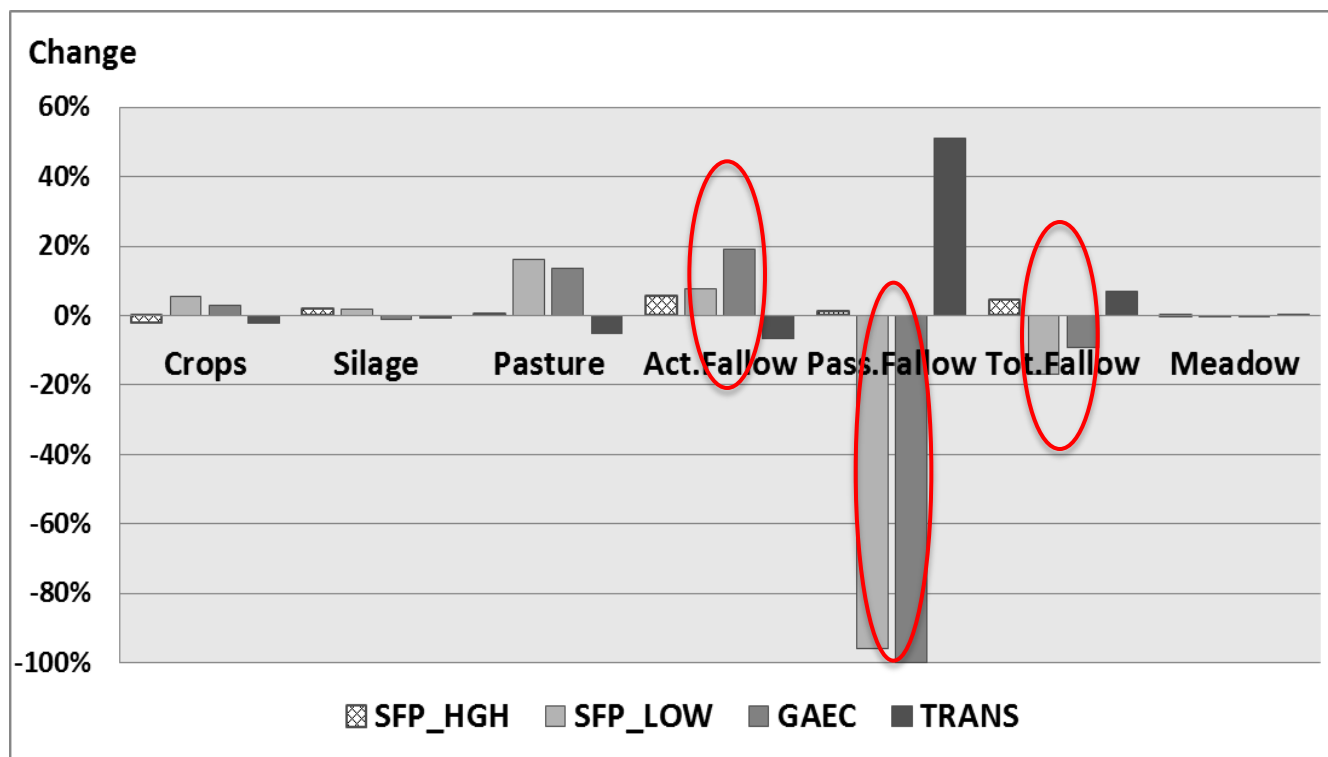
Fallow land (passive farms)

High transaction costs could be an explanation for the perceived lock-in of agricultural land.





Changes in land use in 2020 compared to the REF scenario



Reduced SFP and stricter land management requirement reduces passive farming but has a limited effect on the agricultural production.



Concluding remarks

- Lock in effect or passive farming doesn't occur as a consequence of the decoupled support
 - the active farmer (potential tenant) offers a lower rental price than the land owner is willing to accept
 - production should only occur if it is profitable to do so at market prices or is it the most cost effective way to meet the minimum land management requirements
- Land only maintained to meet minimum management obligations can be perceived as a problem by sectoral interests as their goals are different.





Lock-in or an paradoxical situation?

- landowner demand a higher rental price than a potential tenant can make profit from their production
- depends if the land is not sufficiently profitable to farm given current market prices
- however, thanks to SFP is it profitable for the landowner to keep the land open making ready for potential future needs (in line with the SFP scheme goal!).





Measures to reduce passive farming?

- reduced SFP or stricter management obligations
 - also affects most active users
 - the risk of too much agricultural land in production
 - little effect on the production itself

Overall conclusion:

Optimal balance in the support levels (between payment levels and land management obligations) to restrict the level of passive farming.



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Thank you for your attention!

Questions and comments?