



Strategies for the end of suckler cow farmers' careers without known successor

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Introduction

- Number of farms in France: -46% from 1988 to 2005
 - The size of the suckler cattle farms increased by 50% with 10% less workers
 - The labour productivity increased by 70% while the farm income per worker gained 20%
- ⇒ A high capitalization. The operating capital in 2006:
- 2 750 €/ha UFA or 4 000 €/cow
 - 171 500 €/worker
 - +36% since 1988

Introduction - aims

- In 2005, 65% of the farm managers over 50 years old have no successors
- ➔ Future of these farms after the manager's retirement? Transmission or breaking up?
- Farmers close to retirement and without known successors: which kind of farm management? Is there any anticipation?

Methodology

- Surveys carried out in 20 suckler cattle farms (2007)
- Sampling:
 - ➔ Charolais suckler cows farms located in the Charolais basin
 - ➔ Farmers > 55 years old, without known successor
- The structure of the farm, the farmer's projects for his end of career, the farming system, the potential transfer, the financial organization around the retirement
- A multivariate analysis to identify different strategies
- Confrontation with the judgement of an expert

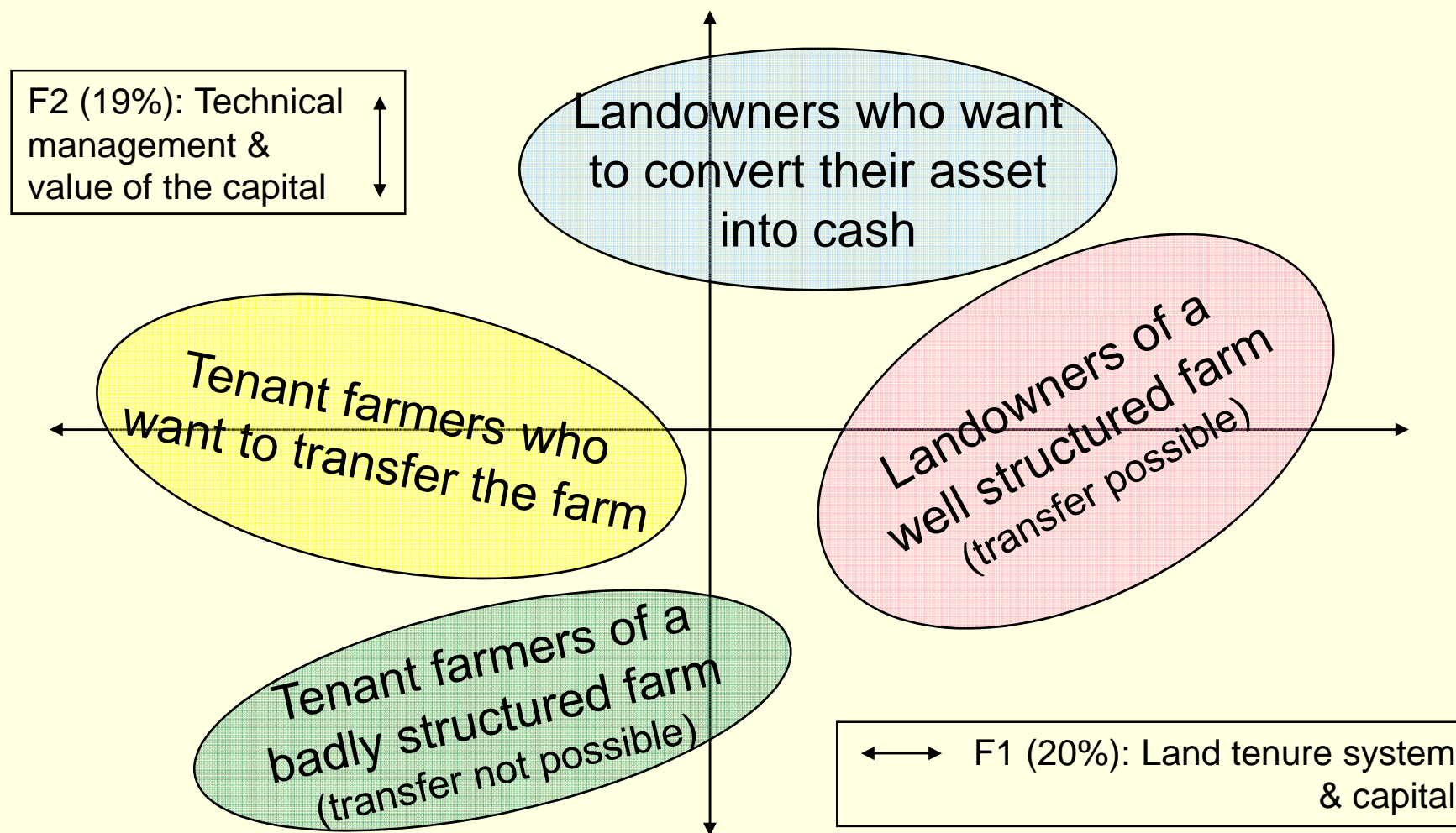
Sample's characteristics

- 20 farmers in the Charolais basin
- 58 years old on average (15% > 60 years)
- Retirement in the next 3 years
- 80% married
- Farm area: 128 ha \Rightarrow large professional farms
- 69.8 suckler cows premium entitlements
- 25% own > 85% of the farm area
- 30% own < 15% of the farm area

Variables for the FCA

- Land tenure system
 - Land ownership <15%, 15<<85% or >85%
- Land fragmentation
 - One piece or far-off fields
- Search for a successor
 - with an agency or by himself ; no search
- Value of the operating capital
 - New investments or drop-off by depreciation
- Conversion of the asset into cash
 - As fast as possible without arrangement or concessions possible (pay-as-you-go, deferred payment)
- Livestock and crop management
 - Keeping or not the technical performances (farm competitive)

Results

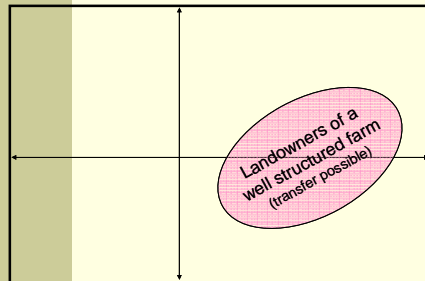


4 strategies identified



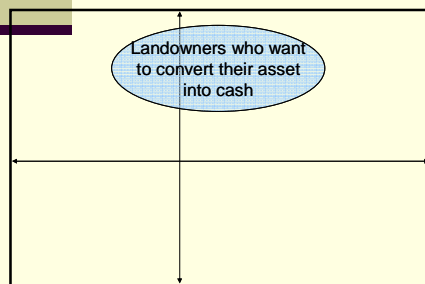
1. The landowners

- Landowners of a well structured farm who want to transfer their farm



- They keep the technical and economic performances
- High value of the asset: concessions possible for the transfer of the farm as a whole

- Landowners who want to convert their asset into cash



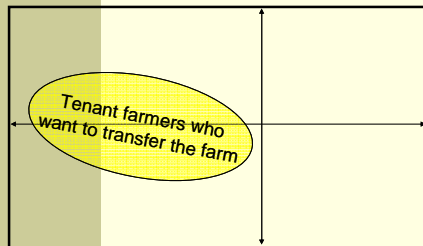
- They stop the investments
- They think that the capital is too high for a young applicant ⇨ they expect a breaking up of the farm

4 strategies identified



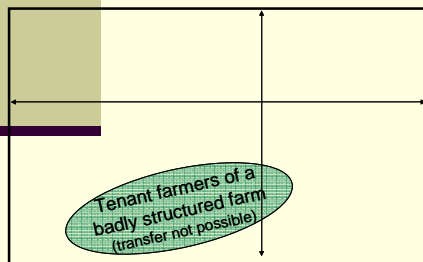
2. *The tenant farmers*

- Tenant farmers who plan to transfer the farm if possible



- ∇ the value of the capital (depreciation) and concessions possible
- Their 1st objective remain to convert their asset into cash

- Tenant farmers who know that a transfer is not possible (farm badly structured)



- Progressive decrease of the activity without investment
- They search to improve the tax efficiency of the sale of their capital

N.B.: Some tenant farmers work for themselves and not for the farm. For them, the future of the farm concerns only the landowners

Judgement of the expert (1/2)

Expert: advisor from an agency of farming structures

- Main factors encouraging the transfer

- Renting the land (and the buildings)
- Entitlement of single farm payment and production rights

- 1st objective of the transferor: to convert the asset into cash. He wants to sell the farm, including the land

- The amount of the capital is too high for a young applicant
- The farm will be dismantled to enlarge the neighbour farms

- 1st objective of the transferor: to transfer the farm.

- He rents the land and gives an extension without interest for the payment.
- He wants to give the best chances to the applicant who will be his tenant farmer ⇒ He supports (technically) the applicant

Judgement of the expert (2/2)

- Stopping the investments 5 or 10 years before the end of career for decreasing the value of the capital
 - ➔ The capital will be lower for the applicant, and the transfer will be easier

- Keeping the investments to maintain the production tools and to make the farm attractive
 - ➔ The land, the machinery, the buildings will be in good conditions for the applicant
 - ➔ But, due to the high value of the capital, failure is not a option for the applicant

Discussion

- The land tenure system is the main determinant for organizing the projects
 - ➔ Landowners have more degree of freedom
 - ➔ The tenant farmers are the owners of the single farm payments
- The value of the capital (herd) and the low rate of return of this capital is the cornerstone of the potential transfer
 - ➔ The outgoing farmer wants to convert his asset into cash
 - ➔ Who can pay for this amount? How and where a young applicant, without a high cash contribution, can he find this money?
- The outgoing farmer has capitalized over his career and the buyer has to pay in one time for this capital
 - ➔ The applicant has to buy at least 85% of the farm if he wants to keep all the premium entitlements

Discussion

- Can the outgoing farmers and the banks rely on a young or want they find a farmer who wants to increase the size of his still profitable farm?
- Some large suckler cattle farms in the centre of France are purchased by immigrant farmers from Northern Europe who have sold their farm
- In all cases the end of career must be anticipated and organized
 - ➔ Does the outgoing farmer accept the dismantling of his farm?
 - ➔ If he wants to transfer, he has to do some concessions and to support his successor

Conclusion

- To facilitate the farm transfer we have to distinguish the economic value of the farm and the patrimonial value
 - ➔ Agricultural funds?
 - ➔ Tax benefit for the landowner who transfers these funds?

- Switching from a familial agriculture to an entrepreneurial agriculture: a revolution!
 - ➔ In beef cattle farms, the herd is a familial capital
 - ➔ The young farmers who are in the capitalization period accept this “revolution”, not the farmers at the end of career who want to convert their asset into cash!

Conclusions

- Failing to find a buyer \Rightarrow dismantling and increasing the size of other farms

- If the transfer of the largest farms is not possible:
 - ➔ Could some investors support and invest in cattle farm? Problem of the rate of return of the capital
 - ➔ Will these “super-structures” break and makes it possible to establish young farmers on smaller farms? Problem of the profitability and of the premium entitlements