

POLICY BRIEF

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Future forms of finance in Danish farming

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Over the past 20 years the European farming sector has witnessed gradual market liberalization, continuous structural development and increasing farmer age. Denmark stands out as a place where these tendencies are particularly pronounced due to high reliance on the world market, a capital-intensive mode of production and a dedicated focus on benefitting from economies of scale. Therefore, there is much to be learned regarding the effects of these developments and the perspectives of future forms of finance in the Danish case study.

Historically Danish farming has been well integrated into the Danish economy and rural culture. However, the sector is currently confronted with a number of systemic challenges that need to be addressed. These include the need for generational succession, difficulties in generating sufficient income and attracting venture capital, a high level of bankruptcies and challenges with external shocks; such as market volatility and draughts.

This brief has been developed from research conducted as part of the H2020-funded project, SUFISA. In the SUFISA project, we have explored policy requirements, market imperfections and their implications for commodity sectors throughout 12 European countries, thereby providing an empirically grounded regional and commodity-sensitive analysis of the resilience of primary producers. In Denmark we have explored two case studies, dairy production in the Region of Southern Denmark and poultry production in Central Denmark Region.

Key messages

The following key messages highlight the main issues concerning the challenge of attracting finance and which have potential policy implications for the future resilience of Danish farming.

- The overall conclusion from the two case studies is that Danish agriculture is currently undergoing fundamental restructuring. As previous overinvestments, structural development and a soil price bubble have reduced equity in the sector and resulted in poor adaptive capacity. Furthermore, the industry is based on a form of ownership which is unable to address current challenges such as ensuring generational succession and managing volatile market conditions. This produces new lines of inquiry regarding which modes of ownership are beginning to arise out of this restructuring and how the development of a resilient agricultural sector can be ensured?
- Danish farmers face growing market related risk following the gradual liberalization of the European production quota and price support policies. Today the agro-food sector relies on world market prices in relation to input and output. In recent years, world market prices have become increasingly volatile, requiring focused attention to the timing of investments and sales, as this increasingly determines the profitability of farming. This situation poses a huge challenge to the Danish production system, particularly to dairy producers,

where production takes place in modern facilities with a high share of fixed costs and investments.

- This reality suggests a trade-off between different modes of sustainability. A future challenge will be that emerging sustainable technologies, such as self-guided vehicles, low emission stabling systems or biogas technology presuppose large farm sizes and high investments to be financially viable. Alternatively, a more flexible mode of production could be developed and adopted, but it is not given that this production system could fulfil local requirements for environmental- and/or animal welfare protection.
- Due to high levels of capital intensity, the Danish farming sector has undergone a process financialization, in which financial motives, markets, actors and institutions increasingly play a role in the governance of the farming sector. In effect, a new identity has emerged – the farmer as a businessman. Currently, banks and mortgage providers are the engine of transformation in the sector and their decision to finance an investment or not is of crucial importance. This implies that banks have increasingly begun to regard farmers as “capital managers” and they assess whether or not they are credible as such. Banks are taking financial measures (such as production cost per unit) and a number of additional measures, including management and business qualifications into account. This implies a stronger focus on business and management skills (“strategic leadership skills”, “management of employees” and “risk management”), which traditionally have not been considered important for farmers.
- Many producers express an interest in quality differentiation as the organic and specialty food markets provide new business opportunities. The Danish case study further indicates that these specialty food producers generally perform better financially compared with producers of conventional bulk products and are less exposed to volatility on the world market. However, this quality differentiation is often not sustained by the institutional structure of Danish farming, since it is more attuned to world market exports and this often represents a hindrance to alternative production pathways.
- Traditionally, private ownership has been the dominant enterprise form in Danish agriculture. However, structural developments have resulted in farms that are unfit for private ownership since succession, capital emissions and large investments are difficult to attract. Additionally, recent changes to agricultural law have enabled new forms of ownership by means of liability companies, foreign ownership and private capital. The research conducted throughout this project suggests that the future of private ownership in Danish farming will be presented with many challenges, particularly after the current generation of farmers retire; due to it being virtually impossible for young new farmers to enter the sector.

In sum, the research conducted in the SUFISA project has documented that Danish agriculture based on a business model dominated by privately owned family farms is currently being challenged by the volatile nature of the world market economy. Furthermore, a number of alternative forms of ownership have been experimented with, but at present it remains uncertain which mode of ownership and production will form the basis of the farming sector and what the implications will be for farmers. However, most actors agree that the fundamental changes taking place will produce a sector very different from what is represented today.