Jim McCarthy, CEO Blue Yulan, Luxembourg SA

Farming with and without subsidies

Farm subsidies were introduced in Europe under the treaty of Rome in 1957. Since their introduction no other farm policy has generated as much debate. They were introduced to provide a stable income for farmers and in doing so improve food security. Today in Europe in excess of seven million farmers receive €42 billion annually or €5,300 each or €270/Hectare. UK farmers receive an average payment of €220/Hectare. Farmers use it as an income support, for bank negotiation and to ease the volatility of farm returns.

I am a first generation farmer and owe my success very much to the EU farm subsidy scheme. The generous guaranteed grain prices of the nineteen eighties allowed my wife and I to begin leasing crop land and make the move from farm manager to farmer. We succeeded in building up two thousand acres of leased land, with an integrated contract grain drying business and baling business. In 1987 I was Irish Arable farmer of the year and in 1996 was granted one the first Nuffield Farming Scholarships in the Republic of Ireland. Land has always been expensive in Ireland and the land we have purchased has been outside of Europe. We are shareholders in a dairy farming business in south west Missouri in the US. This business has to date purchased 12,000 acres of land and is milking 7,000 cows under the New Zealand grass based system. The plan is to go to 15,000 cows. In 2006, along with a London based hedge fund analyst we, together set up Agro-terra Ireland which fund raised $56,000,000 in Dublin and London and purchased 12,300 Hectares of double cropping land in Argentina. We have three farms ranging in size from 3,300 hectares to 5,500 hectares with over 90% being arable. Today I am CEO of this business and we produce soybean, wheat, corn, rice, and a small amount of cattle.

I have been asked to give this paper today on “farming with and without subsidies” because of the fact that I am actively farming in both scenarios. In Ireland I receive a payment of €160,000 annually based on what I produced on a historical basis in the years 2000, 2001, 2002. Not alone are there no subsidies in Argentina, the business I manage and am a shareholder in, has to pay very hefty retention tax on export sales. We pay 35% off the top in Soya, 20% in corn and 23% in wheat. Then having transacted ones business there is a corporate income tax rate of 35%.

In Europe, in return for our subsidy we are being asked a very high price, a price far higher than many European farmers realise. The justification for our subsidy has

changed completely. No longer is the farmer the number one priority of the subsidy regime. The number one priority is to protect the environment and maintain the traditional appearance of the countryside. To ensure food security at home and combat food insecurity abroad. Last on the list the farmer. Farm productivity has been completely abandoned. With limits on fertilisers usage, and the banning of GM crops on the basis of the precautionary principle, forced by eco fundamentalism and the complete abandonment of science European agriculture is doomed to become a second rate Agriculture. This is the true price farmers are paying for their subsidy.

The European farmer for his €5,300/ year is the most regulated in the world. We have spawned a bureaucracy that is beyond belief. We also pay higher prices for our inputs as industry wants a share of our subsidy, but worst of all we are denied the most exciting technology of all "Genetically Modified crops". What GM crops means is greatly reduced inputs and growing costs, much more consistent yields because of multiple trait stacking and a greatly improved environment. With GM the farmer simply reduces his inputs and increases his production. We will never have this technology in Europe until farmers start demanding it. Sadly farming and farm science in Europe are afraid of the Eco fundamentalists. We need to demand a science-based future.

Then there is the issue of personal responsibility. The larger subsidy recipient develops a very serious condition, which I call "the have to have syndrome". Believe me I know this condition very well, because over the years I had developed as bad a case of it as any European farmer. Have to have the newest and best seeder, the newest and best combine the most up to date variable rate technology. Tractors with that many gadgets on them that most of them go unused by the traditional tractor driver. Subsidy provides the safety net for this type of indulgence. Most of us in this forum fully understand this behaviour but are not prepared to challenge it. Instead we demand a compensation system that justifies the activity. The smaller subsidy recipient depends on his subsidy for survival and many small farmers would not be on the land were it not for subsidy.

Argentina

Now let us look how farming has developed in Argentina. The Argentine farmer without the subsidy safety net and producing large quantities that have to be exported on the world market has always understood that in order to survive he has to be the lowest cost producer. This is the only way you survive in the commodity business. The have to have syndrome was not affordable and so never developed. Not alone without subsidy and with punitive retention tax, Argentina scores 115th in

the World Bank list of ”ease of doing business in”, while the UK scores 4th. On the other hand there is excellent freedom to farm with a low level of regulation. Labour law is strict, and there is an onerous tax compliance burden. Despite all this it is easier to make money farming in Argentina than in Europe. This, because of an efficiency driven industry as there is no subsidy safety net. Also, the availability of the most up to date technology, GM crops.

Farm size in Argentina is in excess of 500HA. Sadly farming in the unsubsidised world generally divides into two main classes, either large scale or subsistence farming. Argentina is large scale. Furthermore, to really reap the benefit of scale, over 60% of cropping land is leased to large farming companies, with companies cropping half a million acres not unusual. At this level you really have purchasing and marketing power. These companies have been hugely profitable over the last fifteen years, despite a very difficult year for them in the 08/09-production season. These large land rental businesses were regularly earning 20% return on capital.

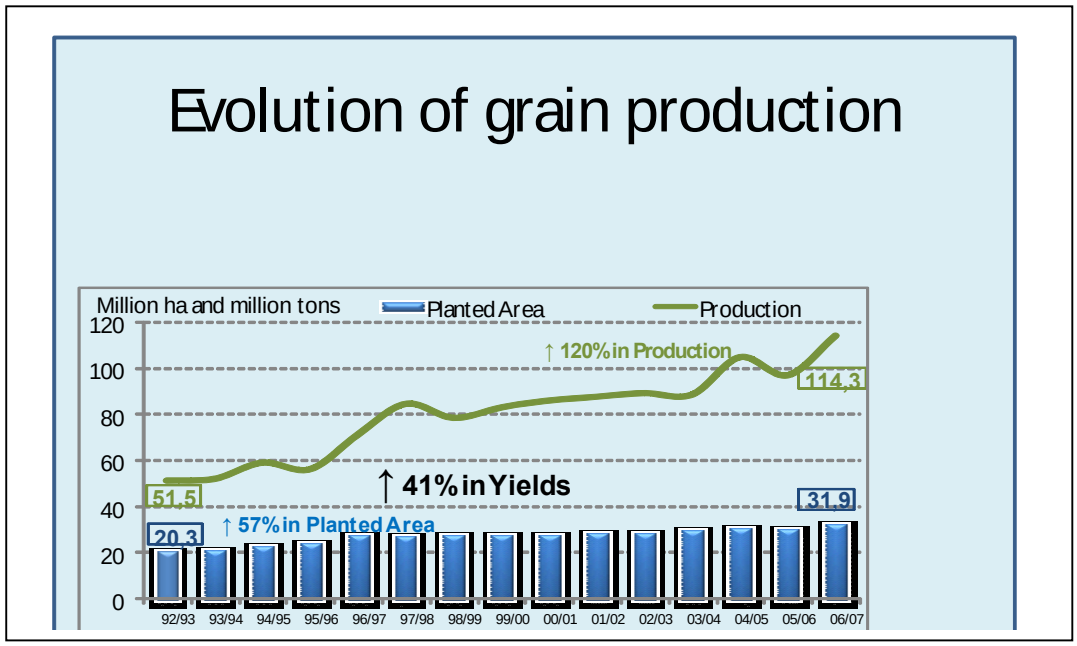
This allows extremely strong management teams to be built. For instance, our business, which at 12,300 Ha is very small, two of our management team holds MBAs. Due to its large-scale agriculture it is seen as a very good career path. Two of our farm managers, who are outstanding at their jobs were born and grew up in Buenos Aires city, but have chosen agriculture because of career development possibilities. Thanks to this there is an excellent supply of highly qualified people who are anxious to enter agriculture.

Farming Standards

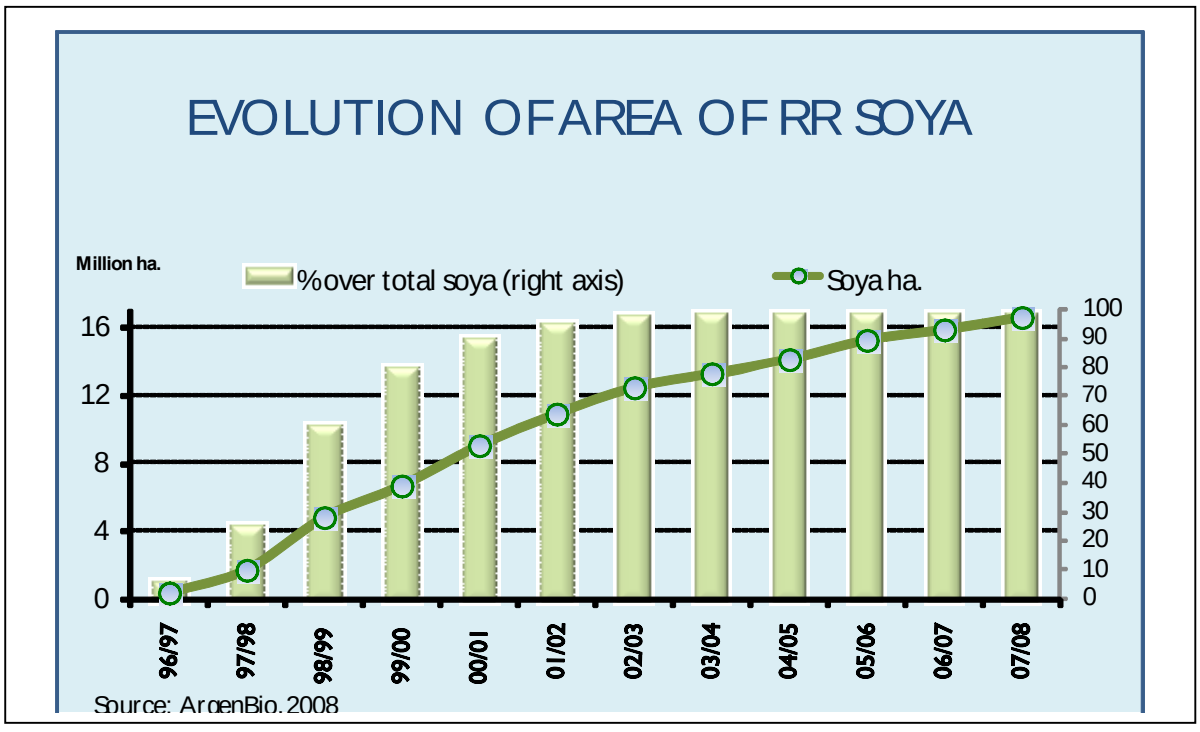
These highly qualified people bring a standard to farming that leaves the vast majority of us Europeans looking like amateurs. Excellent web based computerised systems with remote access are put in place to capture all the information of the business. On the advanced farms all fences are removed on the arable land. Cropping is done as per soil type, this eliminates the need for expensive variable rate technology. We will divide blocks down to twenty-Hectare sections with some blocks being 400 hectares. Plots with limited yield ability are only planted with corn when the price is above a certain level because of the high cost of growing corn. This greatly helps with risk management. Farming activities are controlled by a protocol system, which is loaded in the computer system before the season begins. These will inform the farm manager on variety, seed numbers, fertilisation, weed control and disease control. A culture of constant relevant measurement and low cost production is continuously developed.

Close to 80 % of all cropping work is carried out by contractors and they really drive machine efficiency by taking full advantage of the double cropping year and geographical spread. Harvest contractors tend to specialise in harvesting while seeding contractors tend to specialise in seeding alone. On each of our farms we will have two main contractors. One of our combining contractors supplies us, at two of our farms with three very high capacity combines. This contractor begins harvesting in October to the north of his home base and is 500 KMs further south with us in early December and finishes wheat harvest in the southern wheat belt in mid to late January 800kms from home. Then transports his combines back north to do the same trip from mid February harvesting soya and corn, finishing with us in early May. On finishing with us some of the combines carry on further south, while some are transported 1,000KMs north to Salta for Soybean corn and sorghum harvest just beginning up there. If we put this in a European perspective his home base is somewhere around Lyon in France with his most northerly customer here at Oxford and his most southerly just north of Seville. Very few European combines manage to put 300 hours on the clock per year these machines 1,000 plus. The contractor is paid between seven and eight percent of the crop for harvest. He harvests and delivers to store the crop covering all costs and providing all the labour. His combine drivers are paid 12% of what he receives and the chaser drivers are paid 5% of what the contractor receives. He also provides his team with all food and accommodation. Seeding contractors work on the same basis, providing wonderful value for money to the farmer.

Production Efficiency

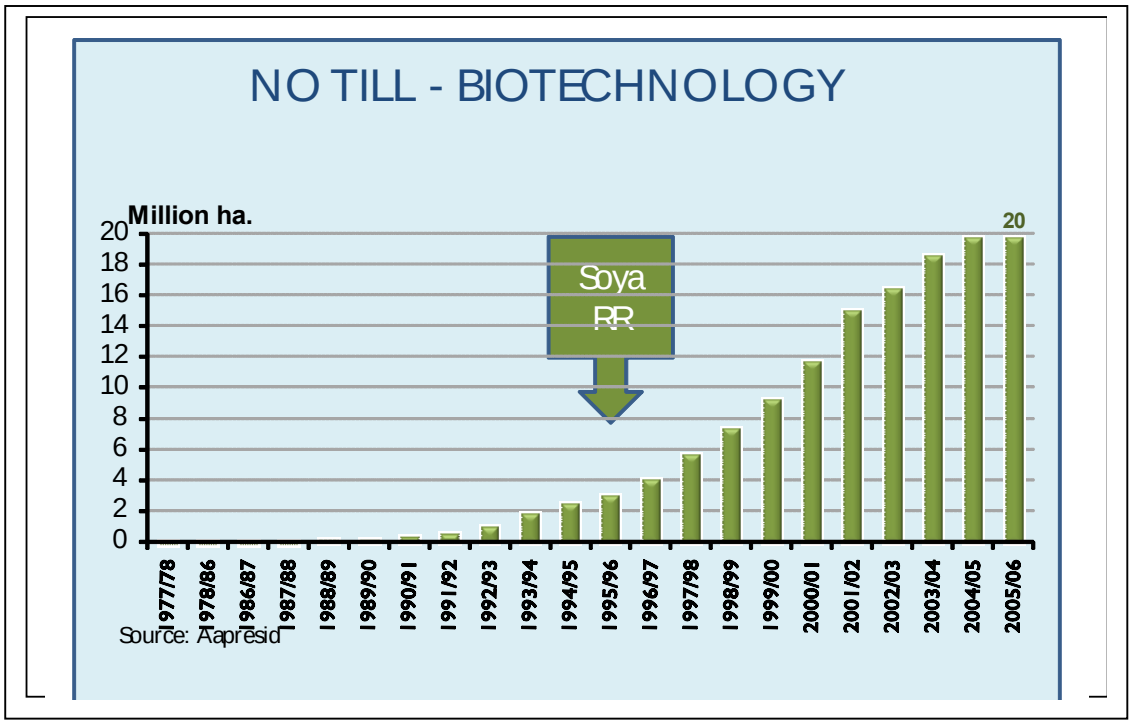


If we look at total grain production in Argentina between 1992 and 2007, grain production doubled from 50 million tonnes to well in excess of 100 million tonnes. This is a staggering increase in productivity in fifteen years .The phenomenal surge came between 1996 and 1998 when total production jumped from 60 to 80 million tonnes a 33% increase in two years. This came about because of the introduction of GM soybean in 1996. In that year soya production was 12 million tonnes. In the 2010/2011 season Argentina is expected to produce 52 million tonnes. Soya is a legume thus fixing nitrogen in the soil and is very cheap to grow because of being Roundup resistant due to genetic modification. Subsequent crops yield very well, and weed control in those crops is very cheap due to the cleansing effect of the weed control in the Soya crop.

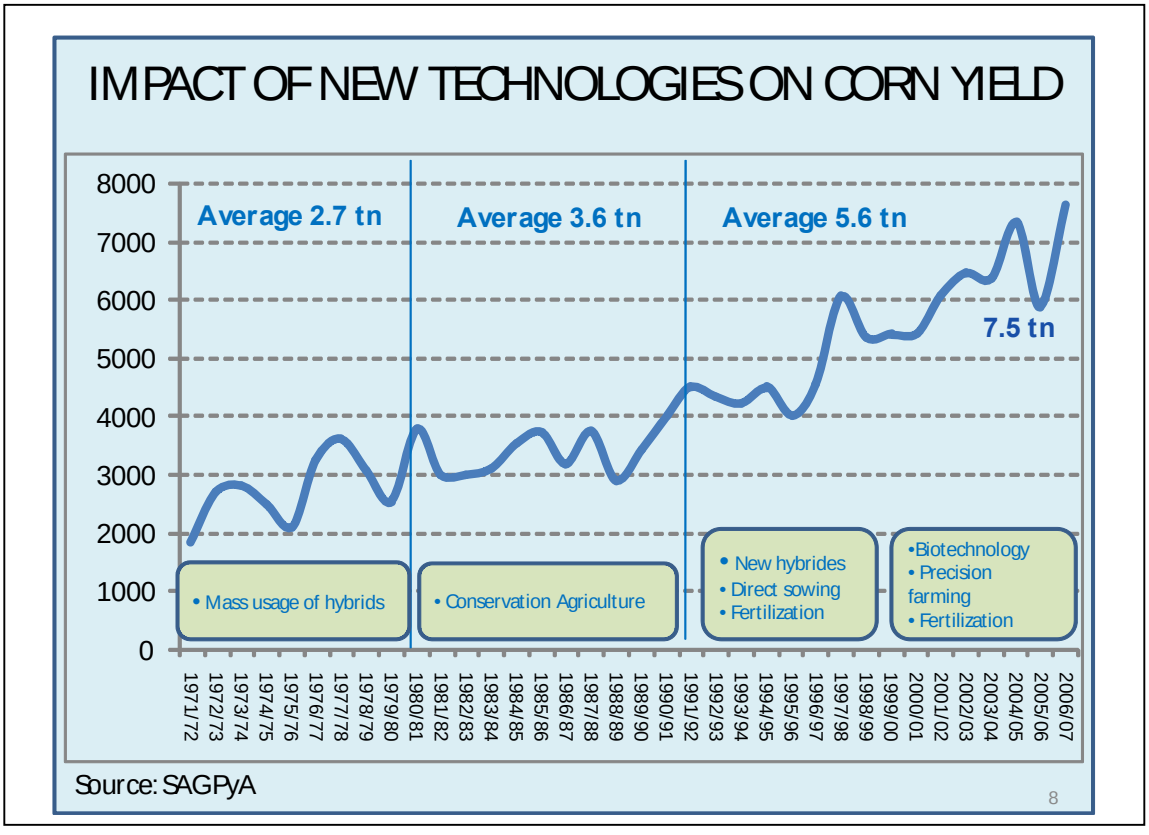


Also with the introduction of GM Soya has come a huge increase in No-till seeding. In the 1995/1996 season of the 22 million Ha of grain crops planted in Argentina 3million HA. Or 13.5% were planted by No-till. In the 2005/2006 seeding of 30million Hectares planted 20 million Hectares were planted by No-till or 66%. For the 2010/2011 season this will be closer to 80%. The environmental benefits of No-till

are very considerable .There is a 90% reduction in erosion, a 66% decrease in fuel consumption. Greater soil microbial activity and greater water preservation in the soil. Also yields are higher and more stable.



If we look back to the nineteen seventies in Argentina, corn had an average yield of 2.7 tonnes/HA. In the nineteen eighties this average increased to 3.6tonnes/HA with the introduction of conservation of agriculture. In the nineteen nineties the yield increased to 5.6tonnes/HA with the introduction of new Hybrids and No-till. From 2000 through to 2007 the yield has increased to 7.6 tonnes/Ha with the introduction of GM varieties. This is 4.2%productivity gain per annum when we in Europe with the last 20 years have struggled 1%.



With these enormous increases in production, grain storage as you might think would be a problem. With our European thinking and conditioning we would immediately begin building storage at a capital cost of £100/tonne and also looking for EU grants towards our new building. In Argentina the storage problem was simply and cheaply solved with the introduction of the grain silo bag, which holds 180 tonnes, and is stored along the edge of the farm roadways. The grain chasers haul the grain from the combines to the bagging machine where the operator checks the grain moisture and marks the outside of the bag with that moisture. The higher moisture bags are emptied first. Fourteen- percent moisture corn can stay in the bags for up to one year. Buying new bags each year, and using a contractor to fill and empty the bags, the whole operation costs US.$5/ton.

Productivity Gains

The productivity gains may seem staggering in Argentina, but they are driven by the need for efficiency because of the mercilessness of the market .The market is an agnostic respecting nothing but supply and demand. In Europe you only survive and prosper because of your own efficiency. There is no subsidy safety net to save you. Some may claim that Argentina is an agricultural aberration and that the exception does not prove the rule. But let us look at New Zealand whose farmers were subsidised up until the mid nineteen eighties. A number of studies have shown that in the twenty years before the removal of subsidies the productivity gains were little more than one percent year on year. In the twenty years to 2006 after the removal of subsidies the productivity gains are over five percent year on year. This is the opposite of what the average European farmer would think.

Conclusion

Subsidies are holding back the development of commercial agriculture in Europe. The productivity gains of Argentina and New Zealand prove this beyond doubt. For 80% of European farmers subsidies are a survival necessity. One of the corner stones of commercial agriculture's success in Argentina and New Zealand is scale. Five hundred hectares average farm size in Argentina, thirty in Europe. Currently, the average dairy herd size in the south island of New Zealand 470 cows. This will never be possible in Europe. We who deem ourselves to be commercial have traded

our silence for our subsidy. A long time ago we should have made the case for commercial agriculture, but accepted the money instead. To quote from Nelson Mandela “I am the first accused” no different to anybody else here, take the money and complain about the system.

We the commercial farmers of Europe have to demand what allows us to be commercial. There has to be a two tier agricultural policy for agriculture. One for the twenty percent who produce the eighty per cent, and a social and environmental set of schemes for the 80 % who cannot survive without assistance.

Jim McCarthy