Submission to the Farm Profitability Review

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Introduction

Farm Profitability is crucial to this government's goals on environmental improvement, food security, economic growth, and improved public health. A financially resilient farming sector underpins efforts to enhance biodiversity, mitigate climate change, ensure stable food supplies, support rural economies, and improve dietary health through access to fresh, sustainably produced food.

However, current farming profitability is alarmingly low. Many farm businesses are marginal or loss-making and now face an uncertain future as basic payments are phased out at pace and ELM schemes are redesigned and implemented.

For decades, the received wisdom in UK farming has been "to get big or get out," chasing economies of scale and higher yields. Despite increasing farm productivity (up by nearly 60% since the 1970s), farmers' incomes have stagnated.[1]

In reality, this yield-focussed system has left farmers squeezed between rising input costs and shrinking farmgate prices, all dictated by global commodity markets and the oligopolistic food retail market of which they have little or no influence over. From 2019 – 2024, farm input costs increased by an average of 44%.[2] On the output side, global commodity markets and powerful domestic buyers have exerted downward pressure on prices, often leaving the farmer with only a negligible share of the retail pound.[3] Farmers are producing high yields for ever diminishing returns, all through practices which degrade the natural capital on which their long-term yield depends.

Against this backdrop, the imperative for a new approach to farming has never been greater. By working with nature instead of against it, farmers can reduce reliance on costly external inputs, improve their financial resilience, and generate new value for society and the environment. This submission argues that a transition to agroecological, lower-input farming, supported by fair supply chains and bold policy reform, can transform UK agriculture into a prosperous, ecologically restorative and resilient sector.

The case for low input farming

Emerging research strongly indicates that agroecological farming can match or even improve farm profitability, largely by leveraging natural processes and reducing expensive inputs. A landmark 2023 report *Farming at the Sweet Spot*[4] analysed 165 farm businesses across the UK and found that eliminating costly artificial inputs (synthetic fertiliser, pesticides, imported feed) often raises net profits.

This concept is formalised as the farm's "Maximum Sustainable Output" (MSO) – the level of production that can be achieved using only the farm's natural resources (soil fertility, grass growth, on-farm feed, etc.) without "corrective" inputs (synthetic fertilisers and pesticides). At the MSO point, variable costs plummet and profit margins peak. Crucially, evidence shows this sweet spot is often below the absolute maximum yield – in other words, chasing maximum output can diminish profits, whereas optimising input use and working with nature improves them. The report suggested that an increase in commercial returns of 10–45% was possible across multiple farm types before agri-environmental payments were factored in.[5]

International findings concur. A recent meta-analysis of 78 regenerative farms across the EU from the European Alliance for Regenerative Agriculture (EARA) showed that farms achieved 2% less yields, similar incomes, far over 25% more ecosystem services and biodiversity, using 61% less synthetic nitrogen fertiliser, 75% less pesticides and 92% less imported feed.[6]

There is now clear evidence that low-input, regenerative farming delivers for the environment while improving farm business resilience and profitability. Critically, this type of nature-friendly farming aligns farmers' livelihoods with the long-term public interest. These systems also deliver public goods – cleaner water, flood mitigation, carbon storage, and better biodiversity– making them well primed for receiving public money under England's Environmental Land Management Schemes. In summary, the benefits of agroecology for profitability are tangible and proven: lower input costs, more stable margins, access to environmental payments, and greater business resilience.

Key barriers to profitability

If regenerative farming offers such clear benefits for profitability, nature, and climate, why hasn't it become the norm across England? The answer lies in the structural barriers that continue to impede the transition. Below we explore the key blockers to profitable and sustainable farming.

Short-term financial risk and transition costs

Farmers often perceive (with reason) that adopting agroecology can carry upfront risks to income stability. In the initial years of transition, yields may fall as the farm's ecology rebalances – for example, reduced use of nitrogen fertilizer or pesticides can lower output until soil fertility and natural pest predators recover. These short-term dips can hurt cash flow. Meanwhile, establishing new practices might require investment in machinery (e.g. seed drills for cover crops, fencing for rotational grazing) or infrastructure (like on-farm processing facilities). Such transition costs can be prohibitive without assistance. A farmer already operating on thin margins simply may not have the financial buffer to absorb a revenue drop or capital expense in the interim before agroecological methods pay off. This is compounded by the fact that many UK farms carry significant debt and have assets (buildings, equipment) tailored to conventional systems - these "stranded assets" can make a switch daunting. In short, even if agroecology improves profitability in the long run, the apparent financial risk is considered too big for many to jump.

Supply chain barriers

Perhaps the biggest barrier to agroecological profitability lies beyond the farm gate – in the structure of food markets and supply chains. The UK's food retail sector is highly centralized: twelve supermarkets control over 90% of a retail market worth over £200 billion per year,[7] an oligopoly that gives enormous bargaining power to buyers. The result is a dysfunctional value chain in which farmers typically receive only a tiny fraction of the consumer pound. A 2022 analysis by Sustain ("Unpicking Food Prices") found that in mainstream supermarket supply chains, farmers often earn near-zero profit on staple foods. For example, on a £2.50 pack of cheddar, the dairy farmer's production cost is about £1.48 yet profit is "0.02% (much less than a penny) of the retail price". In a £3.50 pack of beef burgers, the beef farmer pays ~£0.90 in costs and gets only "0.03% (far less than a penny)" of the price in profit – one-tenth of the processor's profit, despite similar costs. Meanwhile, the retailer receives around 80% of the profits, despite only bearing 40.8% of the cost. Essentially, almost the entire value is captured by processors and retailer.[8] This is clearly unsustainable – financially and psychologically – especially if society expects farmers to adopt climate- and nature-friendly practices which may have higher upfront costs or risks. Moreover, such supply chains force farmers to "pare costs to the minimum" over decades, leaving no cushion for innovation or environmental investment.

The current marketplace does not reliably reward sustainable farming. Outside of certified organic produce (which reaches a premium market), many agroecological farmers struggle to obtain better prices for their environmentally friendly goods. They often must sell into the same commodity markets as conventional produce, with no differentiation or reward for their lower impact methods. Furthermore, developing direct-to-consumer or local market channels can be logistically challenging – it

requires time and marketing skills that not all farmers have, and local demand may initially be limited. Infrastructure gaps pose additional hurdles: the UK has seen a loss of local abattoirs, dairies, grain mills and other processing facilities, which makes it hard for smaller producers to process and sell their output independently. Without investment in local and regional food infrastructure, many farmers remain locked into selling raw commodities to big processors, unable to "upgrade" to shorter, more farmer focussed, and more profitable supply chains.

Knowledge, culture, and advisory barriers

Agroecology often requires a new knowledge set and a significant shift in mindset and skills. Generations of farmers have been trained in conventional methods, and trusted advice often comes from input suppliers or agronomists aligned with direct ties to large agrichemical businesses. There is a learning curve to master techniques like agroforestry, holistic grazing, or biological pest control. Early adopters have cited the need for peer support and mentoring; farmers are more likely to try new approaches after seeing neighbours succeed or through farmer-to-farmer knowledge networks. While organisations like Pasture for Life, Soil Association and Nature Friendly Farming Network, innovative events like Groundswell and the Oxford Real Farming Conference, and some forward-thinking farmer clusters are fostering such networks, many farmers still lack access to reliable information and affordable and independent expert guidance on agroecological transition. Culturally, there can be scepticism or stigma in rural communities about deviating from normal practice. Particularly in areas dominated by industrial agriculture, a lone farmer trying regenerative methods might face social pressure or isolation. Finally, there is a lack of readily available and universally agreed-on metrics and baselining data, e.g. in terms of measuring soil carbon. All these factors make it harder to take the plunge into a new model.

Policy uncertainty and inconsistency

The government's role in agriculture is profound – through agri-environment payments, regulations, and trade policy – and policy uncertainty is a barrier to change. The UK is in the midst of reshaping farm support (replacing the EU's Basic Payment Scheme with new Environmental Land Management schemes (ELMs)). ELMs has been subject to delays and dilutions since Brexit, which has undermined farmer trust and made them uncertain about relying on government support to aid their transition. Similarly, inconsistent signals – for example, encouraging sustainable farming domestically but signing trade deals that flood the market with cheap food from unsustainable systems – can undercut farmers' willingness to invest in agroecology. Farmers need confidence that if they produce with nature in mind, government policy will support them, not leave them at a disadvantage. When that confidence and trust is lacking, the rational choice is often to stick with familiar methods.

In summary, the barriers to agroecological, profitable farming are not trivial: they include economic risk, unbalanced market dynamics, knowledge gaps, and policy misalignment. However, none of these is insurmountable.

Policy solutions for a profitable and resilient farming sector

1. **Improve supply chain function, regulation and transparency**

Move quickly to enforce fair trading practices in supply chains. Regulation must be strengthened, expanded, and better coordinated to end unfair trading practices and ensure farmers receive a fairer share of profits in return for the risks they take to produce our food.[9][10] Support investment in regional and local food infrastructure - such as storage, abattoirs, processing facilities, and distribution networks to enable farmers to tap into shorter, more direct and more profitable supply chains. Broader policies to support farming incomes should also be considered, such as public procurement and trade policy that aligns with the standards farmers are expected to follow.

2. **De-risk the transition to nature friendly farming through rewarding public goods**

Environmental Land Management (ELM) schemes must be well funded and well designed to support resilient, low-input farming. This includes introducing value-added combinations of actions that reward joined-up, nature-friendly practices and setting a minimum entry threshold based on whole farm plans and compliance. Redirecting SFI management payments to provide tailored advice and offering one-off transition grants for capital investments like fencing or direct drills, would help farms cut costs and access new income streams.

3. **Support farmer-farmer cooperation and innovation**

Government should actively facilitate collaboration among farmers. This could include seed funding for new farmer cooperatives or Producer Organisations that enable joint marketing, input purchasing, or equipment sharing. When farmers pool resources, they can achieve economies of scale in processing and distribution, making it viable to compete outside of the commodity buyer system. Similarly, invest in platforms or forums for peer-to-peer learning: expansion of farmer-led networks (like the Nature Friendly Farming Network, Pasture for Life, the Innovative Farmer programme hosted by the Soil Association, and demo farms such as LEAF or the Beacon Farms Network)

in each region to showcase profitable regenerative farm practice. Funding farmer mentor schemes, where experienced agroecological farmers are resourced to advise others, would be an incredibly high impact intervention from this government.

Conclusion

The challenges facing UK agriculture – from thin profit margins to ecological decline – are undeniably serious. But they are not insoluble. Farming with nature, and fixing the broken links between farm and market, can set us on a path where farming livelihoods and the environment thrive together. The evidence shows that working with nature can be the most profitable way to farm, once the enabling conditions are in place. By reducing costly inputs and focusing on quality over quantity, nature-friendly farms can keep more money in farmers' pockets while safeguarding the soil, water, and biodiversity that underpin our food security. By ensuring fair supply chains, we can redirect value back to those who produce our food, allowing them to reinvest in their farm business.

The Farm Profitability Review is timely. In a world buffeted by climate instability and geopolitical disruptions, incremental tweaks are not enough. The recommendations above sketch out how bold actions can achieve a prosperous farming sector. Many of these ideas already have broad support among farmers, researchers, and the public. What is needed now is the political will to implement them.

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Sustain is a powerful alliance of organisations and communities working together for a better system of food, farming and fishing, and cultivating the movement for change.
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