

Policy Analysis of Implementation on "Small Landlord Big Tenant" in Taiwan

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I. Background

Taiwan is a densely populated country. The total size of its farmland is around 0.8 million hectares. The number of farm households is about 0.78 million, with an averaged 1.03 hectares farmland per household. Compared with those major agricultural production countries, such as the US, Canada, and Australia, Taiwan is considered a small-scaled farming society. The lack of economies of scale because of small-scaled farming causes the high cost of agricultural production. Most farm households have to work on additional jobs in order to make ends meet. It is estimated that more than third quarters of farm households rely on other non-agricultural incomes to maintain family lives. The young generations generally, are willing to move to cities rather than stay in rural areas and work in the agricultural sector. Consequently, the aging problem in the agricultural village is serious, with a farmer whose average age is 61 years old.

Because of the general low income of small-scale farmers, and also the aging problem causes the decrease in farmer labor, there should be many cases of farmland sales or leases. In reality, however, the cases have been very limited because many farmers believe that the farmland is like a heritage left by the ancestors and bad reputations will spread if farmlands are sold without good reason. In addition, the privileged protection by the previous "Three-Seven-Five Rent Reduction" Act, leasing contracts used to be hardly due. Thus, there are more and more farmlands fallowed or abandoned cases, which already accounts for more than 10% of the entire size of farmlands. Such problem made an impact on deactivating farming activities and further made an insufficient use of farmlands. Thus, the agricultural sector in Taiwan tends to decline in the long term.

The government in 2008 launched a program called "Small Landlord Big Tenant". This policy aims at providing motivations to release idle farmlands from landlords because of their inability or unintended willingness to engage in farming. The policy intends to lease those self-owned farmlands to those farmers who intend to enlarge their farming scale. In addition, the policy can facilitate the structural change of farm labor towards younger generations while aging farmers who own lands can retire without worrying about their incomes. In the meantime, the government officials assist farmers (big tenants) to get farmlands leased in order to increase farming scales and reduce production costs. By doing so, the operational benefit and competitiveness of agricultural production can be enhanced with a further utilization of farming facilities and machines.

II. Policy Contents

A “small landlord” refers to a farmland owner as a person. On the other hand, a “big tenant” refers to a person or a farmer’s organization (*e.g.*, a professional farmer, an organizational big tenant, a farmers’ farm-and-sale-group, a cooperative, or an agribusiness company). Any of the above is qualified according to definition of the government to lease a farmland and increase operational scale. The main policy contents include:

1. Release the area for farmland lease: The lease incentives started from continuous fallow farmlands during 2004 and 2005. Now it releases to those registered cases during 1994 and 2003 in order to assist big tenants to find more lands in the neighborhoods to lease.
2. Big tenants cultivating contracting or transferring crops can get an extra NT\$10,000 per hectare in addition to the general subsidy to contracting or transferring crops.
3. Simplify the applications of subsidy to agribusiness operations with an up-ceiling limit to the grant funding. By doing so, it can motivate big tenants to manage their farms with feasibility in order to avoid over-investment in excess of own capabilities.
4. Provide incentives for old farmers to leave their farms and encourage them to lease their land property to big tenants through the “farmland bank” platform. If the land is leased out, the big tenants will pay the rent, which is an extra income in addition to the old farmers’ allowances plus incentives.
5. Integrate the lease operation of farmlands via the window of “farmland bank” in farmers’ associations in each township. Through this window, the information of farmlands to lease and fallow can be easily accessed as well as registered.
6. List the farming scale into nine categories of crops, with the recommended scale for each of them and the basic entry level of farming scale.
 - i. Entry level: based on the existing scale of farming business, with self-owned farmland and big tenant farming area without leasing contracts equal or in excess of 0.5 hectare owned by a professional farmer, or in excess of 5 hectares of facility operational scale or in excess of 10 hectares of field operational scale owned by a registered farmers’ farm-and-sale-group, a legally registered cooperative (farm), or a farmers’ association, or an agribusiness company.
 - ii. Operational scale: combine the entry level of farming scale and the leasing farmland. Take a full-time farmer as an example, at least five hectares each for farming feeding crops, forage, rice, and short-term forest are required. Or, using another example, mixed grains, special crops, fruit trees, flowers, and organic crops request two hectares each as operational scale.

Table 1. Operational scale of big tenants

Unit: hectares

Crop	Professional farmer	Farmers' farm-and-sale-group, cooperative, agribusiness company
Rice	5	32
Feed crop	5	20
Fruit tree	2	15
Mixed rains	2	15
Vegetable	2	15
Flower	2	15
Special crop	2	15
Organic crop	2	15

Source: Council of Agriculture, Executive Yuan, Taiwan

7. Protect the right of the small landlord

- i. Rent: The big tenant should pay the rent to the small landlord during the leasing contract, with the amount of rent specified in the contract under an agreement between the two counterparties.
- ii. Incentives to leave the farm: For farmers aged above 65 years old and with five years or more of farmer insurance qualification, if they lease their land properties to big tenants, they are qualified to get incentives. The allowance is NT\$2,000 per hectare per month, or NT\$12,000 per period of farming crops (in equivalence to six months of calculation). The maximum amount is 3 hectares, or NT\$72,000 per year.
- iii. Secure the qualification of farmer insurance: The farmer insurance regulation was amended and published on November 26, 2008, in order to promote the program of “small landlord big tenant”. The farmer insurance will still be valid for farmers above 65 years old and also covered by the farmer insurance for an accumulation of 15 years, and more importantly, who lease their farmland property to make themselves leave the farm.

8. Qualification of operation:

- i. The program mainly assists big tenants who intend to enhance competitiveness by increasing farming scale, moving towards business-oriented operation, or preceding a consolidated management of crops, animal feeding, or mixed farm and animal feeding.
- ii. Big tenants should consider to farm “import substitution” or “export expansion” corps as priorities, which do not encounter the problem of the gap between production and sales.
- iii. The farmland leased by big tenants cannot apply for fallow allowances or use for making trees on the plain field.

III. Policy outcomes

There are currently 12,961 hectares of farmlands operated by big tenants, with an average size of 8.4 hectare per farmer, which, compared to 1.1 hectare per farmer household, is seven times larger in scale. There are 1,670 big tenants, with an averaged age of 44, much younger than an overall averaged of 62 years old for all farmers. The number of small landlords achieves 25,414, with an average age of 59 years. The policy encourages young professionals of farmers to lease lands for farming crops to substitute more import demands, or for cultivating crops with potential export markets. Therefore, many of these big tenants can earn more than one million NT\$ in annual income.

IV. Problem

Nevertheless, though the policy of “small landlord big tenant” was a good initiative by the government, the total leasing land accounts for less than 10% of the fallow region. It is obvious that there is still a big gap between the policy goal and the reality regarding the so-called “third land reform” of this program. In fact, the problem existed in both the landlord as well as the tenant side.

The discouragement of small landlord to lease out the land property in the long run is caused by the following concerns.

1. If old farmers lease the farmland without farming jobs, they will lose the qualification of farmer insurance and other benefits such as old farmer allowances.
2. It is better to get the fallow subsidy from the government and in the meantime, to be able to keep a full control of the land usage.
3. The old fashioned thoughts based on the past “Three-Seven-Five Rent Reduction” Act, which provided the priority right for tenants to purchase the leasing farmland has been highly embedded in farmers’ understanding. This influence makes a major impact to discourage farmers to lease out their farmlands if they are worried about the full ownership of the land property even after the expiration of the Act.
4. Farmers do not have other accomplishments if they lose the contact with their farmlands. Therefore, the long-term leasing contract is like losing the control of the land, and therefore, they “feel” similar with losing the property right, which causes major worries.
5. Farmland owners need to pay the lease income tax.

On the other hand, big tenants lack the motivations because of the following reasons.

1. The information of farmland to lease is not easily accessed so that it is hard to get farmland leased.
2. Farmland to lease is usually scattered and also in small-scale basis, so that agricultural management is complicated and operational cost is still high. Moreover, agricultural products can be very diverse in terms of quality.
3. The leasing rent should be higher than the fallow subsidy by the government. Therefore,

the opportunity cost is high for land leasing, which is not good for operating an agribusiness.

4. Farmland owners tend to lease in short-term contract, which cause a major limitation to effectively invest in appropriate crops with long-term plans.
5. The nature of agricultural operation is in high risk but low profit in return, which discourages entrepreneurial capital. Consequently, investors who are committed to agricultural businesses are mostly in lack of capital and of techniques.

V. Future Outlook

The innovative policy of “small landlord big tenant” program is indeed a division of ownership and management. It resolves the problem of old farmers who own farmlands but without further capabilities to cultivate them. Through this program, more and more younger generations who are committed to agricultural operations can be more effective in using those farmlands by lease. Thus, the structural change of agricultural production can be gradually achieved to introduce young laborers as well as scaled businesses in farming. However, the current gap between small landlords and big tenants is still demanded a further resolution by the government in order to build the confidence to remove the major concerns rose by those potential small landlords. In addition, big tenants who are committed to agricultural operations should be provided more assistance from the government in production and sales. The fallowed farmlands are expected to be “alive”, and the future of Taiwanese agriculture can be sustainable with reasonable profits and high efficiency.

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