



# Changing Farm Business Structures and the Sustainability of Rural Communities and Regions: Issues for Research

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## Introduction

This paper provides a summary of a workshop conducted with policy-makers on the impacts of changing farm business structures on rural communities and regions. The purpose of the workshop was to identify areas of policy-relevant research that would provide insights into the impacts of various farm business structures on the economic and social well-being and sustainability of communities and regions. The workshop, held in Canberra in January 2001, included 10 participants from a range of government and non-government organisations, including: the Department of Transport and Regional Services; Agriculture, Fisheries and Forestry Australia (AFFA); the Bureau of Rural Sciences; and the National Rural Advisory Council. The paper begins by providing a brief summary of some of the changing characteristics of farm business structures. Following this, and by drawing on a combination of overseas and Australian literature, it considers some of the likely impacts of changing farm business structures on rural communities. The paper concludes by outlining a number of areas for future research.

## Changing Farm Business Structures

A growing body of literature in North America (eg Lobao 1990) and Australasia (eg Burch *et al.* 1996) suggests that agriculture is experiencing a gradual shift away from traditional family farming towards farm business structures that are more corporately oriented. In terms of definition, family farms are usually held to be businesses that are owned and operated by a family. The decisions about farm management are made within the family unit, which also provides the business with much of the necessary land, capital and labour (see Gasson and Errington 1993). This is the dominant type of farm business structure in Australia and represents about 94 per cent of all farms (Wright and Kaine 1997).

There are two main forms of corporate involvement in farming. The first, the corporate farm, is generally owned by a group of diverse shareholders, all of whom have the freedom to retain or dispose of their shares at any time. Furthermore, the resident farm manager may not necessarily be involved in strategic decision-making for the property, members of the farm workforce are employees of the corporation, and the prime concern of the farm is the generation of profits for shareholders. Corporate farms now represent about six per cent of all Australian farms (Wright and Kaine 1997). While this is a relatively low proportion, the scale of corporate farms makes

them significant players in certain sectors of the Australian agricultural industry. For example, corporately owned farms constitute around 26 per cent of the total area of land devoted to broadacre or dairy farming, and account for about 19 per cent of total beef production (Martin 1996). Corporate farms have also become increasingly prominent in the cotton, viticulture, poultry and pig sectors.

The second form of corporate involvement in agriculture is contract farming. This involves contracts between (usually) family farms and other firms upstream or downstream in the food and fibre production chain. For example, farmers may contract with a processor to supply a particular quantity and quality of commodity at a specified time for a previously agreed price. The contracting company often supplies the farmer with some inputs and technical advice. Contract farming is well established in the beef, fruit, vegetable, viticulture, chicken meat and hop industries. In the early 1990s, for example, it was estimated that around 80 per cent of hops, 85 per cent of chickens, and nearly 100 per cent of peas were grown under contract (Burch *et al.* 1992; Miller 1996).

Although family farming remains dominant within Australia, the Workshop on Future Farm Business Structures at the National Farm Finance Summit in 1996 suggested that the increasing application of modern industrial production, processing and marketing concepts to food and fibre commodity chains was likely to result in rising levels of direct corporate activity in the farm sector (Department of Primary Industries and Energy 1996). That Workshop predicted that direct corporate involvement in farming will gradually increase in those sectors where there are significant economies of scale in production, and where there are economic incentives to own and/or control both production and processing enterprises. This would mirror trends in the United States where both corporate farms and contract farming are already well established (Swanson 1988).

An important characteristic of both corporate farms and contract farming is that they tend to concentrate in those areas that are not only suitable for production, but also provide additional economic advantages. In the beef feedlot industry, for example, this has resulted in corporate producers concentrating their farms on the Darling

Downs in Queensland and in the Riverina region of New South Wales where they can readily access large volumes of cattle feed, particularly sorghum, barley, oats and silage (Clark *et al.* 1992). In the case of contract farming, production tends to be concentrated in regions that offer a combination of suitable environmental conditions, appropriate infrastructure and services, and access to processors and/or markets. Thus, regions such as the Ord River Irrigation Area (WA), the Murrumbidgee Irrigation Area (NSW), the Riverland region in South Australia, north-west Tasmania, and the Lockyer Valley (Qld) tend to be dominated by contract farming.



## International Research on the Impacts of Changing Farm Business Structures

Despite the growth and spatial concentration of both corporate farms and contract farming, there has been very little detailed research in Australia on the economic and social impacts of growing corporate involvement in agriculture on rural communities and regions (Black *et al.* 2000). While the economic and social links between traditional family farms and rural communities are well established (see, for example, Smailes 1979), very little is known about how corporate farms and contract farming affect local economic activity, local employment patterns, service and infrastructure use, and forms of social interaction.

These themes have been given considerable attention overseas, particularly in North America. In an influential pioneering study, Goldschmidt (1947) found significant differences in the economic and social well-being of two rural communities in the San Joaquin Valley in California. These two communities were similar in soil, climate and size of the population centre. Both produced high value crops under intensive irrigation. Dinuba, a community surrounded mainly by family farms averaging about 140 hectares in size, had more businesses, a greater volume of retail sales, a higher per capita income and a wider range of social, recreational, educational and cultural institutions than did Arvin, a community surrounded by farms that averaged more than 1200

hectares in size and were mainly owned by corporations. Broadly similar conclusions were drawn in several subsequent studies of corporate farming in North America, although the literature did indicate that there were marked regional variations in the degree and form of the impact (Rodefeld 1978; Lobao 1990; Barnes and Blevins 1992; Winson 1996). Some of the reasons that communities dominated by corporate farms performed worse than those surrounded by family farms include: a propensity for corporate farms to purchase farm inputs and services from outside the local community; a more seasonal, mobile and lower paid workforce on corporate farms than family farms; a lower level of integration by corporate farms into the social life and institutions of rural communities.

While these negative impacts have received considerable attention in North America, there are a number of studies which suggest that corporate farms can bring important social and economic benefits to rural communities. These included increases in local employment, opportunities for downstream processing, the diversification of the local economic base, and a more cost-effective and competitive agricultural structure (Molnar and Beaulieu 1987). It has also been suggested that corporate farms can play an important research and development role, and can foster the rapid adoption of new technologies (Hoban *et al.*, 1997).

There have likewise been a number of overseas studies assessing the social and economic impacts of contract farming on rural communities. Some of this research suggests that contract farming has the potential to bring significant benefits to rural regions, including greater income stability, increases in farm productivity and profitability, the establishment of downstream processing industries, and the development of new opportunities for farm service industries (Saxowsky and Saxowsky 1996). On the other hand, some commentators have suggested that contract farming can undermine the economic and social viability of rural communities (Lawrence 1987). For example, it has been argued that production inputs, extension services, and even financial services are often provided by the firm contracting to buy the commodity produced, rather than local businesses. This results in economic activity bypassing local

communities. It has also been suggested that contracts can result in farmers receiving prices that are lower than those received through traditional markets. This has the potential to reduce both farm and community incomes.

The absence of Australian research on the social and economic impact of changing farm business structures makes it difficult to assess the needs of those rural communities that have already been affected or which are likely to be affected by such changes. Being able to assess and address these needs is an important consideration for local governments, regional development organisations, policy makers, and industry bodies. In the United States and Canada, research on the impacts of changing farm business structures has been used to assist these stakeholders to make informed decisions about service provision, infrastructure development, land-use planning, regional investment and employment strategies, and agricultural policy (see, for example, Wimberley *et al.*, 1986; Ahearn *et al.* 1988; Swanson 1988).



## Research Issues in Australia

The workshop held in Canberra during January 2001 aimed to identify a range of issues associated with changing farm business structures. These issues are summarised below.

### *Issues Associated with Farm Structures*

A number of the policy-makers involved in the workshop identified a need for further research and analysis on farm business structures themselves. They pointed out that while it is conceptually convenient to categorise farm structures under headings such as family farming, contract farming and corporate farming, the reality is that the financial structure and management of agricultural enterprises can be extremely diverse. For example, family farms might grow one commodity under contract and another commodity that is sold through statutory marketing authorities. The complexities of these arrangements, and the various options available to farmers, were identified by workshop participants as areas in need of further investigation. The workshop participants also pointed out that further information is required

on those agricultural sectors that are most likely to experience changing farm business structures. For example, while the significance of corporate farming in the beef, cotton and viticulture sectors is well recognised, relatively little is known about which agricultural sectors might be dominated by corporate farms in the future.

One of the other issues raised in relation to the changing financial and management structures was the subsumption of family farms by larger corporations as part of the contracting process. The policy-makers participating in the workshop noted the loss of control over management decisions by some farmers engaging in production contracts. It was pointed out that the strict terms of contracts often mean that farmers have little say in the daily operation of the farm, and can become little more than farm labour for the contracting firm. This issue has been given considerable research attention in Australia by Rickson and Burch (1996), Fulton and Clark (1996) and Lockie (1998). Other issues raised in relation to contracting included:

- to what extent does contract farming improve the quality of commodities being produced,
- what section of the commodity supply chain do contracting companies tend to occupy (e.g. processing, packaging, retailing etc.),
- to what extent are family farmers engaging in contract farming as part of a wider risk management strategy, since contracts generally provide an agreed price prior to delivery.

The workshop also raised the prospect of focusing attention on very small farm businesses. It was noted that, in many regions, hobby farms or, perhaps more accurately, micro-farms, have become an important component of the Australian agricultural landscape. For example, a number of recent studies of counterurbanisation in the south-west of Western Australia have noted that the commercial output from hobby farms includes, *inter alia*, timber, wine grapes, fruit, Alpacas and various forms of organic produce (Curry *et al.* 2001; Tonts and Greive 2002). Similar diversity of production from small farms has also been noted in various peri-urban areas (Bryant and Thomason 1992). While these small farms are often highly innovative and productive, relatively little is known about their financial and management structures or, indeed, their relative contribution to local and regional economies.

A further issue raised by one of the workshop participants was that research on changing farm business structures is an important means of challenging many of the assumptions held about farming by Commonwealth and State bureaucrats and politicians. While there is evidence that Australia is no longer so overwhelmingly dominated by traditional family farming, it was pointed out that this is not widely recognised by many policy-makers. Research that identifies the complexities of farming, particularly the growth of direct corporate involvement in some agricultural sectors, has the potential to make an important contribution to policy formulation.

### *Economic and Demographic Issues*

Participants in the workshop identified a number of economic and demographic issues whose investigation would make a valuable contribution to policy. These included the following:

- *The extent to which corporate farming and contract farming contribute to demographic and economic growth, stability or decline in agricultural regions and communities.* Of particular interest were the spending patterns, particularly in regard to farm inputs, of corporate farms and farms under contract. It was felt that these types of farm business structure might be more likely to acquire farm inputs and services from outside the local community.
- *The extent to which contract farming contributes to a degree of economic stability and certainty amongst farmers.* Some workshop participants felt that contracts might provide farmers with greater financial security than if producers were to sell their produce in a more open market.
- *The impact of corporate farming and contract farming on local labour markets.* Of particular interest was the extent to which these types of farm business structure are more or less dependent on a casualised labour force than traditional family farming. This has ramifications for local employment patterns, labour migration and service provision. Similar research questions were posed by the Commonwealth government's Harvest Trail Working Group (Commonwealth of Australia 2000).

- *The resilience of corporate farming during economic downturns in the agricultural sector.* It was hypothesised that corporate farms might be more likely to close down (or at least rationalise) their operations during periods of economic hardship than would farming families.

While some of these research issues have received considerable attention in the United States and Canada, it was pointed out that the experiences of these countries may have only limited applicability to the Australian context. As workshop participants pointed out, North American farmers operate in a very different economic and political environment to that in Australia (see also Lawrence 1987; Miller 1987; Taylor 1996; Burch *et al.* 1998). For example, Australian agriculture operates without many of the import protection policies and price support schemes that prevail in North America. Some workshop participants suggested that, because of factors such as these, conclusions drawn from North American studies of farm business structures and their impacts on rural communities might not necessarily be adequate to guide policy-making and planning in Australia.

### *Service, Infrastructure and Planning Issues*

According to a number of policy-makers at the workshop, changing farm business structures are likely to raise a number of important service and infrastructure issues. Issues needing further investigation include:

- *The provision of housing for a more mobile work force.* Notwithstanding the limitations of using overseas examples, evidence from North America suggests that corporate farming can contribute to a large itinerant work force (Broadway 2000). This, in turn, has contributed to difficulties in providing appropriate forms of housing for a mobile farm labour force.
- *The provision of educational and social services for mobile workers and their families.* For example, the Commonwealth government, in its research on the so-called Harvest Trail (Commonwealth of Australia 2000), noted that providing educational services for the children of itinerant agricultural labourers presented particular challenges. Various ways of addressing such issues could be examined.

- *Other infrastructure or service requirements associated with particular types of farm business structure.* The extent to which emerging farm business structures have different or new infrastructure requirements is not clear. Accordingly, there is a need for further research on this issue. For example, Vanclay and Lawrence (1995) point out that a number of large corporate feedlots in New South Wales are major producers of effluent. Given the potential environmental ramifications of this, providing infrastructure that prevents this effluent from contaminating ground and surface water resources is an important planning issue in terms of both infrastructure and land use.
- *The implications of emerging farm business structures for land use planning.* This was seen as particularly important in relation to environmental impacts, such as those described above.

### *Social Issues*

Much of the research in North America associates the expansion of corporate and contract farming with the radical changes in community structure and social interaction (Lobao 1990). While there are limitations in the applicability of these findings to Australia, some of the policy-makers participating in the workshop felt that corporate farming and contract farming might undermine communities by introducing a large seasonal and mobile labour force, with a corresponding decline in the number of year-round residents. On the other hand, some participants felt that corporate farming and contract farming might contribute to more vibrant communities through new opportunities for downstream processing and support services. While there was little consensus about the social impacts of changing farm business structures, it was agreed that the general absence of empirical research on this issue in Australia makes it extremely difficult for policy-makers and planners to respond in a timely and well-informed fashion. Most participants agreed that further research on such issues could help policy-makers, local governments, industry groups, community organisations and other stakeholders to explore ways of maximising the beneficial effects and minimising possible negative ones.

## Conclusion

Growing levels of direct corporate involvement in Australian farming have the potential to contribute to significant economic, social and demographic changes in rural regions and communities. Accordingly, policy-makers have identified a number of issues in need of further research. These include:

- The emerging diversity in farm business structures. This includes research on the financial and management structures of corporate and contract farming arrangements, micro-farming, and commodity chain analysis.
- The impacts of changing farm business structures on local and regional economies, particularly in terms of labour force requirements, the mobility and seasonality of the labour force, and the local and regional spending patterns of various forms of farm business.
- The relationships between local and regional demographic characteristics and changing farm business structures.
- The service and infrastructure requirements of emerging farm business structures. This includes research on housing provision, social services, and environmental services.
- The implications of changing farm business structures for agricultural land use planning, particularly in relation to environmental impacts.
- The implications of changing farm business structures for local community interaction and social structure.

In other parts of the world, particularly North America, research on these issues has formed an important basis for informed policy decisions on issues such as regional investment and development strategies, infrastructure and service provision, land use planning, and agricultural policy. Participants at the workshop in Canberra agreed that research on the above issues would provide similar benefits in Australia and ensure that politicians, bureaucrats, local governments, industry groups, community organisations and other stakeholders have the capacity to respond in an informed way to the changes affecting agricultural regions and rural communities.

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