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CATALYZING COMMON PROPERTY FARMING FOR RURAL SUSTAINABILITY:

LESSONS FROM THE FURRACABAD VALLEY ^[1]

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Abstract

Lessons learnt and progress achieved in a project seeking to catalyse establishment of a group, or common property, farming enterprise are reported in this article. The project concept grew from successful experiences of the farmers initiating the project in working together to address shared environmental issues. It was concerned with appraising the potential of a group farming arrangement to consolidate their environmental achievements as well as deliver them economic and social benefits. Preliminary budgeting indicated that such an arrangement would benefit the participating farmers economically. A range of social advantages were also identified by the farmers involved. Nevertheless, it was not possible during the nine month life of the project to obtain the critical mass of farmer commitment needed to implement such an arrangement. Even so, the project succeeded in strengthening awareness and understanding of the concept of common property farming and firming up a structure through which it could be implemented.

1. INTRODUCTION

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This article documents a project initiated by landholders in the Furracabad Valley of northern New South Wales (NSW) whose successful experiences working together for shared environmental outcomes stimulated them to think about working together more closely to achieve economic and social benefits as well. The aim of the project was to 'develop an innovative way of managing a collective group of farms and in doing so create new ways to use human, natural, built and community resources to provide a more enriched environment for the stakeholders'. This 'innovative way' was to involve a group or 'cluster' of farms 'all managed under one entity'. The purpose of documenting the project here is to share lessons it yielded that may be of value for other groups of landholders inclined to head in a similar direction.

The background to the emergence of the project is considered in Section 2. The method of the project and its initial findings are discussed in Section 3. Progress made in the project towards deciding on a financial structure for the group farming enterprise, and identifying the economic advantages of the concept for participating farm businesses, is detailed in Section 4. Some lessons arising from the project likely to be of more general applicability are shared in Section 5. Finally, concluding comments are offered in Section 6.

2. BACKGROUND

2.1 Australian agriculture as an individualistic pursuit

The land law system introduced to Australia at the time of colonial settlement was inherited from the English system which at the time was in the midst of a land reform process known as 'enclosure'. This process involved the displacement of a 'traditional' agricultural land system focussed on subsistence and organised in communally-administered open fields with a 'modern' system that reorganised those fields into multiple consolidated land holdings managed by individual households – with collective rights and responsibilities in respect of land administration transferred from communities to the state (Williamson, Brunckhorst and Kelly 2003).

The traditional system demanded rigid adherence by community members to a common system of land husbandry. This system 'was no handicap on enterprise during the long time in which the husbandman's art was more or less static' (Orwin and Orwin 1967 p. 171). The mouldboard plough was already used widely, 'but otherwise their technique was simple and there was a common fund of knowledge which led every one to pursue the same system of farming' (ibid. p. 170). Moreover, the lack of markets for commercial production meant that there was no reason for individual households to produce more than their subsistence needs.

Communally-managed agriculture was thus well-suited to the conditions of its time, but times changed. The industrial revolution brought rapid advances in farming techniques from the middle of the 18th century, as well as an increasing urban population creating a market for commercial agriculture. The traditional system was unable to respond fast enough to these changed conditions, given that 'the pace of change was that of the slowest' (ibid. p. 62). It could not satisfy the drive of individuals to exploit the new techniques in order to enrich themselves through commercial farming, nor the collective imperative to feed urban people.

2.2 Agriculture's environmental externalities

Australia thus came to inherit an individualistic system of agricultural land proprietorship. Times continued

to change. Gradually, the collective imperative of satisfying the nation's material needs came to be joined by other important imperatives. Among the most urgent of these has been the need to stem the negative externalities that farmers have come to impose on each other and the rest of society through over-using the natural environment as a 'source' of inputs for its production processes and as a 'sink' for wastes from these processes. This need led to significant state regulation of how individuals use agricultural land. However, this centralised regulatory approach has proved difficult to enforce given the problems of monitoring agricultural land use and farmers' vehement political opposition to attempts by the state to erode their individual liberties (Bradsen 2000).

As a result, collective efforts to deal with the environmental externalities of agriculture have relied increasingly over the last two decades on community-based processes, as exemplified by programs of Landcare and integrated catchment management. This is significant historically, since it became an article of faith in the late 19th century and early 20th century – due to the influence of the Progressive Conservation Movement – that fostering progress meant minimising community (taken as synonymous with parochial and irrational) involvement in public decision-making processes and maximising instead the involvement of scientifically-trained professionals (Batie 1989; Hays 1959).

2.3 Decline of rural communities

The collective imperative of satisfying the social needs of farmers has also increased in urgency over recent decades. Enclosure meant that economies of scale could be pursued through individual land parcels being bought up and consolidated into larger units. The consequent continuing increases in labour productivity resulted in agricultural landscapes becoming ever more sparsely settled and socially isolated (Stayner 2005).

These problems have been exacerbated by the effects more generally of modern societies having pursued progress along the lines characterised in the previous section. With public decision-making to be left in professional hands as far as possible, the ideal citizen became someone prepared to accept scientific values overriding traditional values and willing to forego active engagement with the problems faced by his or her local community (Norgaard 1994).

To be sure, there were obvious advantages for citizens from this arrangement due to the reduced demands it placed on their time. The disadvantages have been more insidious. They have arisen in part from forfeiting opportunities that had typically been taken for granted: opportunities to find meaning and fulfilment in the process of serving one's community, and to meet and form relationships with other community members. They have arisen too from the ongoing displacement of local and other traditional values – that help individuals find a place in their local society and act collectively – by materialistic, individualistic and other so-called Progressive values. These disadvantages are implicated increasingly by the kinds of social problems associated with continuing decline in our rural communities (Williamson, Brunckhorst et al. 2003).

2.4 Agricultural adjustment pressures

In addition, the continuing pressures on farmers to offset declining terms of trade with increased economies of scale have led some to question the economics of continuing to operate their businesses individually (Powell, Bartholomaeus, Gasson et al. c1982). Adjusting to declining terms of trade by

purchasing additional parcels of land entails economic risk for farmers to the extent that it uses up limited capital that they could otherwise use to buffer shocks to farm business performance. Typically, they do not enjoy the luxury of being able to buy new land gradually in order to contain this economic risk. Suitable land tends to come onto the market sporadically, and often in indivisible parcels more costly than prudent risk management would recommend purchasing.

A strategy adopted by some farmers to circumvent this type of risk has involved foregoing individual pursuit of economies of scale, and opting instead to *share* in the economies of scale available from combining their land with that of other farmers to form a group-operated unit. Such a strategy can be particularly attractive to those farmers whose financial position leaves them unable independently to achieve an optimal scale of production. For farmers choosing the path of group farming, the social rewards of working together with other farmers have often also been important (ibid.).

2.5 Obstacles to group farming

Interest in group farming is not new. Powell et al. (c1982) reported on three Australian cases of group farming (referred to more specifically as 'fully-integrated group farming'), and provided advice to others interested in adopting this approach. Davies and Brownscombe (1978) also offered advice regarding this approach (referred to as 'whole farm syndication'). Despite the interest of state agriculture departments during the late 1970s and early 1980s in promoting this approach, its uptake remained low. The reasons given by Powell et al. (c1982) for the low adoption of a few decades ago included:

- (i) shortage of experts to advise on and facilitate group farming;
- (ii) problems of finding a suitable partners within manageable distance of each other;
- (iii) farmers' fears of making a bad choice of partners;
- (iv) widespread agricultural adjustment problems had arisen only relatively recently; and
- (v) farmers' lack of understanding of the advantages of group farming.

Additional reasons given by Davies and Brownscombe (1978) were:

- (vi) farmers' perception of the loss of independence that would occur; and
- (vii) the rules necessary for the operation of a group farming operation would be unacceptable to some farmers.

All these reasons seem as applicable now as then, except (iv). Farmers have had the 'opportunity' of more than two decades of mounting adjustment pressures since then to consider how they might deal with them more robustly in the future.

2.6 The 'Tilbuster experiment'

Recent years have seen some rekindling of interest in group farming. The stimulus seems to have come from farmers' participation in landcare and other 'grassroots' processes of environmental management. The 'Tilbuster Commons' initiative offers an instructive example. Its instigators recognised the potential advantages of grassroots processes in fostering cooperation in dealing with environmental externalities. However, their experience of existing processes of this kind operating locally was that they were piecemeal and small in scale and yielded poorly defined, unenforceable rules and thus unsatisfactory levels of compliance with the decisions made in those processes (Williamson, Brunckhorst et al. 2003). They sought to explore whether group farming could help surmount these weaknesses by running an 'experiment' in the Tilbuster Valley, some 15 kilometres (kms) north of Armidale in the New England Tablelands. Some external financial support for research activities related to the experiment was obtained from Land and Water Australia over the three financial years commencing July 2000.

The experiment involved combining four adjacent farms in the valley, with a combined area of 1,300 hectares (ha) that covered most of the valley's area, into a 'common property resource system' (CPRS). Common property is shared private property (McKean 2000). The private owners of the farms shared in the management and proceeds of the land (while retaining their individual land titles), livestock, infrastructure and labour they contributed towards the CPRS. The pooled resources were managed by the entire group as a common enterprise. In January 2001, the CPRS was instituted formally as a private company. Although the company became responsible for a landscape of a scale that a landcare group might otherwise have taken local environmental responsibility for, its structure gave it scope to develop enforceable rules through which compliance by co-owners with agreed integrated solutions could be assured (ibid.).

This scope arose from the company providing a vehicle for integrating the environmental interests of the different farmers with their social and economic interests. Their agreed environmental interests could be translated formally into the constitution and working rules of the company. Compliance with the constitution and working rules could be enforced by imposing the corresponding agreed sanctions for non-compliance.

2.7 The Furracabad Valley experience

The project documented here serves as another example of how interest in establishing a group farming system arose from farmers' local experiences with environmental management. The project concept evolved from the Furracabad Landcare Group having worked together successfully for over a decade in enhancing the environmental sustainability of the Furracabad Valley. This valley is located 5-7 kms from Glen Innes in the New England Tablelands. It consists of about 25-30 farms, varying from 10 to 1,500 ha.

The accomplishments of the landcare group in respect of environmental sustainability led its members to consider how they might use the platform for local collective action they had established to pursue economic and social sustainability in their district as well. The implications of decades of agricultural adjustment pressures for the economic and social sustainability of rural communities have been considered recently by Stoneham, Eigenraam, Ridley et al. (2003) and various contributors to Cocklin and Dibden (2005). The imperative to explore innovative ways of sustaining rural communities is highlighted by one historian's recent observation that '[w]hat generates the current sense of crisis is that country

people are experiencing loss at a time when much of the rest of the country is prospering, when their community institutions are already debilitated by several decades of change, and when nobody seriously proposes that the situation can be reversed' (Davison 2005 p. 54).

Driven by this imperative, they completed a 'Farming for the Future' program offered by NSW Agriculture (now Department of Primary Industries) in order to improve their skills in business planning. The program highlighted the economies of scale that the smaller farms were missing out on. Nevertheless, the view was formed that all farms in the valley could gain economically if they were to pool their resources into a single common property enterprise – that they referred to a 'farm cluster' – and share the resulting economies of scale. Compared with the alternative of some farmers buying others out in order to capture these economies for themselves, it was anticipated that the group approach would strengthen the district's social fabric.

3. The FURRACABAD 'Farm Cluster' project

3.1 Project initiation and method

A preliminary meeting was held in May 2000 to focus the concept the landholders had in mind. As foreshadowed earlier, the concept agreed to at the meeting was a group of farms 'all managed under one entity to achieve efficiencies and develop better employment, social and economic conditions for the stakeholders and the surrounding community'.

It was agreed also at this meeting that implementation of the concept would best occur as a formal project involving professional support and a staged consultation process. The project funding application justified this approach as follows: 'Farmers have traditionally operated in management isolation, making their own decisions and rarely having to make joint decisions that directly influence their financial future. It is here that the greatest challenge lies in ensuring that stakeholders fully understand the concept and the impact on them'. External project funding was sought because the smaller farmers interested in participating were not in a position to share the costs of the professional support envisaged for the project. The funding application was approved in early 2002. The present lead author was engaged as professional support officer for the project, and the second-named author as a consultant to the project. The remaining co-author had been chair of the landcare group and was a key catalyst in bringing the project about. The project method outlined in the funding application comprised the following steps:

- (i) undertake a 'resource audit' to indicate the potential gains from forming a group farming enterprise;
- (ii) outline a structure for implementing the concept and identify the likely gains under that structure for interested farmers;
- (iii) develop the concept to the stage of a business plan;
- (iv) obtain acceptance of the business plan by a 'critical mass' of farmers; and

(v) achieve sign-off from these farmers on establishing the group farming enterprise.

Progress achieved and lessons learnt in respect of these steps are discussed in the remainder of Section 3 and in Section 4.

3.2 The resource audit process

For various reasons including drought, commencement of step one – the resource audit – was postponed until February 2003. All nine farm businesses listed in the project funding application were invited by the Steering Committee to a meeting to agree on an appropriate process for the resource audit. Six of these were represented at the meeting. It was decided at the meeting that the process should extend beyond the businesses listed in the funding application to all landholders in and around the Furracabad Valley interested in the group farming concept. In order to make this wider population aware of the concept as well as the project, a circular was widely distributed to farmers in the district.

The resource audit was undertaken by the lead author through face-to-face interviews. An interview schedule was developed to structure questioning within each interview and prompt discussion of key issues. Eighteen farm businesses were interviewed in total. Their land holdings varied from 10 ha to 1,440 ha. As a group they were conducting a diverse range of enterprises, including: cattle fattening; cattle breeding; first-cross ewes; self-replacing Merino ewes; opportunity livestock trading; Merino stud; Poll Dorset stud; contract breeding of horses; soybeans; oats; maize; oats-clover hay; and phalaris seed.

The duration of interviews varied from one hour to three and a half hours. They were conducted mostly in interviewees' homes or farm buildings and otherwise at their workplaces (if working off-farm). The first part of each interview, prior to commencing the questions included in the interview schedule, consisted of discussing the project concept and answering any initial queries they raised. This turned out to be an important role of the interviews, with quite a few of the interviewees bringing to the interview a vague or narrow understanding of the group farming concept.

3.3 Some group farming basics

There is no single best way of translating the group farming concept into practice. The best way in the case of the farm businesses participating in this project could be determined only on the basis of their particular circumstances. The basic concept involves multiple farm businesses establishing some kind of joint organisational entity to manage the lands owned by the businesses as if it were a single property. The businesses would agree at the outset on a 'constitution' for the joint entity, which would cover such issues as selection procedures for directors of the entity, rights and responsibilities of the directors, rules for apportioning profits, procedures for conflict resolution, procedures for selecting management and labour, and so on.

A business plan for the joint entity would be negotiated by the participating businesses. This would identify the enterprise mix to be established and run by the group farming operation over the agreed period for which the land owned by participating businesses is to be leased to that operation. This business plan would determine which of the land and non-land assets owned by the participating businesses would be of value to the group operation.

On the basis of the business plan, the joint entity would negotiate with participating businesses how they would be remunerated for the assets needed to put the plan into action. Each participating business would retain private ownership of its land, but agree to lease some or all of its land to the joint entity for an agreed period according to an agreed scheme of remuneration.

The joint entity would also remunerate individual businesses for the non-land assets acquired from them, such as livestock, machinery, and other plant and equipment, according to market value. Persons involved in the participating businesses could be employed by the entity at agreed rates of remuneration. However, it need not be obligated to employ all these persons or be restricted to employing persons involved in the participating businesses.

3.4 Farmers' appraisal of the group farming concept

3.4.1 Advantages of the option

The identified economic advantages of the group farming option arise from the economies of scale it offers prospective members. It allows them to pool their land parcels into a single farming operation closer to the scale at which their goals can be realised most efficiently. The social advantages of the option arise from the scope it offers for this optimal scale to be achieved without farmers buying their neighbours out and consequently losing at least some social interaction with, and support from, them. Although the advantages of the option all revolve around economies of scale, a variety of such economies were identified by the farmers interviewed. They are discussed below.

(a) Pooling land under a single entity offers productivity gains to the extent that there are production synergies between the land parcels that are pooled. These synergies can arise from the parcels 'supplementing' or 'complementing' each other. Land parcels supplement one another when they share similar characteristics that allow production efficiencies or market advantages from expanding an existing activity (e.g., sheep breeding). They complement one another when pooling them establishes sufficient areas of land with different characteristics that specialisation of land use becomes possible.

(b) Pooling the land of different farm businesses might also offer important non-agricultural productivity advantages. This may occur as a result of supplementing land suitable for a particular non-agricultural land use (e.g., ecotourism) such that the total area available for that use becomes sufficient to pursue that use on a commercial basis. Non-agricultural commercial land uses of this kind that were mentioned in interviews included farmstays, wildlife tours, hunting and fishing, fossicking, and convention facilities.

(c) The group farming option can provide sufficient scale to realise productivity and personal benefits from specialisation of labour more generally. To the extent that the skills, temperaments and interests of members of the group differ, the scope for each member to spend more time on activities suited to them and at which they enjoy a comparative advantage will make for a more productive and motivated group.

(d) The increased scope for specialisation of labour can also increase the potential for

children and senior individuals to contribute to the success of a farm business. Despite any loss of strength or vitality, people can continue to make valuable contributions as they age by sharing their knowledge and experience as well as by taking on some of the less strenuous tasks. Any diversification of activities carried out by a group farming enterprise might also be expected to broaden the opportunities for children to find a niche in its work life. The greater variety of mentors for children can also broaden the opportunities for children to develop the kinds of skills that they would need to find work in the district as an adult.

(e) Group farming can provide sufficient scale to permit fuller utilisation of permanent labour. Operating multiple farm businesses as a single entity expands the scope to include activities that soak up seasonal surplus capacity in permanent labour and thus reduce labour costs per unit of overall output. To the extent that skilled and experienced permanent labour is often in short supply locally as well, fuller utilisation of this labour is even more valuable.

(f) By leading to formation of a larger labour pool than any individual business would have at their disposal, the option provides for greater flexibility in matching the size and composition of labour teams to the demands of particular tasks.

(g) By increasing the size of the labour pool, the costs per employee associated with satisfying accreditation and other quality control requirements, occupational health and safety requirements and so on can be reduced (e.g., it might not take much more effort to train two employees than one).

(h) Forming a larger labour pool might also provide scale economies in the training of farm apprentices. The demands on any one worker to provide hands-on experience to an apprentice would be reduced, and the apprentice might be expected to obtain a higher-quality training experience as a result of learning from specialised workers who are more skilled in performing their assigned functions than would be 'jacks-of-all-trades'.

(i) The greater scope the option affords for working in teams can foster learning and innovation by increasing opportunities for 'bouncing ideas around'. Greater teamwork can also offer important psychological and social benefits through increasing the possibilities for sharing with peers the emotional highs and lows associated with successes and failures. Teamwork can also motivate individuals who do not want to let the team down or be outshone by their peers.

(j) Working as part of a larger team offers team members greater scope for taking time off due to the potential for coordinating individuals' work rosters over a week and over a year. Working within a team can also relieve the pressure on individuals to 'soldier on' when they should take time off for health reasons.

(k) Pooling of land through a group farming arrangement provides opportunities to reduce business risk for group members in at least two ways. First, their income will be derived

across a wider and more diverse landscape the total production from which will depend less on single climatic or other natural events than would their smaller and less diverse individual holdings. Second, the pooling of land provides greater opportunities for diversifying the enterprise mix beyond that possible for any individual farm business.

(l) Group farming also allows the farm businesses joining it to share the risks of innovation. Trying out innovative opportunities often requires a minimum scale of investment that can expose individual businesses to a level of financial risk they are unwilling to bear. Spreading the required investment across a number of businesses can reduce their respective risks sufficiently that they become willing jointly to take a punt that would have been too risky as individuals.

(m) The group farming option can provide for sufficient scale of operation to own larger and more up-to-date items of machinery and plant that the individual businesses could otherwise afford only to make use of via contractors. Aside from the contracting costs avoided as a result, ownership can be expected also to provide productivity benefits through enabling greater timeliness of machinery operations.

(n) Group farming can also permit fuller utilisation of machinery owned by group members, thus spreading the fixed costs of this ownership over a significantly greater level of production.

(o) The increased scale of business from forming a group farming enterprise can strengthen market power in purchasing inputs and services and thereby reduce the prices paid for these inputs and services.

(p) This increased scale of business can also strengthen market power in selling outputs from the business and thereby increase the prices received for them.

3.4.2 Disadvantages of the option

Disadvantages of group farming identified by the farmers interviewed include:

(q) Loss of independence arising from having to fit in with a group-determined business plan.

(r) Increased dependence on others. A sentiment expressed a number of times was 'I'd rather make my own mistakes than have others make them for me'.

(s) Loss of identification with what is produced and with one's land. As one farmer commented, 'I wouldn't be able to stand there at the saleyards and point to a pen of sheep that I could say was mine'. Even though the land pooled under the group farming operation would remain under private ownership, the fact that each parcel would be managed and worked collectively meant for some persons interviewed that the pride they take in the

condition of their land would be lessened.

(t) Reduced motivation to work hard in order to 'get ahead'. One farmer observed that there would be less reason for individuals to work hard and long for a group farming enterprise if the benefits of working harder and longer were shared by everyone. Others commented that this risk could be forestalled by devising remuneration arrangements that adequately reflect differences in the levels of effort that individuals put in.

(u) Risk that the group farming enterprise will not employ an individual farmer's labour, thereby making him or her worse off if alternative employment opportunities do not exist.

3.5 Resource audit outcomes

While virtually all the farmers interviewed acknowledged group farming to be a good idea in principle, for most it was 'too much, too soon'. In a few of these instances, changes in family or other circumstances had become a further obstacle to participating in the option. In some cases, farmers interviewed stated plainly that they could not see themselves fitting in comfortably with this option. Of the 18 farm businesses interviewed, five indicated a possible or likely interest in leasing their land to the proposed group farming enterprise within the reasonably near future. The areas of land owned (or co-owned) by interviewees prepared to further consider leasing their land to the proposed group enterprise are listed in Table 1 [5].

Table 1 : Land potentially available for the Furracabad Farm Cluster

| Farm business interviewed | Land area owned (ha) |
|---------------------------|----------------------|
| 5 | 1,295 |
| 7 | 402 |
| 9 | 163 |
| 16 | 285 |
| 17 | 309 |
| Total | 2,454 |

These findings were circulated in June 2003 to the members of the Project Steering Committee. At a meeting convened the next month to consider the findings, the committee agreed that while the level of interest in the group farming concept was lower than hoped for originally, it was adequate to justify proceeding to step 2 of the project method; i.e., outline a structure for implementing the concept and identify the likely gains under that structure for the farmers interested in being part of it. The Committee observed that the land parcels referred to in Table 1 are adjoining, aside from the 142 ha owned by Farm Business 16 that is located some 20 km south of Glen Innes. It was noted that this combined area compares favourably with the total land holding of 1,300 ha, also adjoining, upon which the Tilbuster Commons was founded. The Committee was optimistic that if a group farming arrangement based in the Furracabad Valley could get started, then the reluctance of some other local landholders to join the arrangement would gradually be overcome.

4. Structuring the group farming enterprise and appraising its economic advantages

4.1 The first consultation round

Step 2 of the project method began with the five farm businesses listed in Table 1 contacted to confirm their interest in exploring further the suitability to them of the group farming option. Of these five farm businesses, representatives of four could be contacted: Farm Businesses 5, 9, 16 and 17. Each was keen to appraise the option in more concrete terms. They were invited to join the Project Steering Committee at a meeting in Glen Innes held in July. The meeting was facilitated by the co-author due to his considerable earlier experience as a consultant helping farmers elsewhere establish group farming arrangements.

The landholders present at the meeting appreciated the potential social and environmental advantages of joining a group farming enterprise, but agreed that their decisions to join would depend ultimately on evidence that they would benefit in economic terms. To help them think through the economic implications of joining, the co-author led them through what his previous experiences led him to conclude would be the most suitable structure of a group farming arrangement for them. These experiences had highlighted particularly the importance of apportioning economic rewards in a group farming enterprise in accordance with two key principles: (i) all contributions of inputs to the enterprise should be remunerated commercially; and (ii) all remuneration should occur transparently.

It was explained to the landholders present that joining a group farming enterprise structured along the lines proposed would involve them contributing one or more of land, labour and working capital to a company running the affairs of the enterprise. Under this structure, the resources contributed by the participating farm businesses would generate a single pool of gross income to be shared between them. Deducting from this pool the variable costs of the various enterprises utilised to generate it would yield the gross margin of the group enterprise. Deduction of the overhead costs of the group enterprise – i.e., those not specific to particular enterprises – and the reward paid for labour and management would give the Gross Profit available for rewarding the land and working capital contributed by the four participating businesses. The reward for the working capital contributed – i.e., Net Profit – would be given by deducting from Gross Profit the reward allocated for land. This Net Profit would be available for some mix (decided by the company directors) of paying dividends to the participating businesses and reinvesting in the group farming company.

The landholders agreed that the reward paid for labour and management should be based on commercial rates matched to the levels of skill and responsibility required. They agreed further that the reward paid for land leased to the group farming company by the participating businesses would need to offer adequate incentive for those businesses to themselves incur the expenses of pasture maintenance and improvement, fencing, and so on. For this reason, it was agreed that land rental rates should be based on the productivity of land parcels (measured by livestock carrying capacity measured on a dry sheep equivalent (DSE) per ha basis) rather than on their market value, since market value of land can be influenced by factors such as proximity to town not directly affecting productivity.

Consistent with the view that the rental rates for land parcels should be based on their respective productivities, the carrying capacities of the land owned by the five landholders indicating an interest in joining the group farming arrangement were estimated to allow preliminary budgeting. These estimates

are shown in Table 2.

Table 2 : Estimated carrying capacities of land potentially involved in the Furracabad Farm Cluster

| Farm business no. | Total carrying capacity (DSE) | % of total carrying capacity |
|-------------------|-------------------------------|------------------------------|
| 5 | 14,120 | 54 |
| 7 | 4,100 | 16 |
| 9 | 2,150 | 8 |
| 16 | 3,000 | 11 |
| 17 | 3,000 | 11 |
| Total | 26,370 | 100 |

It was envisaged by those present that landholders would contribute to the start-up working capital of the group farming company pro rata to their shares of the total carrying capacity of the land run by the company. Farm Business 5, with a 54 per cent share of the company's total carrying capacity, would accordingly contribute that proportion of its start-up working capital. Shares in the company (and thus in the total dividends remitted to shareholders) would be allocated in proportion to the working capital contributed by each participating landholder. Subject to the company's constitution, the potential would exist for individual landholders to vary their investment of working capital in the company by trading or gifting shares.

The next stage of the meeting involved a preliminary budgeting exercise that started with the data on carrying capacities presented in Table 2. The results of this exercise are shown in Table 3. The range of gross margins per DSE used in Table 3 was chosen to demonstrate the sensitivity of the group farming company's economic performance to the level of productivity it is assumed to achieve. To illustrate how the gross margin figures were derived, the aggregate gross margin of \$791,100 for an assumed productivity of \$30 gross margin per DSE was calculated by multiplying the company's estimated carrying capacity of 26,370 DSE by \$30.

Table 3 : Preliminary budget for the Furracabad Farm Cluster

| Economic measure (\$'000) | Gross margin per DSE (\$) | | | |
|--|---------------------------|-----|-----|-----|
| | 15 | 20 | 25 | 30 |
| Gross margin | 396 | 527 | 659 | 791 |
| less Overhead costs - pasture maintenance ^[8] | 80 | 80 | 80 | 80 |

| | | | | |
|--|------|-----|-----|-----|
| - general ^[9] | 45 | 45 | 45 | 45 |
| | | | | |
| <i>less</i> Reward to management & labour (incl. on-costs) | | | | |
| - manager | 62 | 62 | 62 | 62 |
| - 2 full-time workers | 88 | 88 | 88 | 88 |
| - 1 half-time casual worker | 22 | 22 | 22 | 22 |
| - 1 half-time secretary | 22 | 22 | 22 | 22 |
| | | | | |
| <i>equals</i> Gross Profit | 71 | 202 | 334 | 466 |
| | | | | |
| <i>less</i> Reward to land | | | | |
| - land rental @ \$10.00/DSE | 263 | 263 | 263 | 263 |
| - land rental @ \$7.50/DSE | 198 | 198 | 198 | 198 |
| | | | | |
| <i>equals</i> Net Profit | | | | |
| - land rental @ \$10.00/DSE | -192 | -61 | 71 | 203 |
| - land rental @ \$7.50/DSE | -127 | 4 | 136 | 268 |

It was agreed by the landholders present that a land rental rate of \$10 per DSE would be ideal for providing participating landholders with the desired incentive to improve the productivity of their land. Assuming zero reinvestment of net profits into the group farming company, the annual dividend received by each landholder would equal the company's net profit multiplied by the landholder's proportional holding of the company's shares. With an average gross margin of \$30/DSE, for instance, the dividend received by Farm Business 7 would be \$32,480 (i.e., \$203,000 * 0.16), assuming that this business's proportional holding of company shares equals its proportional share of total carrying capacity as estimated in Table 2. In addition to this dividend, Farm Business 7 would be paid a land rental of about \$41,000 (i.e., 4,100 DSE * \$10/DSE) presuming it leases all its land to the group farming company. If the owner-operator of Farm Business 7 were also employed by the company, he would receive a wage in addition to the above amounts. From his land rental income, of course, he would need to meet any costs associated with operating, maintaining and improving that land (e.g., local government rates, repairs & maintenance and insurance for fixed structures, etc.).

Due to the company showing a negative net profit with a land rental of \$10/DSE if the average gross margin were \$20/DSE or less, sensitivity analysis with a land rental of \$7.50/DSE was undertaken as reported in Table 3. With this lower land rental, the group farming company's estimated net profit is positive provided the average gross margin achieved is \$20/DSE or greater. Under this scenario, the company depends less on achieving high levels of productivity in order to be profitable. Nevertheless, the landholders present agreed that there would be little point in undertaking the group farming venture unless the objective were to achieve a level of productivity that put it among the top 10-20 percent of all producers. Confidence was expressed that the venture would achieve such productivity levels, and that the company could accordingly afford land rental payments of \$10/DSE.

4.2 The second consultation round

On the basis of the budgeting exercise outlined above and wider-ranging discussions about related social and environmental issues, all the landholders present at the meeting indicated interest in proceeding towards a business plan for a group farming company. Hence, a further meeting was held about a month later. All the original farm business participants in the project were invited to attend. Three of the four farm businesses represented at the previous meeting were represented at the new meeting. In addition, four extra farm businesses were represented, as well as the Steering Committee.

The meeting was successful in terms of sharing what had been learned and decided at the previous meeting, and in providing an opportunity for resolving a range of issues of continuing concern to prospective members of the group farming company. Nevertheless, lack of attendance by representatives from two of the five farm businesses listed in Table 2 (Farm Businesses 7 and 17) was taken as evidence that these two had lost enthusiasm. With their loss, the land run by the company would decline from 2,454 ha to 1,741 ha. Moreover, concerns were expressed that the group farming arrangement might then become 'unbalanced' given that Farm Business 5 would be contributing three-quarters of the total land area.

As a result, the farm business representatives at the meeting agreed after considerable discussion that the group farming company would not be viable unless additional farm businesses joined. Possible candidates were identified, and it was agreed that a further meeting would be convened to which these candidates would be invited. These efforts to encourage additional interest in group farming were unsuccessful, however, so the planned meeting did not eventuate. The Steering Committee met in October to consider how the project should proceed in these circumstances. The conclusion reached in August – that the group farming venture was not viable with the existing level of committed interest – was re-endorsed. It was agreed as a result that the project as defined by the funding application could not be progressed any further; i.e., towards development, acceptance and sign-off of a business plan for a group farming enterprise.

5. Key lessons

5.1 Timing

The source of many of the obstacles to gaining the commitment of farmers to the group farming concept can be traced to time. This factor was critical in two ways. Firstly, circumstances need to be such that a 'critical mass' of individual farmers within reasonable proximity to one another are ready to join a group farming arrangement at the same time. Such a favourable situation seemed to prevail around early 2000 when the concept was conceived and the funding application was submitted.

By the time that the project commenced, however, the situation had become less propitious. Family circumstances had changed in some of these cases, with sons or sons-in-law unfamiliar with the group farming concept having become more interested in taking over farm management responsibilities. In these cases, the original interest in the concept had been motivated considerably by the scope the concept offered for ageing farmers to retire from physical work while retaining a say in the management of their

own and other land in the group farming company and remaining in a position to share their local farming knowledge with other members of the group farming operation. A son or son-in law taking over the management of their farm would offer many of the same benefits, in addition to the satisfaction of keeping the farm 'in the family'.

In other cases, farmers formerly committed to the concept had left the district. In one or two other cases, it seemed that the earlier enthusiasm for the concept had simply dissipated with the passage of time, perhaps due to the morale-sapping effects of the drought or disappointment at loss of interest from others they had looked forward to working with in the group farming arrangement.

5.2 Conservatism

The second way that time presented an obstacle arose from the conservatism of most farmers. Due to this conservatism, considerable time is often needed to change their attitudes. Probably the most formidable attitudinal obstacle in this respect derived from the widespread 'rugged individualist' self-image of many Australia farmers and their associated preoccupation with operating their own land without outside interference. Leith Bouilly, the chairperson of the Community Advisory Committee of the Murray-Darling Basin Ministerial Council, has observed how rugged individualism remains widely admired in rural Australia and how, in consequence, 'working together is sometimes seen as a bit soft and perhaps un-Australian'^[6].

Changes to attitudes of this nature do not occur overnight. In retrospect, it was optimistic to expect that the attitudes of farmers unfamiliar with the group farming concept at the beginning of the project could be shifted sufficiently by its end (i.e., within three-quarters of a year) that they would seriously consider giving up their independence in order to join a group farm. Perhaps the concept might have been implemented within the life of the project if more of the farmers already interested in the concept had remained in a position to participate in its implementation.

In the case of the Tilbuster Commons, for instance, it took nearly two years of discussion before the four interested landholders agreed in 1999 to form an informal arrangement. Even though this arrangement had no legal standing, it provided a social vehicle for the group to continue exploring a way forward. Through this vehicle and its practical achievements, 'trust, credibility and acceptance of each others' strengths and weaknesses have grown. Over time, each participating member has been able to see the advantages of collaborating. Increasingly, there is confidence in the group's capability to negotiate equitable outcomes with multiple benefits' (Williamson, Brunckhorst et al. 2003 p. 25) . It was not until January 2001 that a private company structure was registered for the Commons, and the company began operating in the next financial year.

5.3 Safeguarding the social and environmental benefits of the concept

Despite the stated emphasis of the project on maintaining and strengthening the social fabric within and surrounding the Furracabad Valley , concerns were raised during consultation meetings that the formal structure envisaged for the group farming enterprise may stand in the way of realising social benefits of this nature. A particular concern raised during consultation meetings was that formalisation of work routines and specialisation of tasks within a group farming company might leave less opportunity for children to participate in, and thereby learn from and develop an interest in, 'life on the land'. It is often the case on family farms that children 'tag along' to help with appropriate tasks and even do some easier

tasks alone. Although short-term productivity may be less as a result of this 'investment' in building the children's skills, confidence and enthusiasm, this investment is clearly important for the longer-term social sustainability of agriculture.

It was recognised in the discussion pursuant to this concern being raised that social considerations could indeed become sacrificed in a group farming company's pursuit of economic goals unless the social goals of entering the arrangement were enshrined in the rules of the company. It was agreed unanimously that the social goals are fundamental to what their group farming concept is about, and that they should therefore be written into the constitution of the company as some kind of 'charter'. For similar reasons, it was agreed also that the environmental goals of the company should also be enshrined formally in a charter.

6. Concluding remarks

In this project, the concept of group, or common property, farming was investigated as a way of farmers in and around the Furracabad Valley responding to the ongoing adjustment challenges posed by their declining terms of trade. The potential of the concept to help farmers in the Furracabad Valley face these challenges more resiliently was demonstrated in the project. A preliminary budgeting exercise indicated that individual farmers joining a group farming arrangement would benefit in financial terms, in addition to the social and environmental benefits that would be generated.

Nevertheless, it was not possible to obtain sufficient commitment from enough farmers in order to establish a group farming operation during the life of the project. Even so, the building blocks are now in place for landholders in the district to capitalise on. The project was certainly important for strengthening awareness and understanding of the group farming concept and firming up a structure through which it can be implemented. Since the project report was publicised and circulated in early 2004, indeed, three further meetings of representatives from farm businesses interested in the concept have occurred. These meetings have been attended by two businesses involved in the project plus four businesses whose interest in the concept was stimulated by the project report. These four additional businesses are located outside the Furracabad Valley (as far away as 40 kilometres). A representative from one business involved in the project and attending these recent meetings commented that the lesser geographical proximity of the businesses attending these meetings is more than compensated by their greater 'likemindedness'. All six businesses attending the recent meetings have been involved actively in the landcare movement.

How the type of farmers and farming community influences the likelihood of common property farming getting started, and then succeeding, is a topic worthy of further research. Powell et al. (c1982 p. 147) found that 'farmers who decide to join forces will often be neighbours of long standing, close friends or even members of the same family. ... Where members are strangers to one another, they are most likely to begin by co-operating in a modest way, perhaps sharing only one piece of equipment'. Yet the households involved in the Tilbuster Commons began cooperating at a much more ambitious level than this, despite one of the households being known to the others for relatively few years. According to Powell et al. (ibid. p. 145), often the critical ingredient is that 'something extra' which allows farmers' desires and capacities for increased cooperation to clear the hurdle of inertia: 'Critical incidents, a combination of unusual circumstances, or a person to act as a catalyst, may be needed to set the ball rolling'. Both the Furracabad and Tilbuster farming communities had individuals prepared to act as such a catalyst, and each succeeded in accessing external funds to support these catalytic efforts. However, the Furracabad

experience reveals that the existence of such persons and funds is no 'silver bullet'. Comparing case studies of common property farming initiatives could offer clearer understanding of the key factors in the success in such initiatives, and of the interdependence of these factors. International research into how common property arrangements sometimes succeed with natural resource management (including agricultural) problems offers some broad lessons (McKean 2000) that could be used as hypotheses to be tested and elaborated in the case study research proposed here.

Farmers in and around the Furracabad Valley are not alone in Australia in seeking innovative ways to sustain themselves economically, socially and environmentally. The time may again be ripe for wider consideration of the concept of common property farming. Our hope is that the experiences and lessons documented in this article will prove helpful to others interested in investigating this path further.^[7]

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[5] Names of farm businesses are withheld for reasons of confidentiality.

[6] Quoted from the documentary *Water Pressure* broadcast by ABC TV in Australia on 12 th March 2001 as an episode of the *4 Corners* series.

[7] The project report from which this article has been distilled (Marshall 2004) contains additional material that may be also of significant value in this regard, including a model business plan.

[8] Calculation of the pasture maintenance share of overhead costs assumed an annual maintenance requirement of 1 kg phosphorous per DSE and a cost of \$278/tonne for aerial spreading of single super (comprising 9% phosphorous).

[9] General overhead costs were assumed to comprise: fuel, \$15,000; vehicle insurance, \$3,000; vehicle registrations, \$1,000; repairs and maintenance for plant, \$7,500; electricity, \$2,000; and administration, \$15,000. Local government rates, and insurance as well as repairs and maintenance on farm structures are assumed to be incurred by the landholders – for which they would be compensated through the land rentals paid to them by the farm cluster company. The estimate for insurance, repairs and maintenance and registrations for vehicles assumed that the cluster would require 3 vehicles and 3 motorcycles for the 2,454 ha potentially at its disposal.

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