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TRANSFER OF FAMILY FARM OWNERSHIP TO A THIRD PARTY

SUMMARY

The transfer of farms to the next generation is deeply rooted in the mentality and actions of Austrian farmers. The majority of farms are usually transferred within families. This corresponds to the statutory succession which favours the closest relatives. Another, less known option is the transfer of the farm to a non-related successor (transferee), i.e., to an external or third person. As an alternative to closure, this form of farm transfer can help give prospects to farmers. In this way the “life’s work” of the current owners is sustained and can be seen as given continuity. On the other hand, it is also an opportunity for well-educated young farmers, newcomers or farmers with no parental farm holding, to use their qualifications. Third party farm transfers are still very marginal in Austria but are gaining in importance. As yet, however, there are no exact statistics. This paper aims to demonstrate the current situation in Austria and is based on the results of a study carried out for the Austrian rural youth (see Quendler et al. 2015). A representative survey of farmers at the age of retirement was conducted in order to estimate the proportion of farmers willing to transfer the ownership of their farm to a third party and to analyse and outline the motivating factors behind both these transfers and those within families.

Key words: Farm transfer, non-related successor, representative survey, Austria.

INTRODUCTION

Farm transfer or farm succession describes the transition of the management and ownership of the farm from one generation to the next and all the related processes and procedures. In Austria the transfer of farms to the next generation usually takes place within the family. This corresponds to the legal succession, which favours the closest relatives. In order for the farm to be transferred within the family there must, however, be a suitable successor available and he or she must want to continue farming. Demographic trends such as the increasing aging of farmers and the decreasing number of children per household as well as childlessness, are leading to a reduction in the potential for succession within families. Furthermore, non-agricultural perspectives, the size, financial soundness and the competitiveness of farms affect the potential number of successors (Daldrup, 2005; Groier, 2004; Hobe, 2005; Johannes, 2013).

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One particular type of farm transfer is given by the transfer of family farm ownership to a third party. This form is also known as "non-family transfer" or "external transfer". Usually there are only three reasons to opt to transfer ownership of the family farm to a third party: (i) childlessness or (ii) the next generation cannot or will not take over the farm or (iii) the farmer is not in favour of a transfer of the farm to the legal successor. In such cases, transfer outside the family can provide a possibility to maintain the "life's work" of the family transferring the farm. Non-family farm transfer is therefore seen as an option to ensure the survival of the farm and to feel that the farm is in ambitious hands. In addition, professional opportunities for agriculturally educated successors without their own operation may result.

While some qualitative studies already examined transfers of family farm ownerships to a third party (Johannes et al., 2013; Heistingner, 2011), it is difficult to obtain information on the quantitative importance of transfers in a European comparative context. For Germany, however, it is estimated that about 2 to 3% of farms are passed on outside the family. Such data or information does not exist for the whole of Austria, though data on farm transfers outside the family of two specific Austrian regions have been surveyed (see Dax et. al, 1995). Also some information is already available from online sources, in the form of guidelines and in brochures. This paper tries to capture the situation of transfers of family farm ownership to a third party in Austria. A quantitative survey and qualitative interviews were carried out with the successors (transferees) and transferors.

This introduction is followed by three sections. In the section 'materials and methods' we conducted two different kind of surveys to identify the general demand and requirements pertaining to transfers of family farm ownership to a third party. The results are depicted and discussed in the subsequent section. We conclude with an elaboration of possible policy implications as well as recommendations to improve the framework for transfers of family farm ownership to a third party.

MATERIAL AND METHODS

With a view to analysing transfers of family farm ownership to a third party we proceeded in two stages using computer assisted telephone interviews (CATI). Firstly, a quantitative survey was conducted to identify the general demand for transfers to a third party. In the follow-up interviews, standardised qualitative telephone interviews were carried out in order to assess the motives, expectations and the requirements of farmers, potentially willing to transfer as well as of those who had already taken over a farm as a non-family member.

A representative sample of farmers at the age of retirement was surveyed. The survey aimed to estimate the percentage of farmers willing to transfer the ownership of their farm to a third party, and to determine the reasons and factors behind both these transfers and those within families. A representative sample of a population was taken where farmers (i) were at the age of 55 or older (women, marriage or legal partnerships) or 60 years or older (men), (ii) were managing a

minimum of 3 hectares of utilised agricultural land (iii) and had a telephone connection or mobile phone. The sample was based on data obtained from the Austrian IACS (Integrated Administration and Control System) data set from the year 2013 and resulted in a target population of 16,350 farmers.

To achieve a number of 1,501 interviews conducted and a significance level of 1.96, a sample of 3,373 farmers had to be contacted. Following the approach by Böltken (1976), we calculated the sample size using the equation:

$$n_{\text{finite}} = N / (((N - 1) * e^2) / (z^2 * p * (1 - p)) + 1)$$

n = sample size; p = confidence level 95% (p=0.5), z = significance level (z= 1.96), e = precision (e=0.08 and e²=0.0064)

The follow-up telephone interviews focused on farmers potentially willing to transfer and farmers who were third party successors. In this respect two qualitative surveys were designed to assess a variety of factors relevant to the samples as follows:

1. If a transfer of family farm ownership to a third party was an option in the first survey, participants, potentially willing to transfer, were asked to take part in a follow-up interview. 79 persons agreed to the standardised qualitative telephone interviews. A sample of 46 out of the 79 persons was finally achieved.
2. As there is no data available on third party farm successors in the IACS (Integrated Administration and Control System) data set, we obtained the contact details from the Austrian chambers of agriculture. Out of 41 contacts provided, 25 successors participated in the interviews.

RESULTS AND DISCUSSION

Age landscape

At first, the statistical data was analysed to identify the current demographic situation of farmers in Austria and within the EU. Considering the age structure revealed an aging farmer population. For the European Union (EU) the proportion of young farmers under the age of 35 is only 6%. A closer look at the EU-15 countries shows that this trend is more or less uniform throughout. In the period from 2000 to 2007 the proportion of under 35-year-old farmers fell by 47.6% (Vieth and Thomas, 2013). The number of potential farm successors is therefore continually decreasing. In the case of Austrian agriculture, the results are developing in a similar direction. Nevertheless, in Austria the proportion of under 35-year-old farmers has not dropped so dramatically and amounts to approximately 15% (BMLFUW, 2015).

Transfer statistics

The results of a representative survey (n=1501) throughout Austria indicate an existing demand for transfers of family farm ownership to a third party. For almost 8% of all respondents (or for 119 persons) the transfer of a family farm ownership to a third party is potentially an option. While of these 8%

of all respondents, a part has already decided to transfer the farm outside the family, for the remaining part a transfer outside the family is still only an option:

- For the majority of respondents (71% or 1,065 persons) the farm succession has already been clarified. In this subgroup about 20 people have decided to pass the farm to outside the family (making up almost 2% of those for which the farm succession has been clarified and 1.3% of all respondents).
- For the remaining 29% of all respondents, where the farm succession is unclear (436 persons), an external transfer is an option for 99 farms. These are 23% of the farms in this subgroup or 6.7% of all respondents.

Transferor

Within the qualitative survey, the majority of transferors responding stated that they knew about the possibility of transfer of family farm ownership to a third party. One fifth only became aware of this opportunity in the course of the survey. The main reason for the non-successful transfer of farms was attributed to a lack of transferee, though almost half of the transferors claimed to have not been looking for a transferee yet. In order to pass on the farm with a feeling of satisfaction, the major requirements for the transferor are, (i) that the farm continue to be run as a farm, (ii) an amicable relationship should exist, (iii) the transferee shall have a reference to agriculture and (iv) certain character qualities should be present. Regarding the legal form used for farm transfers, the transferors favour conditional transferral (e.g. right to housing, cooperation on the farm), as well as transfer by sale drawn up by a solicitor or transfer of the whole farm with a transfer contract. For the process of transfers of family farm ownership to a third party itself, different options are available. A good half of the transferors (48%) prefers a gradual form of transfer. This means the transfer occurs after a probationary period with a preliminary contract and the mutual right of withdrawal. Another common form of gradual transfer is a transfer after a temporary lease of the farm. 22% of the transferors would transfer the farm immediately. The awareness of the forms of transfer of family farm ownership to a third party varies significantly among respondents. Around 35% of transferors would be interested in additional information on the different forms.

Transferee

The process of looking for a suitable farm, which can be taken by a non-family member, differs among the transferees. The majority of the transfers of family farm ownership to a third party (48%) are not the result of a targeted search but rather of accepting an offer. The desire for a farm takeover exists, the active search, however is rare. Of the remaining transferees, who have actively looked for a farm, the search operation was completed within the first five years (28%). Rarely, did this process take longer. According to the results of the qualitative survey, 80% of responding transferees do have an agricultural background, only 12% are newcomers. The rest are farmers who have taken another farm outside the family in addition to the family farm. All respondents

had obtained a sound agricultural education before the transfer. 72% of transferees state that they had completed apprenticeship training for skilled workers. In comparison, 35% of the transferors had finished apprenticeship training while the majority of 39% only had basic training in agriculture and forestry with practical experience.

When it finally comes to a farm transfer, the transfer process does not take place overnight. The handover period may vary in length. The duration of the handovers surveyed ranged from one month to still 'incomplete'. 21 out of 25 transferees responding claim to have completed the process within one year. The most favoured form of legal transfer was through contracts drawn up by solicitors. 76% of all transferees used this option, followed by conditional transfer and combined transfer (24%) (combined transfer refers to a free transfer of the farm subject to the provision of an income for the transferor). This leads to another topic addressed by the survey, namely the funding of the farm transfer. In Austria, the transferee mainly finances the purchase of a farm through equity (savings) and government subsidies. Approximately every third transferee takes out a bank loan to fund the transfer of the farm. Being asked for further recommendations, the transferee suggested to proceed slowly, to define own objectives clearly, to serve a probationary period to build up a good cooperation and to set up separate living units for transferor and transferee. Moreover, it is helpful to have precise ideas and to be well appraised of the procedures.

Information and education programs

When it came to finding out about the transfer of family farm ownership to a third party, 88% of responding transferees had obtained information. Of the surveyed transferors, only 28% had already used information sources and materials. The reason for the lower percentage is mainly due to the fact that farm transfer is not a current issue or the farm transfer itself is not yet certain. When looking for information, transferors focus on information gathering from magazines and newspapers (62%), the tax consultant (50%), their lawyers or solicitors (50%). Transferees mainly use the legal (60%) and financial (56%) advice of the Austrian chamber of agriculture, the lawyer or the solicitor (56%). Furthermore, roughly one-third of both transferees and transferors stated that communication with farmers, who have already conducted a transfer of a family farm ownership to a third party, was an important source of information. Additionally transferors have taken legal advice from the Austrian Chamber of Agriculture (25%), from the advisor for young farmers (13%) or attended a seminar (8%). Around 35% of transferors would be interested in further information about the forms of transfers of family farm ownership to a third party. This information should be made available, according to the request of the respondents, especially in the form of brochures. The transferees additionally take advice from media or institutions like banks, insurance companies, online sources, brochures, the Austrian Farmers' Social Security Authority (SVB), the advisor to the Austrian Farmers Association, the association 'Network Start-Ups In Agriculture' and tax advisors.

CONCLUSIONS

The lack of information about family farm ownership to a third party is the main reason that farm surveys were conducted throughout Austria. The preceding analysis makes use of qualitative and quantitative standardised telephone interviews to investigate empirically and reflect the different views of transferor and transferee.

The vast majority of farms, which continue to operate, are usually passed on within the family to one of the children. Nonetheless, a certain tendency away from the traditional transfers within generations can be charted. Transfers of family farm ownership to a third party are an option for a small number of Austrian farms and amounts to a proportion of 8% annually, a part of 1.3% of all respondents has already decided to transfer the farm outside the family. In general, transferees do have an agricultural background and have completed an appropriate education. Only a small part of transferees are newcomers. It is also of general and public interest, if one considers the development of rural areas, the family farming and the preservation of jobs.

A farm transfer is not an everyday procedure. The transferor and the transferee recommend creating forms of support that make researching, finding and the whole process of a handover easier and more efficient. The establishment, improvement and modification of political and institutional frame conditions should be targeted to exploit the full potential of transfers of family farm ownership to a third party. The main contacts for information on farm transfers are primarily the Austrian Chambers of Agriculture.

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