

Diversification in North Carolina Farming; From the Decline of Tobacco to the Rise of the Wine Industry

New business ventures usually come about when an individual perceives an opportunity, sees circumstances as being appropriate to its pursuit, and has the time and financial resources to risk on change. In the case of tobacco farming, the relatively small plots of land are only conducive to a small number of crop changes, one of which is grape growing. There are two motivations behind this change. First, the declining amount of tobacco quotas available in the last few years has left many unable to grow enough tobacco to stay afloat, let alone profit. The recent buyouts will exacerbate this situation, and while large-scale farmers will be positioned to pick up contracts from cigarette companies, smaller farmers will face difficulty. Second, in combination with the first trend, the funds that these farmers receive from various litigation and settlement agreements provide financial backing for ventures into the wine industry.¹

Before getting into these farmers' decisions, a discussion of the initial reasons behind them is essential. First, the system of quotas in place since 1938 ended in 2004. Tobacco quotas limited the amount of tobacco that each farmer can grow. They acted as price supports for these farmers; to control supply meant to stabilize prices, provided demand and imports remained steady. However, declining domestic demand and international production led the government to continually reduce the amounts of these quotas. While these cuts stabilized prices, they did so at the cost of the number of people who could make tobacco cultivation a livelihood.

The Fair and Equitable Tobacco Reform Act of 2004, which eliminates the quota system but provides a one-time cash payout in compensation, was the result. This helps large-scale farmers, who are able to prosper without restrictions on production because of economies of scale and the ability to land contracts from tobacco product firms. But smaller farmers are left with three options: (1) tobacco can continue to be grown but sales will fall; (2) large farmers may acquire the smaller ones, thereby turning the latter into wage laborers or ending their careers altogether; or (3) farmers can diversify into another area of production.²

Extensive litigation against tobacco companies over product liability is another critical factor because of its effect on the demand for tobacco and the increased costs consumers will face for tobacco products. With substantial losses in the industry, tobacco companies have been forced to both cut production and to seek overseas markets for markets and for raw materials. In addition, tobacco companies have had to pay 46 U.S. states \$206 billion in settlements, some of which goes towards farmers who decide to diversify into other crops. The Golden Leaf Foundation, for example, is a \$2 billion trust fund for farmers in North Carolina who want to switch crops. As of late 2003, 2% of NC farmers have switched to grape growing.³

Two institutional changes have also encouraged the switch to grape farming. First, community colleges are starting to provide training programs for tobacco farmers interested in grape growing and wine making. Surry County Community College, for example, has offered successful viticulture and enology programs throughout the 1990s. In addition, North Carolina State University has developed experimental vineyards to conduct research on grape growing in Carolina's soil and climate.⁴ By educating farmers about the specifics of grape farming, the government is attempting to decrease the risks of this new venture before they start.

Second, the creation of the North Carolina Grape Council, which is publicly funded, aims to stimulate the growth of grape farms and wineries in the state. The Grape Council has been a major marketing force and offers valuable information on grape growing and production equipment. It eases the transition for farmers in other industries.⁵

As of September 2004, North Carolina had about 300 vineyards and 38 wineries,⁶ half of which had been established in the last two years. Not all of these vineyards were started by former tobacco farmers. However, the number of tobacco-producing farms has declined from 17,625 in 1992 to 7,850 in 2002.⁷ Within this context, North Carolina has grown to the 12th largest producer in the country of both grapes and wine.⁸ The economic impact of this industry is estimated at \$79 million and 855 jobs.⁹

Beyond the threat to their livelihoods, farmers have an additional incentive to switch to this particular crop. As the North Carolina Winegrowers Association points out, grapes are one of the only crops (at least in this state) that can replace tobacco dollar for dollar.¹⁰ This amounts to \$4,000-\$5,000 per acre.¹¹ Finally, farmers can continue to grow tobacco and other crops while using empty areas of land for grapes.¹²

However, transformation is not as easy as it may sound. In a random sample of 1,000 tobacco growers, a strong, negative, trend between age and being interested in or trying alternative enterprises was found.¹³ Grape farming is a long-term investment, making it hard for anxious farmers to take the risk knowing they will have to wait a few years for a return. In addition, many older landowners cannot afford to forego income for multiple years. Finally, the wine industry further differs from the tobacco industry in that, with the former, success also depends upon the farmer's marketing skills. Regardless of these reasons, currently there is not an adequate public dialogue to promote diversification.¹⁴

One possible solution is for the government to design public policy to encourage farmers to diversify their crops. Many growers are psychologically ready to take such a step, but lack the knowledge and resources. New measures should take this into account. Another possibility is to encourage banks to adopt more lenient standards in terms loans to farmers in this situation. The government should probably enact policy at both the federal and state levels. Federal aid is indispensable, but leaders at the state level can provide more specific plans for infrastructure development.

Many news stories take a negative attitude towards diversification.¹⁵ If a farmer's local newspaper, his main source of news, sheds a bad light on grape farming, then it will effectively deter him from wanting to learn more about this option. An informational component to any plan of action is essential. Farmers must realize that demand for tobacco is declining and the only farms likely to survive are the largest one. However, primary responsibility should fall as much on the entire industry, and the wider public, for seizing new opportunities.

¹ Breckenridge, R. Saylor and Ian M. Taplin, "Entrepreneurship, Industrial Policy, and Clusters: The Growth of the North Carolina Wine Industry," *Research in the Sociology of Work: Entrepreneurship* (forthcoming).

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- ² Penkava, Melinda. *State of Things*; “Big Tobacco Buyout.” Interview with David Rice, Billy Yeargin, and Cynthia Hill. [Radio Program]. Aired Oct. 12, 2004. Available at State of Things Audio Archive: http://www.ibiblio.org/wunc_archives/sot/.
- ³ Breckenridge (fn. 1), pp. 10-11.
- ⁴ Smith, Mark H., David G. Altman, and Brad Strunk, “Readiness to Change: Newspaper Coverage of Tobacco Farming and Diversification,” *Health Education and Behavior*, 27 (Dec. 2000): 708-724.
- ⁵ Breckenridge and Taplin (fn. 1).
- ⁶ Lockhart, Shaun, “As Tobacco Declines, Farmers See a Future in Grapes,” Durham Herald-Sun, Nov. 23, 2004.
- ⁷ National Agricultural Statistical Service. *2002 Census of Agriculture*. National Agricultural Statistical Service Web Site [downloaded January 1, 2005]. Available at <http://www.usda.gov/nass/>.
- ⁸ Lockhart (fn. 6).
- ⁹ The Source for Information About NC Grapes & Wine. Accessed 27 Nov. 2004. <http://www.ncwine.org>.
- ¹⁰ Associated Press. “Bottom Line: Industry bearing fruit, jobs in Piedmont.” The Associated Press State & Local Wire, Sept. 1, 2004.
- ¹¹ Lockhart (fn. 6).
- ¹² Associated Press (fn. 10).
- ¹³ Youngquist, Sherry Wilson, “Growers Hesitant to Turn a New Leaf: Many Farmers Dependent on Fast, Reliable Income from Tobacco Find Grapevines and Strawberry Plants Inadequate Substitutes. Switch Requires Investment, Equipment and Re-Education,” Winston-Salem Journal, Aug. 31, 2003.
- ¹⁴ Smith et al. (fn. 4), p. 710.
- ¹⁵ Smith et al. (fn. 4), pp. 710-724.