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PRODUCTIVITY COMMISSION

DRAFT REPORT ON GOVERNMENT DROUGHT SUPPORT

COMMISSIONER M. WOODS, Presiding Commissioner
DR N. BYRON, Commissioner
MR R. GRANGER, Associate Commissioner

TRANSCRIPT OF PROCEEDINGS

AT ADELAIDE ON FRIDAY, 28 NOVEMBER 2008, AT 9.14 AM

Continued from 25/11/08 in Perth

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COMMISSIONER WOODS: Ladies and gentlemen, welcome to the Adelaide public hearings of the Productivity Commission inquiry into government assistance for drought events. I'm Mike Woods. I'm presiding commissioner on this inquiry and I'm assisted in this inquiry by Commissioner Neil Byron and Associate Commissioner Bob Granger. As most of you will be aware, the commission released an issues paper in July, setting out the terms of reference and some initial issues. Our draft report was released on 30 October. In essence, the commission has been requested to report on the appropriateness, effectiveness and efficiency of government support measures, identify impediments to improving self-reliance and preparedness for periods of financial difficulty, and identify the most appropriate, effective and efficient government responses to build self-reliance and preparedness to manage drought.

Prior to preparing the draft report the commission travelled to all states, to metropolitan, provincial and rural areas; held 81 meetings with a wide cross-section of people and organisations. We received 109 submissions from interested parties prior to releasing our draft report. I would like to express our thanks and those of the staff for the courtesy extended to us in our travels and deliberations so far, and for the thoughtful contributions that so many have made already in the course of this inquiry. These hearings represent the next stage of the inquiry, with an opportunity to make any final submissions by 19 December. The final report will be completed by 27 February 09.

I would like these hearings to be conducted in a reasonably informal manner, but remind participants that a full transcript will be taken and made available to all interested parties. I would like to welcome to the hearings our first participants. Could you please for the record state your names, and positions you hold and the organisation you represent.

MR WHITE (SAFF): Thank you. My name is Peter White, president of the South Australian Farmers Federation.

MS VINCENT (SAFF): I'm Carol Vincent, chief executive, South Australian Farmers Federation.

MR SMITH (SAFF): Jamie Smith. I am the acting chair of the grains section of the South Australian Farmers Federation.

COMMISSIONER WOODS: Thank you very much, and thank you for the contributions that you have already made to this inquiry. We have greatly appreciated the support, the information that you have provided, and it has been very valuable, and thank you for making time to come this morning. Do you have an opening statement that you wish to make?

MR WHITE (SAFF): Certainly let me begin by saying that much of the information and things that we put forward in our submission have actually been picked up in this report and there is a lot of stuff in there that we actually agree with. Certainly we've always accepted that exceptional circumstance is a very temporary arrangement. It's probably not the best way but when it's the only game in town that's what you have to do. Certainly we've always pushed for the fact that we need more emphasis on self-reliance, on actually being better prepared for drought. The problem that we see is: how do you prepare for drought while you're actually in one? Much of this report, while we agree with it, concentrates on that preparedness and the way forward. However, it doesn't address the fact that, if we were to get another year next year - heaven forbid - like 2006, then much of this would not be able to be implemented because the capacity to do it would just not be there.

COMMISSIONER WOODS: Okay. Do you want to extend points further at this point or do you want to have a conversation?

MR SMITH (SAFF): Thank you, commissioner. I have a statement that I've written that I'll read out, if you like.

COMMISSIONER WOODS: Yes, please.

MR SMITH (SAFF): And I can give you a copy of the transcript if you like.

COMMISSIONER WOODS: If you want to summarise it while we talk, you can.

MR SMITH (SAFF): It's not very long.

COMMISSIONER WOODS: Okay, your choice.

MR SMITH (SAFF): My name is Jamie Smith and I'm a fifth generation farmer from Maitland on the Yorke Peninsula, and I represent the grain industry in South Australia as acting chair of the SAFF Grains Council, and I'm also the vice-chairman of the Grains Council of Australia. I come here today with some experience, with some 24 years' active involvement in broadacre agriculture; time spent as a risk management consultant in the financial industry, and some 15 years' involvement in agri-politics and rural financial counselling governance, having recently retired as vice-chairman of the board of the Rural Financial Counselling Service of South Australia.

The situation that much of South Australia finds itself in undoubtedly stems from a string of dry winters and failed springs. Adelaide, if there is no significant rainfall in the next two days, will record its driest spring on record. In fact, on one of

my properties we have received 440 millimetres of rain in three years. This would be considered a good annual rainfall. Productivity has been extremely low level, placing untold financial pressure on farming businesses and rural communities. It is imperative that these businesses and communities are supported through these tough economic times as they have had their resilience and resources tested to the limit. If we fail to assist, we will lose many of the best and brightest from the agriculture sector, and these people have been the innovators, business leaders, and entrepreneurs of our industry.

However, drought is not an exceptional circumstance in Australia; it is a given. It is part of the culture of Australia and it is even enshrined in our national anthem. Notwithstanding the severity of the current drought in much of Australia, the issue of profitability from agriculture has much more deep-seated and structural problems stemming largely from the undervaluing of risk and the failure to recognise global economic and climatic trends and the impact of unsustainable environmental practices. John F. Kennedy once said:

Agriculture is the only business that buys retail, sells wholesale and pays freight both ways. I said to someone once, "I hope to change this situation before I die." They suggested dying would be easier.

I will concentrate on broadacre agriculture in South Australia and leave the plight of the business and the communities in the Murray-Darling Basin to others to comment, but to say the situation for irrigators is at a critical point is an understatement. The problems for broadacre agriculture are not only climatic but economic, with global trends in production and import pricing impacting on the ability for marginal agriculture to survive in South Australia. Goyder's line is a long-held rainfall indicator where growing of crops north of the line is a marginal and risky pursuit. I believe this line is being pushed south faster economically than climatically. This is to say that the risk to reward ratio with current grain prices and input costs, where they are, is unsustainable.

Many areas of the state will need to change farming practices and structures to remain sustainable and viable. This will involve consolidation of management units to create scale to increase efficiencies in operational management of capital, plant and labour. Changes in enterprise mix and cropping frequency will also need to be considered. This will inevitably lead to people leaving agriculture. Government assistance in the future should concentrate on the structural issues and assist people to exit agriculture with dignity and as much of their asset intact as possible and support the remaining entities to restructure their businesses and farming practices to become self-reliant and sustainable both financially and environmentally.

Future assistance schemes could revolve around a tax system to encourage this

transition, such as exemption from capital gains tax from the sale of farming assets if leaving agriculture, and the abolition of sales tax for the purchase of farming land; also the further enhancement of the FMD scheme to increase the limit to reflect the size of farming operations. Also, assistance with changing farming and environmental practices in the form of grant funding will help businesses adjust to the changed conditions.

The declaration of exceptional circumstances in South Australia: whilst it provided some relief, the eligibility criteria have excluded many struggling businesses, including service industries, from accessing assistance, causing further stress, angst and community division. In fact, the very thing that should be encouraged to keep business sustainable, like off-farm assets and income, exclude many businesses from being eligible. For too long EC funding has subsidised risk and prevented the structural change occurring in agriculture. In the future, this must change. In my belief, much of eastern Australia has become reliant on EC funding, creating almost dependence. It is said that it would be an exceptional circumstance if half of New South Wales wasn't permanently drought declared.

In closing, I would like to make the comment that it will take leadership and courage to implement change in agriculture and recognition that not facing these issues will result in the complete collapse of the Australian agricultural sector. Failure is not an option. Thank you for the opportunity to put my opinion today.

COMMISSIONER WOODS: That's excellent. Can we just grab a copy of that to refer to in this discussion. Thank you very much. That's raised a number of helpful topics. Perhaps if we can start at the highest level, and that's the question of EC as such. I detect both in that statement and in your opening address, plus the material that we've received from you earlier, that an alternative arrangement that positively assists all farmers across the seasonal spectrums is a greater preference than having the current EC with its lines on maps, its divisions and the distortions that that presents. As a general principle, could we start at that point?

MR WHITE (SAFF): If I could start off, we would certainly agree that exceptional circumstances - while I said in the beginning it was the only game in town so that's what we had to do, there are certainly better ways of doing it. We've concentrated on drought being the trigger for exceptional circumstances. There are a number of other things that can trigger what you might call "exceptional circumstances" that cause financial difficulty. They're actually not recognised in this. Drawing lines on a map also has some real issues in the fact that it depends on which side of the line you sit whether you're eligible or whatever. So I think we need to get away from the mentality of actually drawing lines on a map and deciding that that's where they should get help and they shouldn't. There are all sorts of things there.

Also the interest rates subsidies and so forth that are part of that: while they've been absolutely necessary in some circumstances, I also believe there's probably a better way of doing it. One of the things that we've looked at is whether in fact a HECS-type scheme should be available: if your income falls below a certain level for a period of time, you can access a cheap loan. As soon as that income increases again, then you start paying it back again. That way, that would be accessible to everybody, not just one or two or several or whatever that were in an area, drawn on a map, that was declared EC. So there are a number of other ways of actually doing it which would be fairer across the board.

MS VINCENT (SAFF): We're here today to discuss drought, but I don't think that we can isolate drought from climate change and transition into the future any longer, and I think it's very short-sighted to just be looking at drought as an issue with payments attached to it.

COMMISSIONER WOODS: It's certainly not our intention to do so.

MS VINCENT (SAFF): No, and I understand that from our informal discussions previously. I think something that we touched on informally with you before that we'd like to officially make a statement about is that in 2005 the Farmers Federation produced a policy document called Triple Bottom Line for the Bush. In that document we flagged that we thought it was essential that farmers as caretakers of the land received stewardship payments. We see that these stewardship payments could actually be a successful tool to replace EC and to also provide transition income in that period of time that Jamie alluded to, where some producers are going to need to be making fairly dramatic and sweeping changes in their enterprises - to change their machinery over; to change what they produce; how they produce it, et cetera.

Stewardship payments essentially are contracts that the government would undertake with the farmer to provide certain environmental outcomes on their properties and in the best interests of the community at large. This would ensure triple bottom line outcomes for the community through the farming enterprise, and also for the government. We see that as a very fair system. No criteria would be necessary, based on assets of farmer or income or how they utilise it. It's a very straightforward, very clear contract where the farmer provides an environmental outcome - they're contracted to do it - but also it's that transition income that they will need to take them through.

I know from talking to the state minister for agriculture that it's certainly on the agenda with the other ministers and also with the federal minister and we would implore you to take this issue up, because we see it as a very win-win way of farmers being able to maintain sustainability, community outcomes and government benefit.

COMMISSIONER WOODS: Have you fleshed out in some detail how such a scheme would operate? I know you talked about the 05 strategy.

MS VINCENT (SAFF): We do have some documentation and also we've analysed some costings and the kinds of environmental outcomes that would be possible without being onerous. We'd be very happy to provide that to you.

COMMISSIONER WOODS: If you could; and if that could also be made on the public record, that would be particularly good, so that everyone can have the benefit of understanding that material.

MS VINCENT (SAFF): Yes.

COMMISSIONER WOODS: We're not asking you to produce yet another submission in that sense, but if you could staple that to a cover sheet that says, "Here's the thing."

MS VINCENT (SAFF): We'd be delighted to do that.

COMMISSIONER WOODS: That would be helpful, particularly if you have done some costings and we can get some sense of magnitude and how it would operate. We may come back to you then for some further detail and discussion. Thank you.

In terms of creating a bit of order to the conversation - that usually fails, anyway - if we start on that basis, the question of transition, and then move to the household relief and then we move through interest rate subsidies and then get onto, "What does the future look like?" If we can pass through the first one: on the transition point, we had proposed in the draft report that farmers be given basically two seasons. This season is virtually up. There would be one more season during which there would be the old scheme operating in parallel to the new. We've received extensive representations that that's too short. We hear that and we therefore have to come to some alternate arrangement.

Separately, the federal minister and some state ministers have come out saying that those who are currently in receipt of support in current EC-declared areas, while ever those areas are declared, would continue to be eligible to apply. So that's sort of a political imperative that's come from ministers. We are independent of government in that sense, but nonetheless we will work constructively within that arrangement to see where we would come to.

One of our thinkings is that you'd want to at least be tying some mutual obligation to some of that. Rather than just getting "cheque in mail", you'd want some business planning and other things associated with that for those who are still transitioning out, to put them in the best possible position for when the program does end and also to not have too long an overlap between the current program and the future. Do you have any reaction to wrapping around some mutual obligation or business planning requirements or something to help farmers work their way positively into the future?

MR WHITE (SAFF): Absolutely. We would agree with that. The transition period, without a doubt, is going to be the difficult one, particularly if you get another 2006. Then we're in real trouble.

COMMISSIONER WOODS: Yes. We understand.

MR WHITE (SAFF): If we can get a couple of reasonable years in that transition period, then it's all going to go pretty much according to plan and make life a lot easier for everybody. So I guess that's a little unknown because of that factor. All we can do is hope that the good stuff actually comes to pass.

Certainly there needs to be an obligation as far as farmers are concerned that they have to do their part. They can't just expect it to be handed out and spoonfed. We need to make some decisions and be helped to make those decisions, and some guidance and so forth, to actually get through that transition period.

One of the real things in this that's going to make an enormous difference is the research and development that's going on in the next few years. Most farmers who are out there accept that there are going to have to be some changes made. Whether you believe climate change is permanent or whether it's a cycle or whatever doesn't really matter, because the outcomes are pretty much the same. There have to be some changes made. But what are those changes and what do we change to? We're all prepared for change, but at this stage nobody can tell us what we change to. I noticed even in your document, the research and development side is pushed quite extensively, and certainly we would agree with that, but until we get those answers, where do we go?

COMMISSIONER WOODS: To some extent we're still drawing on a lot of the research of the 80s and the 90s, aren't we?

MR WHITE (SAFF): That's right.

COMMISSIONER WOODS: The no-till or the minimum till and all those were well known back then but are only now extensively used.

MR WHITE (SAFF): And the other issue with a lot of this stuff: if they come up with some of this research, what cost will it be to actually change to it? For example, if you were to change to minimum tillage now, away from conventional, the cost would be enormous. You're looking at \$250,000 for air seeder and the whole works and jerks. If you go down the track of the latest technology and you put satellite guidance and so forth on it for precision farming - all of which is good stuff and can be very helpful and you can actually save money, but if you haven't got the money, where do you find the three or four hundred thousand dollars to actually do that? That's one of the issues.

It gets back to the basic issue of: how do you prepare for drought and do all these good things if you haven't got the money to do it in the first place? Where do you go from there? The problem that we're faced with at the moment is that, because we've had a series of years, that financial capability of actually accepting the new research and the new technology has been almost diminished in a lot of cases.

COMMISSIONER WOODS: Okay. Anything more on that one? We might go to household relief.

DR BYRON: Yes. There are other things I'd like to come back to a bit later.

MR WHITE (SAFF): Just one more thing about the transition is: the one thing that this system should engender and that we need to get as a mind-set is that leaving agriculture is not failure, because there will need to be massive restructure in agriculture. It's all very well to talk about the headline cost of an air seeder and tractor being three or four hundred thousand dollars. It doesn't matter. It is cost per hectare that matters. If you can get the scale and get the cost down to a minimal cost per hectare that is viable, that is where that machinery and that technology will work, but for that to happen there needs to be - - -

COMMISSIONER WOODS: Scale economies.

MR WHITE (SAFF): - - - people leaving agriculture so it creates opportunities for others to increase scale. That may well not be actually selling the land. It may be - - -

COMMISSIONER WOODS: Leasing.

MR WHITE (SAFF): - - - leasing or sharefarming, which is happening at a very rapid pace already. The trick is to allow people to - and it may well be succession planning; that the older generation can actually move off the farm without having to strip so much of the asset and leave a debt load that is unsustainable for the family members that stay.

COMMISSIONER WOODS: I wouldn't mind coming back to that and also to the tension that that then sets up with retaining sustainable communities because the two forces are acting against each other. We need to have that discussion, but if I can just hold that one for a moment.

The household relief proposal: we have put forward a proposal that this shouldn't be tied to drought. If a farm household is in hardship, whatever their circumstance - if they are hit by frost, or they have a long drought, or they have made a bad bet on the market of where grain prices are going - whatever it is, if they can demonstrate that they are in need of community support, then we've proposed for a three-year period that they wouldn't need to meet the basic assets tests of the normal community, because you wouldn't be a sustainable entity, you wouldn't come out the other end as a farmer. So we have proposed a much higher asset base. But it gets rid of EC. It's wherever that farm household in hardship is, it gets support. They get income support but at a much higher asset level for, we've suggested, three years out of seven. Do you have any reaction to that? Is that the right way to go to get out of the "lines on maps" drought mentality?

MR WHITE (SAFF): Yes, I think that is the right way to go. We've always had an issue in the fact that we're square pegs and trying to fit into a round hole as far as Centrelink goes, and we need to get away from that. Just because we've got a patch of dirt that we sit on and try and making a living out of it, why should that make you any different to any other member of the community? One of the real things that we've had a problem with is how we conceive what an asset is.

If you've got 2000 acres of land and you can't make a living off of it, you're in real trouble. You can't eat it. Is it an asset? That's the real point. So we need to have a look at what level that should be set at. Certainly it must have a value somewhere or another to somebody, but nobody actually quite knows where some of that is at the moment.

MS VINCENT (SAFF): The discrimination has come in because the business asset is also the home. It's where they live as well as run their business, and so that's where there's been the discrimination and where it's not compatible with what happens to people in metropolitan Adelaide, be it that they lose their jobs or they lose their business. So I think where you're heading is good and the Farmers Federation would support that.

Something I think that we as a group need to talk about - and the Rural Counselling Service will probably bring it up later - is rural businesses and what's happening to them in South Australia at the moment and, with their failure, the breakdown of the rural community. Anecdotal evidence to us is suggesting that their support or their ability to be able to access support is difficult. It's very hard for them. The criteria that are set are hard to match. They are starting to fall more rapidly than they were six months ago. I don't know if Jamie or Peter might want to comment on that. Jamie?

MR SMITH (SAFF): I think the impact on the community is - I suppose with the drought, with farmers it's the death of a thousand cuts, but with rural businesses it's the guillotine. It's just "chop": the chequebook is shut and there are no sales. And, because of the structure of those businesses, it is very difficult for them to qualify for any support. That's what does drive a significant amount of angst and division within rural communities sometimes; that farmers can access exceptional circumstances. They still can't necessarily make their commitments for their debts to their suppliers, and those suppliers are going broke.

COMMISSIONER WOODS: I guess there are two issues there that I'd want to comment on and I can judge that my colleague is also ready to jump in. One is, from my point of view it's also true that businesses in provincial centres and metropolitan areas constantly fail - whether they're the panel beater, the hairdresser or the newsagent - and nobody picks them up. If they've made a bad business judgment or trade turns off or a bigger store opens next door, well, they just go out of business and that happens. Separately is the question of: is drought support the right way to be promoting regional development?

If government wants a regional development program to support smaller towns, and that's not only providing adequate services of education and health and community involvement, and welfare and all of those services, but in some cases government may wish to promote and support industry development as well - whether it's tourism or mining or whatever - and provide the adequate infrastructure, whether that's a more focused and more efficient way of doing it than relying on money coming in through drought programs intermittently that's sort of on and off.

On those grounds, I would prefer to explore ways of governments consciously deciding that they want to have regional development programs that are always on, that are focused, that are efficiently targeted, rather than relying on drought programs.

MR SMITH (SAFF): I was going to say: not to be misconstrued that I was advocating that. That was actually a demonstration of why it's failed. It wasn't saying that we would want to see assistance right across the business spectrum in communities. I'm saying that this is a reason why it is not equitable and why it has failed.

DR BYRON: I guess to clarify - to elaborate on it - - -

COMMISSIONER WOODS: You can clarify as well, if you want.

DR BYRON: What I was going to say before is that it would be really helpful if you had any evidence on how the failure rate for small business in rural areas is different from the failure rate for small business in the urban or provincial areas. That would be really helpful to us; also, if there's any evidence on how much worse the failure rates of those small businesses in rural areas is during droughts compared to the other times, because a lot of the evidence that we've seen suggests that the decline in many small rural towns in Australia is just as fast during the boom times as it is during the dry times. That's another reason for Mike's point - that if you really want to focus on saving little country towns, you need something that's on all the time, not just every fourth or fifth year or whenever there's a drought.

MS VINCENT (SAFF): Our information suggests that regional centres - the larger regional centres - there are some key businesses throughout South Australian regional centres whose product is basically a product that essentially is going to be bought by farmers, and that they run large businesses, large successful businesses, that have run into problems because the cash flow isn't there because the farmers essentially haven't been able to pay. They don't have the cash flow to basically be able to pay their bills. So six months down the track, the business hasn't been able to have the cash flow to be able to carry the business, so it's started to lay off staff and looking at closing down.

I think that that is a little bit different to what happens in metropolitan Adelaide to some businesses. This is directly related to farm cash flow and drought having a follow-through. We're not saying that these businesses necessarily need government assistance, I don't think that's a sustainable outcome, but certainly need to work with regional development boards and state governments to look at support mechanisms that aren't necessarily money - might take up some of the things that you've been talking about - and to work with banks.

DR BYRON: The other thing about support mechanisms is that it's not just putting in new resources but it's perhaps to stop doing some of the things where governments are unintentionally killing off towns every time they close down a school or a hospital or a cop shop. It tends to have that effect.

MS VINCENT (SAFF): I've got a real concern about the information that government gets and bases some of its decisions on. I'd like to give you an example. I had lunch with the deputy governor of the Reserve Bank the other day. It was a very small lunch; there were only 10 of us that were lunching with him. He was discussing with us the Reserve Bank's recommendations to government and also the economic future for Australia, and he talked about agriculture in South Australia and what their forecasts suggested. I listened to this, and it was absolute rubbish. It was just not right at all. It was not at all a picture of what is happening in South Australia at the moment vis-a-vis agriculture or regional business.

So we talked about it, and of course what's happened is that the Reserve Bank's forecasts are based on data that they received from South Australia in July, and in July it looked like it was going to be an exceptionally good year. So the information that is going into government, that government is making decisions on, often isn't correct because the data that's being used is months behind the reality of the situation. I think we need to be really wary of that.

DR BYRON: The difference between a great year and a horror year is rain in September.

MS VINCENT (SAFF): That's it.

MR SMITH (SAFF): They have to have an update. I liken the last few years - and especially this year - to me as the risk management chairman going to my board and saying, "We want to go into a project this year that will put 50 per cent of the capital of this business at risk, but it could come off well," because that is the reality of a lot of marginal South Australia - is putting 50 per cent of their equity up as working capital each year to put a crop in.

COMMISSIONER WOODS: What would you be up for - a mill, mill and a half?

MR SMITH (SAFF): On our property?

COMMISSIONER WOODS: Yes.

MR SMITH (SAFF): So they said, "Okay, we'll do this," and then you go to them in September and say, "Oh, we've had a bit of a problem. Our input costs have gone up 40 per cent," and then you go to them in October and say, "We've got another problem. Our projected yield from this project has just dropped by 40 per cent," and then you go to them in November and say, "Well, now we're really in trouble. Our projected price point for this product has just fallen off the planet, but before you answer, can we do it again next year?"

MR GRANGER: You get dressed up like the Grim Reaper.

COMMISSIONER WOODS: But that comes back to one of your opening comments about not only undervaluation of risk but the suggestion that a lot of Australian farms that find themselves in trouble - whether it's because of drought or something else - are really undercapitalised in the sense that they don't have sufficient reserves, deep pockets, to be able to ride out whatever it is - whether it's frost or flood or drought or grain prices or diesel prices.

MR SMITH (SAFF): They have been reduced through the - they are at their end.

COMMISSIONER WOODS: The reason I ask that question is that it suggests to me that one of the ways of building up preparedness and reserves is to enable people to accumulate reserves, buffers, and they can be in any different sort of shape or form - whether it's FMDs or more land, better land, or off-farm assets or whatever. But the point is that, to be resilient, you need to have some buffers.

MR SMITH (SAFF): That's one of the points that I wanted to elaborate on: that is the reality. In Western Australia, the holdings are getting much larger, and they will need to in South Australia, in that if your limit is \$400,000 on FMDs, you're not going to pay your fertiliser bill with it. When you've got a \$4 million crop turnover input cost, 400,000 of FMDs is not going to cover you for long.

COMMISSIONER WOODS: That's true, and we've been over to WA and we've been to the Eyre Peninsula, so we've been rehearsing this conversation with them, so I'm happy to have it here as well. That's true. I mean, 400 grand doesn't go anywhere near the million and a half that some people are required to stump up for the grain, the fuel, the fertiliser to put their crop in next year. A couple of points, I guess, I wouldn't mind your reaction to. One is that, of course, if you're a partnership that's 400,000 each, so we're talking 800,000 the partnership can bring to it. So (a) that gets closer, and (b) an FMD doesn't prevent you from accumulating other

financial reserves. You're not constrained to only drawing on your FMD. You can have cash management trusts, you can buy government bonds. You can do whatever you like to accumulate financial reserves. The only question is: how much should the taxpayer stump up some lost tax receipts by the tax deferral mechanism of FMDs? What was the figure - 76 mill?

MR GRANGER: 70 in 06-07.

COMMISSIONER WOODS: In 06-07 is the tax deferral cost of that program. So there is a cost to the community of the tax deferral. A lot of people were surprised that the commission supported the ongoing nature of FMDs but we see two things about them: yes, they do provide tax deferral and good luck, go for it, but importantly they do provide a financial capital base - one of many alternate financial capital bases that you can draw on, and the behaviours - some people are critical of FMDs because in one of the worst three droughts of the last 100 years FMDs seem to be going up, but when you unpack that, you find that the pastoralists tend to have increasing FMDs during drought because they're destocking, putting money in, and then come good times, they'll pull it out and restock; perfectly appropriate strategy.

Cereal growers - and South Australia is an absolute prime example, where FMDs are year by year, as you stump up capital and it fails again, and you stump up more, and it fails again, and FMDs aren't dropping down. So they are actually being used. So we support FMDs. What we don't support is an unlimited bucket of tax deferral given that you have other ways of accumulating financial reserves. Sorry, but I've had that conversation rehearsed. But I'm happy to have some reaction to it, but we think that's a reasonable argument.

MR SMITH (SAFF): My argument would be that that tax deferral cost would be a much more equitable way to spread that assistance, if that was offset against assistance given.

DR BYRON: I guess the other element that Mike didn't mention is that, when we look at how many people are actually using FMDs, it's a very small percentage, and we're basically saying, look, they are an incredibly valuable tool to encourage people to put money aside during the good times in a tax privileged position, and that the average holding in FMDs is 70,000, and the number who are actually bumping up against that 400,000 upper limit is basically a handful in each state, even in WA. So we appreciate that there are lot of reasons why people would want to have much bigger reserves than that. The question is: how much needs to be in the sort of special tax advantage status? Given that most farmers in Australia don't even seem to be taking advantage of it where it is yet, we weren't persuaded that raising that upper limit was a high priority.

COMMISSIONER WOODS: But if you want to come back to us with further thought, then you're quite welcome to. One of the reasons why we like FMDs is that they're non-distortionary. They don't dictate to you what you should spend it on or when you should spend it. Part of the problem with accelerated depreciation and, "Here's a schedule of things" - you know, it might be this form of machinery or it might be automatic steering, or it might be grain sheds or whatever - is that people then go and build those even if that wasn't their highest priority, because that's where they can get the accelerated depreciation. The beauty of an FMD is that it's there. You use it, and whatever is your priority, in whatever way you want.

MS VINCENT (SAFF): We support FMDs.

COMMISSIONER WOODS: Yes.

MS VINCENT (SAFF): And maybe there should be an opportunity to explore something similar to FMDs for big regional businesses. As I said earlier, there are some of these regional businesses - and they are big businesses and they're successful businesses - that really are in quite a bit of trouble and it comes about with cash flow, because they're not receiving their cash flow from the farmer. If they had an opportunity to have FMDs, then it would work the same way that it would with the farmer - that they would be able to maintain their businesses during these bad periods that we're having, and assuming we're going to have some more, and then they'd come out of it the other end and they wouldn't be a drain. They would maintain. It would impact on the triple bottom line for the community.

COMMISSIONER WOODS: We would want to look at that in the context of the overall tax system because, depending on how your business is structured, of course, you can retain assets within the company anyway.

MS VINCENT (SAFF): You can, but it's a little bit of lateral thinking that could be explored.

COMMISSIONER WOODS: Yes. We don't knock anything out on first blush, so we're happy if you do want to follow that up with some points. As I say, one thing that we would need to consider in analysing it is that interaction with the tax system overall, because there are various ways of structuring entities that you don't have to pull the cash out and have it taxable at the front end.

MS VINCENT (SAFF): Stewardship payments are looking better every minute, aren't they?

DR BYRON: We'll come back to that one.

COMMISSIONER WOODS: Bob?

MR GRANGER: Actually I just wanted to pick up the picture you were painting with your board of directors and all the bad news, et cetera. How would you describe the quality and timeliness of, say, the weather forecasting and climate forecasting information system?

COMMISSIONER WOODS: And could it realistically get better or is that just the nature of what it is?

MR SMITH (SAFF): That's a scientific debate, and certainly the actual short-term forecasting has been much better predictive-wise, whereas some of the long term stuff I think, it certainly has been there, if you look at the right indicators and listen to the right commentators. But that's the difference - that there is scientific analysis that is based in fact, and then there is anecdotal sort of commentary that, you know, you get it right once and people listen to you; you get it right twice, you're a guru; you get it right three times, you make all your money and then you have an absolute screamer and get it wrong for the next 10 years.

COMMISSIONER WOODS: A lot of people have said to us that the up to one month outlook is not too bad. The trend stuff beyond 12 months is not too bad, but it's that seasonal sowing decision - not so much for the pastoralist but for the croppers - that's really where a lot of emphasis needs to be put.

MR SMITH (SAFF): We're certainly using it more constructively in things like nutrient management, for nitrogen and fungicide application, and those sorts of decisions. That has actually helped people make some very good decisions in that one to two-month window, but certainly the problem is that, once the crop is in the ground, it's in the ground. There are some very good predictive tools and the one thing that has shown up this year is the yield profit model out of Victoria, which showed that there was a significant risk all along of a - and the yield predictions were down quite strongly compared to what the crop looked like and what the predictions were, because there was no soil moisture.

There was no stored soil moisture, so the risk of a dry spring - even a dry fortnight - would impact on yield significantly, whereas you look at the crop, it was lush, growing well, but it had nothing in reserve.

MR GRANGER: So amongst the croppers are there many people that have taken up this model as a management tool?

MR SMITH (SAFF): Most of the farming systems groups have adopted the yield profit model and are using it quite extensively. There are three indicators. Basically there is soil moisture, rainfall to date, and predicted rainfall; that gives you a potential yield.

COMMISSIONER WOODS: Who built the model?

MR SMITH (SAFF): The Birchip Cropping Group.

MS VINCENT (SAFF): Most farmers certainly don't - they're much more sophisticated and the technology that they use is much more sophisticated than a few years ago, and there are very few farmers in South Australia that wouldn't look towards consultancy firms, whether consultancy firms - or overseas. They don't rely on the traditional sort of state bureaus or Australian bureaus.

COMMISSIONER WOODS: Is that a problem or a solution? It sounds like it's a current solution, but is it a long-term solution? Could more be done locally?

MS VINCENT (SAFF): I think that the bureau would be the first to admit that climate change is certainly creating some difficulties with some of its forecasting predictions. Probably some research and some development of the science, some investment there, could be profitable in the long term for the farming community.

COMMISSIONER WOODS: I'm conscious of the time, but picking up this sort of risk manager going to the board, where would you want government funding to be focused? We're looking at the span: the R, the D, the E, the business management skills. In the 10-minute window of time, what guidance would you give us? And please then back it up with additional material. Where do we go? What constructive advice can we give government on where to put in the investment?

MS VINCENT (SAFF): Research and development. Stewardship payments.

MR SMITH (SAFF): Research and development on drought-tolerant species, and certainly frost tolerance; short growing season. Frost tolerance is another one that has a massive impact in South Australia. Certainly what will happen in the northern areas is that they will have to revert to wider-span cropping, like get three years of soil moisture and grow pastures, and it might be different species. We might have to go to perennial-type pastures, and retaining cover on the ground so that the moisture doesn't evaporate, so that then they will build up a soil profile that will support a crop, and then any rainfall after that is a bonus.

I think the thing in South Australia, talking about Goyder's line, is that so much of South Australia is in fact marginal and if you listen to the climate change predictions that as it moves south - but in fact it turns the light off very quickly because it just goes - you know, the difference in it - well, my example of the 14-inch rainfall on that property, we've had 17 inches, 1760 points, in three years, but this year we had 130 millimetres and I grew 1.6 tonne per hectare of barley on one part of that block - 90 hectares. 10 years ago the crop wouldn't have even come up. This was with direct drilling, better varieties and better moisture retention.

The thing about climate change is that there is a real opportunity, because it's something that the government are receptive to, and certainly growers, farmers - there would be very few people out there that are now climate change sceptics. Whether it's right or whether it's wrong - - -

COMMISSIONER WOODS: It's happening.

MR SMITH (SAFF): - - - it's perception and it's happening. I said to someone the other day - because I did an article in the Sunday Mail and I said I was no longer a climate change sceptic, and of course a few of the people within certain government parties had a bit of a go at me. I said, "Well, there are two groups in the past that have denied climate change. One was dinosaurs and one was the Howard government, and look where they both ended up."

COMMISSIONER WOODS: All right. We might keep the conversation moving.

MR SMITH (SAFF): Yes. As far as advice to the government goes on where to go, we cannot get away from the undeniable fact that genetic modification is going to be part of some of these answers. We have a government here in South Australia who just refuses to go down that path. The work that needs to be done on that is enormous. It would provide a lot of tools. It's not going to be the silver bullet to fix all this. We know that there is genetic material available out there that can actually render a plant a lot more tolerant to low temperatures, which is frost, and high daytime temperatures, which is your hot north wind. They are the two things that really dramatically impact on the plant.

There is genetic material available to do that. The scientists tell us that the only reasonable way to actually get that in the time we need it is with genetic modification. That has to be part of the answer. We cannot just walk away from that. It may be politically unpopular, but so is the total destruction of agriculture in Australia. It's not particularly popular either.

While I'm speaking, there's one other issue I just want to get back to. We've spoken about rural businesses and communities and the effect of drought and so forth. The one question that nobody has ever asked and been game to tackle is: at what level are we happy to see rural Australia sit? If we can answer that, if we put a line in the sand and say, "This is as low as we are prepared for rural Australia to sink to," then that's where you start to build your policies from. It may mean half the rural towns disappear, if you're happy to accept that. But nobody has actually tried to tackle that question.

It's all very well talking about everybody getting bigger and a lot less farmers but doing a lot more, and that's fine and that's going to be some of it, but do we just let it go into natural fall and find out in 10 years' time where we are, and we sit back and say, "We could have done something about that. All our towns have disappeared, the people have gone, there's no footy clubs any more, there's no bowls clubs, there's no tennis clubs. The community's disappeared. But we've got two really good successful farms there"?

DR BYRON: I was going to raise that same point but from a slightly different direction. If I put up the proposition that we want to see sustainable, viable, dynamic, innovative, world-class, profitable agriculture in Australia, I don't think you'd find anybody, anybody at all, of any political persuasion, urban or rural, who would disagree with that proposition. So we're all quite clear on what we want to get to.

The question is: how do we actually achieve that? And the question that came up yesterday in the Eyre Peninsula and, before that, in Perth, is that if the most successful 30 per cent of the farmers are producing over 80 per cent of all the output, the bottom 30 per cent are producing about half a per cent of all the output. If we're going to advise the government to be putting a lot more resources into research, development and extension, trying to achieve this dynamic, vibrant, sustainable - how much effort do we put into the top third, the middle third and the bottom third?

The bottom third, as I say, if they're producing half a per cent of the output, the statistics say they haven't paid tax in the last 25 years, but they are taking up most of the one billion a year of drought relief. In terms of achieving this fantastic future of Australian farming and all the community stuff that hangs off that - because if the business of farming is not viable, then those little towns aren't likely to be viable either - the question is: should the governments be doing something differently? You might say, "Well, the top third of the farmers are going to take care of themselves because they're really switched-on people."

COMMISSIONER WOODS: And whether you separate agriculture and keeping its productivity high - I mean, agriculture has always had a high productivity. Agriculture's productivity is 1.8 per cent over the last few decades compared to the economy average of 1.1. Agriculture is always out there.

DR BYRON: Very innovative, switched-on people.

MR SMITH (SAFF): They've had to be.

COMMISSIONER WOODS: But you might need to separate out, then, the question of rural development and country towns, because you can't keep building your scale economies in farming, which you do want, and hope that that will keep the towns going. You'd have to have a different deliberate policy.

MR SMITH (SAFF): I think that's the point: first of all, that there's a recognition that not everyone is going to come for the ride as far as productive agriculture, but if they are on the ride, wouldn't it be better to sustain them in those rural communities in some other way, put some of that money - because they are not being productive in agriculture - get that top 30 per cent, and that middle 30 per cent, give them more opportunity to be more productive, but sustain those people within those communities in other ways.

COMMISSIONER WOODS: Yes, but that's a different program. You don't do that by trying to have - - -

MS VINCENT (SAFF): I'm sorry I keep harping on about the stewardship payments, but I really think they're a valuable tool.

COMMISSIONER WOODS: In that respect, we're also looking at - droughts will happen in the future. We think we've solved the household relief by having that always there, so you don't have to switch on and off drought programs for household relief. That will always be available and drought will be one of the reasons why people need it, so that takes that out.

But on the economic activity side, we are looking at models and stewardship is one, but there are others: as droughts bite in areas, whether governments go through some counter-cyclical funding arrangements to say local shires get more money to put in works and improve infrastructure; catchment management authorities get funded higher during those times to put more money in, but that it has a direct economic benefit to the region and builds up the infrastructure.

MS VINCENT (SAFF): I think that's very sound, what you're proposing. I think one of the mistakes that we often make is that we look at rural communities only in terms of agriculture production. What we've got to stop doing is isolating farming communities from providing - I think we've got to look at it so that they provide social, economic and environmental outcomes, that you can't actually isolate any of the triple bottom line factors, that they need to deliver all of those. We don't approach the drought issue or rural Australia on the triple bottom line factors. We isolate the economics or we isolate the social and we don't even look at any environmental outcomes at all. They're not on the agenda. You've got to put the three together. That's what you're saying.

COMMISSIONER WOODS: Yes.

MR GRANGER: Carol, I've got to raise this issue. In all the years that I've worked - I've got to say this isn't around horticulture - there's always been this heck of a tension between what people in government want in terms of environmental outcomes and the farming community in terms of what they see - you know, "This is too much of a cost if we have to adhere to" certain environmental outcomes on their farms; so there's tension. Who do you think could better deliver less tension in terms of negotiating with a farming community the stewardship arrangement you're talking about?

MS VINCENT (SAFF): I don't think the gaps are as great as they used to be. I know that sometimes when you talk about these issues people get a bit distressed and they say, "Ooh ooh ooh, the Greens are taking over and the conservationists are going to be telling us how to run our farms." I think that's just a small minority. Can I give you an example? Charlie Goode is sitting in the audience. He's from the South-East and I don't know whether he would agree with this, but the South Australian Farmers Federation has actually a pilot program with the state government in that for the last few years we've run a biodiversity project in the South-East of South Australia.

We've actually got a contract with government, it was with NHT funding. The Farmers Federation is actually the employer and the government is the overarching umbrella that determines the project and the technology of the project. We've successfully for the last four years contracted with farmers, had contracts with farmers - they're our staff, but it's a government project as well - where we've contracted biodiversity on farm properties. The uptake has been very high and very successful.

Having the staff employed by SAFF has been also very successful because it's bridged some of that basic controversy and distrust that you were talking about. So it's been quite successful. We're looking at rolling it out in other parts of the state. We're talking loosely with them at the moment about fodder trees, a massive planting of fodder trees on the upper Eyre Peninsula, so I think there isn't as much opposition as there used to be. There's a bit of an element but you're always going to get that, but it's a partnership, I think.

MR GRANGER: Yes, I think the partnership is probably where the answer is. I'll get you to come up to North Queensland where people are concerned about the Barrier Reef, the banana people and the cane people. They create a lot of energy.

MR SMITH (SAFF): I think partly the impasse that comes from that debate is the fact that there are community expectations which want environmental outcomes and they say to the land-holder, "You will pay. It's our expectation but you're going to pay for it. You're going to lose productivity." If there was a transfer as you say and a stewardship, there was a transfer of wealth or of money for that stewardship to meet that community expectation - I think you're right. Growers, given an opportunity, will have the greatest capacity to be the best environmentalists and land managers of all, but the worst way to degrade environmental outcomes is have no profitability in agriculture - "The more profitable I am, the more environmental outcomes I'll be able to put into place."

MS VINCENT (SAFF): The best way to sell anything to a farmer is to send another farmer out to sell it. You don't send a bureaucrat.

COMMISSIONER WOODS: Nice though we are.

MS VINCENT (SAFF): But you understand my point.

COMMISSIONER WOODS: Yes, of course.

MS VINCENT (SAFF): If you want to sell a program like that, you send Jamie or you send - - -

COMMISSIONER WOODS: It's got to have peer support.

MS VINCENT (SAFF): Exactly.

DR BYRON: Which is one of the reasons that we started talking about recommending this 15 years ago, partly because it provides a stable, non-rainfall-dependent income stream and partly because the properties that are being managed for environmental outcomes are more likely to be biophysically resilient when the hard times come; which leads me to my actual question. The second of the three reasons why we have a national drought policy at the moment, according to the 92 policy, is to prevent the degradation of the agricultural and environmental resources. A lot of the survey information says that people think that the most important thing that drought relief does is to prevent that land degradation, whether it be soil erosion or biodiversity loss or whatever.

I haven't been able to find, in this inquiry, any evidence at all about the relationship between drought policy and land degradation - or lack of. If it's the number two reason why we're doing it, I would have thought there would be some evidence to monitor that the way we do drought relief has prevented environmental degradation or loss of productivity of soil, et cetera. A lot of the people I've asked, including some very senior people in the CSIRO, have said, "No, it's more likely to be the opposite, because the way we've done drought relief has probably discouraged people from destocking early in droughts."

MR WHITE (SAFF): You mean fodder transport subsidies and the like?

DR BYRON: All sorts of things. There's lots of anecdotal or intuitive stuff that says, "If anything, the way that we've delivered that relief over the past 16 years has probably done the opposite of what we wanted to do." But I haven't found anybody who's got strong evidence, so if you can help me at all with that - and whether it's positive or negative, we'd just like to know, because it is supposed to be one of the outcomes that drought relief is contributing to: preventing that sort of degradation.

COMMISSIONER WOODS: We could get the South Australian view on transport fodder subsidies.

DR BYRON: We know that.

MR WHITE (SAFF): We've discussed the transport subsidies for fodder and so forth and the argument has always been that it distorts the market. Well, the market is already distorted. But I think there is a case to say, "If you have to be at that level where you have to be supported to buy-in feed, should the animals be there in the first place?"

COMMISSIONER WOODS: A very good question. Yes, we agree with that.

MS VINCENT (SAFF): I don't think anybody has ever known that that was one of the outcomes of drought relief - about the land degradation and whatnot. I don't think anybody has ever known that or been paying any attention to that. Essentially it's about maintaining the business and maintaining the food on the farm: on the table and growing it. The rest of it is not a well-known fact.

MR SMITH (SAFF): If that was a defined milestone, people would have grabbed it and said, "All right, I'll set aside some land and do some environmental work."

DR BYRON: It's always been in the policy statement but it's never been in - - -

MR SMITH (SAFF): Never been articulated to the people that are receiving it.

MS VINCENT (SAFF): No, never.

DR BYRON: Yes. We need to set in place measures to make sure - - -

MR SMITH (SAFF): The other thing is that it is that top 30 per cent of farmers that generally aren't receiving this drought relief that are doing the environmental works.

COMMISSIONER WOODS: Yes.

MR SMITH (SAFF): Just on that community expectation, while we're on it: this is one consideration and it's not necessarily to do with drought, but it does impact on profitability, and we are seeing with the Productivity Commission three of the major things that are impacting on agriculture and have the potential to impact on agriculture in the short term or in the near term are continuing compliance costs to meet community expectations, the potential change in industrial relations, and the carbon pollution reduction scheme. They are three things that will have significant impacts and costs to agriculture, which are driven by community expectations but, because agriculture is the price taker, it has no ability to pass it on because it is a commodity based export.

COMMISSIONER WOODS: Yes, a price taker.

MR SMITH (SAFF): We haven't got import parity. Always those costs come off our bottom line. They come directly out of profitability.

COMMISSIONER WOODS: I assume "compliance costs" mean OH and S, transport, licensing - all those things.

MR SMITH (SAFF): OH and S and transport - which we all accept.

COMMISSIONER WOODS: Yes. You understand the principle underneath them.

MR SMITH (SAFF): Yes, we've built the codes of practice around it to deal with it. But there is a cost.

COMMISSIONER WOODS: Yes. We understand that stuff.

MR SMITH (SAFF): So that's something that will need to be considered in the development of those, you know, going forward. They will have an impact on the profitability of agriculture where, at a point, it may well not be able to sustain it.

COMMISSIONER WOODS: We did a research report two years ago on compliance costs in ag. It's exactly those. So we'll reinforce those messages. I'm conscious that we've gone over time. We could continue going well over time, because this is a very helpful and constructive conversation. But, in fairness to others, we'll need to terminate it. Can you provide some supplementary information along the lines that we've already discussed, but if I can also reinforce the importance of what in a practical sense you would direct government's attention to on the RD, the E, the business planning, the capacity-building side, so that it's not just more training programs as such but it's actually positive useful things that help make those breakthroughs that you're talking about. They don't have to be fancy bits of paper; you can put them in whatever form is the most useful and constructive and easiest for you to achieve.

MS VINCENT (SAFF): And stewardship plans.

COMMISSIONER WOODS: No, that one is there. I just thought I'd not mention it at this - - -

MS VINCENT (SAFF): I just don't want it to get lost.

COMMISSIONER WOODS: No, it won't get lost.

MS VINCENT (SAFF): It needs a lot of people to hear - - -

COMMISSIONER WOODS: Bob, is there anything briefly?

MR GRANGER: No, that's fine. Thank you.

COMMISSIONER WOODS: Neil?

DR BYRON: I'm done.

COMMISSIONER WOODS: Genuinely, we have greatly appreciated the support that the federation has given. It's been very helpful and very practical and we look forward to getting some additional information from you. Thanks very much.

COMMISSIONER WOODS: Our next participants are from the Rural Financial Counselling Service South Australia Inc. For the record, could you please each give your names and the positions you hold in the organisation that you are representing.

MR BLESING (RFCSSA): Good morning. My name is Don Blesing, and I'm the chairperson of the board of the RFCS of South Australia.

MS MATTHIAS (RFCSSA): Good morning. My name is Kay Matthias and I'm the general manager of Rural Financial Counselling Service SA.

MR GOODE (RFCSSA): My name is Charlie Goode. I'm a rural financial counsellor in the South-East of South Australia.

COMMISSIONER WOODS: And a grain farmer.

MR GOODE (RFCSSA): Beg your pardon?

COMMISSIONER WOODS: And a farmer.

MR GOODE (RFCSSA): And a farmer.

COMMISSIONER WOODS: Thank you very much for attending. We've had a summary document presented to us earlier which we've had the opportunity to read. Thank you for making that available to us. We now have a more detailed submission, but is there an opening statement that you wish to make?

MR BLESING (RFCSSA): Perhaps I'll spend a couple of minutes just going through the record of the past couple of years. We're a single service in South Australia. Two years ago there were 12 services and, because of a change in government policy at the time, there was an expectation of a single service in each state. In this state that became a reality. An offer or a bid was put forward - there were several bids put forward, and the organisation called Rural Financial Counselling Service South Australia was granted the opportunity to run a single service in South Australia. That's been put in place.

The policies that we developed were shaped very strongly of course by the program objectives which are aimed towards a sustainable, productive, innovative, world-competitive agricultural sector, but we were required to provide a free service to clients in need - farmers, fishers and small rural businesses that are carefully defined in the record; provide this free confidential service to those in need. The reality is that those people struggle, our clients struggle, to meet that government objective of a robust, sustainable, competitive sector.

We chose to operate within the context of industry good practice - that's the board - and we asked our general manager to appoint rural financial counsellors who were fully part of industry good practice in farm management and business management. Selection processes were taken, and there were many new people engaged as rural financial counsellors. Charlie is one of them.

COMMISSIONER WOODS: How many FTEs do you have? It's probably in your submission.

MS MATTHIAS (RFCSSA): It's 13.4 at this point.

COMMISSIONER WOODS: That's almost double what WA has got, from memory.

MS MATTHIAS (RFCSSA): Yes.

COMMISSIONER WOODS: I think there are about eight - 8.1 or something.

MS MATTHIAS (RFCSSA): We were at 21 at the height of last year in the drought.

COMMISSIONER WOODS: FTEs or bodies?

MS MATTHIAS (RFCSSA): Sorry?

COMMISSIONER WOODS: Full-time equivalents or - - -

MS MATTHIAS (RFCSSA): There were 17.8 FTEs; 21 bodies. But we are the largest service in Australia because we are the biggest statewide service.

COMMISSIONER WOODS: Using "bodies" in its generic sense.

MS MATTHIAS (RFCSSA): We know what you mean.

MR BLESING (RFCSSA): Just in summary, we've got about a quarter of the farmers in South Australia as our clients. Many of those are in the Riverland, and Kay will explain that more. Mostly our clients face family hardship because of drought and because of terms of trade of the industry they're in. They might be growing wine grapes in the Riverland which are unsaleable; they might be growing citrus; they might be growing pasture or wool; or they might be growing feed grain in marginal grain-growing areas. All of those industries face declining terms of trade and lack the ability to build up capital reserves.

Their balance sheets are not good and they struggle in many cases to deal with financial matters, because that's not their skill. Yet this sits alongside a robust portion - I think Commissioner Neil mentioned 30 per cent of farmers; 30 per cent of grain growers certainly grew 80 per cent of the grain last year in South Australia, and those people use modern technology and, as SAFF just explained, you can still grow good crops with low rainfall if you're able to invest in new skills, new technologies and new risk management practices. Our task, within our program, is to assist our clients to either meet this expectation of a farm sector or meet other goals; exit is one of them. Now, I'd like Kay to respond in more detail and tell you how we actually operate, our clients and so on.

COMMISSIONER WOODS: Thank you very much.

MS MATTHIAS (RFCSSA): Thank you. Last year we had over 2000 clients which was a 62 per cent increase on the previous year, and that number has grown even again since that time, since 1 July. We expect it to grow to significantly more, certainly once bank reviews are completed, which are starting any day now. So it's been a really busy time. But one of the major thrusts of our service which, if I can just explain - and Don has explained the work that we do and the role of the rural financial counsellor - we as a board have, and as a service, tend to concentrate very much on helping and assisting our clients adopt best practice methodology and those sorts of things, and be proactive rather than reactive, as the services have been very much in the past. So we are trying very hard to move to that way of operating.

Of course the drought has restricted that very much over the last couple of years, but we certainly hope that in the future we will - and certainly with the adoption of any new drought program, which we believe should happen, we believe that we will play a pivotal role in any planning and risk management planning and business planning that occurs in the future. One of the things that I might just mention briefly that is very difficult in our work is succession planning. We find that, in almost every business we see, it is a major issue, and of course our charter does not allow us to do it.

So we find that that falls through the cracks because, if there aren't service providers in regional areas for the client to undertake that, they most certainly can't pay for them. So there is a major issue around that. I will just touch on one of the recommendations in the report actually, which I found slightly ambiguous around the private provider. I think there might have been a suggestion that we either took work away from private providers or prevented clients being referred to a private provider. But the reality of the situation is that, as I've said, our clients, in the main, cannot afford a private provider and, because we are free, they naturally will come to us for that service. So there is a bit of an interesting scenario around that. I'm not going to talk very much on the report itself. I've given you our submission.

COMMISSIONER WOODS: Yes, thank you.

MS MATTHIAS (RFCSSA): We agree with almost every recommendation in there. We think that it's time; it's definitely time to change the current system. We think it's inequitable. It was interesting the discussion around FMDs because once again our clients - - -

COMMISSIONER WOODS: If only.

MS MATTHIAS (RFCSSA): - - - don't know what an FMD is probably. Of course they would know.

COMMISSIONER WOODS: They would never have any spare cash.

MS MATTHIAS (RFCSSA): That's right, they most certainly don't have them. So to be able to use them is just not a possibility, of course, and then there are those others who are perhaps marginal who have used their FMDs and then have not been able to access drought relief. So there is that issue around that as well. Small business - you touched on small business before - has most certainly been a casualty, many small businesses, of this current drought, and whilst it's very difficult - and I take your point about governments, that regional development should play a bigger role in the solution, whatever that might be, but we can't abdicate our responsibility in ensuring, as part of this process, that it is picked up somewhere; whether it's picked up through regional - and regional development, as you are probably aware, is just about to undergo a major change across Australia. Whether it's time to tap into that, I don't know.

COMMISSIONER WOODS: We just think drought programs are probably the least effective way of achieving regional development.

MS MATTHIAS (RFCSSA): I couldn't agree more.

COMMISSIONER WOODS: Because they're intermittent, they're indirect.

MS MATTHIAS (RFCSSA): Yes. But we mustn't lose the fact that they are hurting.

COMMISSIONER WOODS: No. But you do it as a separate program.

MS MATTHIAS (RFCSSA): And that, yes, they do need some help. So that's very much, probably, all I've got to say. I'm quite happy to answer questions. I'll just touch briefly on the recommendations around rural financial counselling for what it's worth, and they are outlined in our submission. One thing that we do not agree with is that there should be a review of case management because case management has only just started. In fact we haven't even commenced our case management process yet, so I think it's far too premature to even think about evaluating that. However, I do think that the services probably could be evaluated. Given that they're only new and have only been operational for two years - ours was the first service to commence - towards the end of the next triennium, which is June 2011, they ought to be perhaps reviewed at that point.

We also very much support the recommendation of removing the word "counselling" from our name for obvious reasons. We do not counsel. You know we provide financial analysis. Unfortunately, we can't come up with a solution in terms of names, but it certainly should be removed, and I had the opportunity to talk to the minister on Wednesday about this report, and I spoke to him about that and he was most certainly fully supportive of that as well. So I think that's all I'll touch on, but I'm very happy to answer your questions.

COMMISSIONER WOODS: Do you want to make any contribution?

MR GOODE (RFCSSA): Yes. I would just like to say that I'm a livestock producer and I also work as a rural financial counsellor in the South-East of South Australia which is a livestock producing area. From my experience in working in this field, I feel that the drought relief payments have been highly successful, and I say that because one of the things that I do notice in reading all of your recommendations is that there has been little emphasis put on the young farmers. Without the drought relief payments that have been in place in the last two years in the South-East, I strongly believe that a lot of young farmers would not have survived.

DR BYRON: Can I just clarify: you're talking about the interest rate subsidy, not about the - - -

MR GOODE (RFCSSA): Both.

COMMISSIONER WOODS: The household relief as well?

MR GOODE (RFCSSA): Household relief as well, and there are other drought relief payments. But in general, as an umbrella, it's helped keep a lot of young farmers on the land. I'm not trying to sit here and pretend that it's the perfect system, because a lot of people do miss out, for reasons that are in the guidelines that are drawn up, but I want to make the point that it has done a really good job in keeping young farmers on the land.

Drought is something, in my area, which is most unusual. It is certainly an exceptional circumstance in our area; once every 25 years we have a drought in our area. These young farmers who have only been farming for the last 10 years have never had the opportunity, because of the dry years, to put aside money, to get into FMDs, to establish themselves for these bad times, and so what it has done is equipped them and allowed them to continue farming. I think that's a very important factor, and I enjoy working with young farmers, because I think that's probably where we should be recognising that drought relief payments have worked very well.

COMMISSIONER WOODS: Thank you for those comments. We haven't had the benefit of reading through the submission, but we will do that, so we may actually traverse some ground that's in there, but it still would be good to get it on the transcript as well. Perhaps if we deal with our recommendation that relates directly to the service first and then get your views on a number of the issues that you have raised in your opening comments: the hardship payments; the exit programs; how do you build up skills; the question of the young farmers - if we can go through those.

In terms of our recommendation relating to the service specifically, we worked fairly closely with the Expert Social Panel when we were putting this draft together. We met with them, as commissioners and panel, directly and our staff attended a number of their sessions and the like, and we've had the benefit of their report before we put this draft out. So to some extent we're not only reflecting our own views but picking up some of the messages that they received.

One message that they did get from a number of sources was the degree to which staff in your services were becoming not only the reference point but becoming the point of ongoing support for a number of families and whether in all cases - and I'm not talking about South Australia specifically; I'm talking generically - whether in all of those cases that staff had the right skill base to attend the range of needs of the families, whether emotional, mental or financial, or wherever it was. Do you have any reaction to that? Was that an unfair or an unsubstantiated conclusion that they were drawing?

MS MATTHIAS (RFCSSA): No. It's very difficult to generalise, as you would appreciate.

COMMISSIONER WOODS: So if you could go to South Australia, then.

MS MATTHIAS (RFCSSA): I will. I'll tell you what happens in South Australia. Because we are a statewide service and replaced all of those existing services, we have new personnel and, in most cases, new rural financial counsellors. There are a few of the original ones. That is not the case in the eastern states, where many of the same personnel that were involved in the old service are involved in the new. That in itself created some difficulties around the change process, and we all know that some people move into a change process really well and others don't. So that sets the scene across Australia.

Here in South Australia we are very, very keen - and our case management system will help enormously - to determine an outcome right at the very beginning. We determine what outcomes we want for our clients and then we work towards the outcome. In relation to those other services in referral, we have also a model here in South Australia whereby we work out of, in most cases, what we call drought centres. We've set up these drought centres in partnership with the South Australian government. In those drought centres we have healthcare workers, we have rural financial counsellors, in some cases we have Centrelink, and we have other agencies that are relevant to the work that we do with our clients.

When we took over this service, we would have done 97 per cent at least, probably 99 per cent, of our work on farm. That has totally changed around and clients have reacted very favourably to this one stop shop, as we call it. They come into the centre and they get all of the advice, options, referral, whatever they need. If with some clients you do not want to do that because of confidentiality reasons, we will work on farm as a team with the client. One of the suggestions, I think, in the Expert Social Panel was that there be some sort of system like that, where the health professional works with the financial analyst, and that's exactly what we do. But we are very keen to ensure that our clients don't become dependent. That's a very, very important thing for them, as you could appreciate.

MR GRANGER: Is there a time line built into the case management process?

MS MATTHIAS (RFCSSA): The time line is determined by the outcome. If, as an example, a client's outcome is that they're going to exit the industry altogether, that can take some time. It can take up to two years to actually reach that point of exit. It depends. If they want to restructure, if they might want a lease, we would come up with a plan that says, "Well, this really ought to be in place before the start of next season," and so we work towards that. Whatever the outcome that's determined at the start usually determines the time frame with which we work with our clients.

MR GRANGER: Other than exit, you could be talking about some very long lead times, couldn't you?

MS MATTHIAS (RFCSSA): Absolutely.

MR GRANGER: Is there a limit? Would that go on for five, six years?

MS MATTHIAS (RFCSSA): We don't put any limit on the time frames. With some clients - and Charlie probably can explain this better than I - you can work towards an outcome very quickly, and with others it takes longer. It depends on their health situation. Some people are just not in an appropriate state of mind to actually make major decisions. That can effect the outcome and the timing of that outcome. So we don't set a time. We just have this general rule, really, where we move a client from here to there as quickly as we can, as long as the outcome is the appropriate one. So there's no time frame, but we did have some clients on our books when we took over that had been on our books for five years.

COMMISSIONER WOODS: Yes. That's what's worrying us.

MS MATTHIAS (RFCSSA): That is not acceptable, so the board is very keen that we work with a client, and that's why it's so important for us to have the very best-skilled rural financial counsellors. We have some issues around that as well, around the current diploma, which is essential. We think it's totally irrelevant to the work we do. It's geared more towards a financial counsellor that works in a church organisation that does more the welfare-type financial counselling; certainly not the work we do. We think that our counsellors need certainly ag science degrees in many instances. They certainly need to be very skilled in farm management practices so that we do have the skills to move those clients on and move them on quickly.

DR BYRON: But many people have talked to us about how it's virtually impossible to make rational long-term decisions when you're under intense personal stress, and so one of the things that would determine how fast you could move through a process with your clients depends on them getting their head in the right space, so to speak.

MS MATTHIAS (RFCSSA): That's exactly what I'm saying. That's why it's so important that we have those other resources to work with us to get their head in that space perhaps quicker than some of the others that don't have that healthcare worker to work with us. You're quite right. Some people will never be in that space, and they're the people that are a real issue.

DR BYRON: But you can't really address the longer-term financial issues and decisions about exit and so on until the healthcare worker, I assume, sort of signs off that the person is now sufficiently calm and rational and stable to be able to deal with these no doubt very stressful life-changing decisions.

MS MATTHIAS (RFCSSA): You're absolutely right. Charlie might want to comment. Some reach that point much quicker than others, but during this whole process we support them as well, and they're skilled enough to know when the client is ready to make that decision about their future. Charlie, do you want to comment on that?

MR GOODE (RFCSSA): Yes, I do. The decision to leave a farm is a very difficult one and it's not a decision a rural financial counsellor can help a farmer make. He has to come to that decision himself, and often it's pressure from the bank, and we are called in basically to help them negotiate with the banker, when you know deep down that really the only option this bloke has got is to leave. But that decision has to come from him.

COMMISSIONER WOODS: Yes, absolutely.

MR GOODE (RFCSSA): And it's definitely something that we can't force and it does take time. Kay mentioned two years, and I know one particular farmer who probably should have left four years ago, but he's still hanging on. I just wish he would leave, but you just cannot - - -

COMMISSIONER WOODS: And his equity is going down and down.

MR GOODE (RFCSSA): Yes, all the time, plus he's got the double whammy now of the drought hitting him as well, so he's making massive losses. The bank is still supporting him, so it's basically the bank's decision in the long run, not ours.

DR BYRON: Is there any mechanism for follow-up of what happens after they have been through that process? I've heard lots of anecdotal stories of people who say, "When we actually had to sell the farm 10 years ago, it was absolutely gut-wrenching. It was the hardest thing we ever did. But then we moved to such-and-such and the kids got into high school and mum got a job," blah blah blah, "and when we look back 10 years later, it was the best thing that ever happened to us and we should have done it earlier." You hear those sorts of anecdotes now and again, but I can't find any sort of longitudinal study that really looks through that systematically or follows what happens to them after they make that exit decision. Have you got anything like that?

MS MATTHIAS (RFCSSA): No. You're absolutely right. It needs to be built into that case management model.

DR BYRON: Yes, what happens 10 years later.

MS MATTHIAS (RFCSSA): What happens at such-and-such a time. We do it informally. We try and encourage our counsellors every six months to give them a ring to see where they're at, have they settled into their new life, and in most cases, you're absolutely right, we hear that comment all the time from counsellors who report back to me - "I wish we'd done it years ago." So we do hear that. We do follow up, but there is no formal process. It would be excellent if there was some way we could actually capture the results of those people that did exit.

COMMISSIONER WOODS: The Eyre Peninsula did some stuff in the 90s but nothing recently.

MS MATTHIAS (RFCSSA): Right.

COMMISSIONER WOODS: And so we wouldn't mind because - I mean, for others it will continue to be a devastating decision, but there are so many that anecdotally we're getting that reaction from of, "How could we have known that that was such a good decision earlier so that we could have made that?"

DR BYRON: That there is life after farming.

MS MATTHIAS (RFCSSA): And it's good for them, isn't it, to hear that?

COMMISSIONER WOODS: And your point about four years and still the equity is going down and they're making losses - you just weep for them.

DR BYRON: You do.

MS MATTHIAS (RFCSSA): Yes.

COMMISSIONER WOODS: While we've been talking I've had a quick look through this, and understandably you're focusing on that recommendation but giving us a number of reasons why that may not be appropriate. Following this discussion, if you could perhaps also give us a supplementary page or two on what the new model is and how it in fact addresses some of the concerns that underlie what led us to that recommendation and, particularly, what led the social panel to their recommendation.

MS MATTHIAS (RFCSSA): Yes.

COMMISSIONER WOODS: You're quite right: South Australia has a different model to other states. Theirs is a higher-level recommendation and ours is a sort of generic recommendation. But if you could positively respond to what's behind the recommendation, as well as defend what you're doing in relation to how it is, I think that might actually move the debate on further.

MS MATTHIAS (RFCSSA): Yes.

COMMISSIONER WOODS: It could be very helpful to us. There are bits and pieces in your submission on that, but I think if you could bring that together, that would be good.

MS MATTHIAS (RFCSSA): We'll do that.

COMMISSIONER WOODS: We don't have a lot of time, unfortunately, but a couple of brief reactions from you would be really useful. Our proposal on the hardship arrangements so that they're not drought-related, they don't require you to be in EC, but they're always there for any farm family that ends up in hardship and meets the criteria, and that for an extended period - we have suggested three years - the asset base not be the community asset base but one that reflects a farming perspective: any reaction? Is that a better way to go?

MS MATTHIAS (RFCSSA): Charlie, would you like to respond to that, being on the ground?

MR GOODE (RFCSSA): Yes. I think drought causes hardship.

COMMISSIONER WOODS: True.

MR GOODE (RFCSSA): And there are a lot of people who are not making a lot of money off their farms. There are many reasons for that and drought is only one of them.

COMMISSIONER WOODS: Exactly.

MR GOODE (RFCSSA): So where we're heading there is that drought relief payments have helped people survive through a drought, but once a drought finishes, once the EC situation finishes, these people are still going to be in hardship. Basically, as was mentioned earlier in the SAFF recommendations, a lot of options out there are just to get bigger, and I deal in an area where there are a lot of smaller farms carrying a lot of debt. One of the other factors that impacts on a lot of people

is commodity prices and interest rates. Drought is just one of the three factors that causes the hardship and people's lack of profit.

COMMISSIONER WOODS: But would you also agree that it shouldn't be on forever?

MS MATTHIAS (RFCSSA): Absolutely, yes.

COMMISSIONER WOODS: That you'd develop a welfare dependency?

MR GOODE (RFCSSA): I certainly do, because you see a lot of people who are just panic-stricken by the fact that EC finishes on 31 March in our area and they're no longer going to get any income support. They do become dependent upon it and, yes, it's not a healthy situation at all.

COMMISSIONER WOODS: They need some firm timetable that says, "You're in hardship. We're going to make sure you've got food on the table, but it's not going to be forever."

MS MATTHIAS (RFCSSA): Yes.

COMMISSIONER WOODS: "You've got to work out what your future is, and either get the skills and the situation back up to being viable or look for an alternative. But here's a clear time frame. We're not panicking you. You've got three years. Work your way through it, but there is an end to this."

MS MATTHIAS (RFCSSA): Yes. I think it's absolutely pivotal that it isn't forever and that they must be working towards getting themselves out of that current situation during that period of time. It can't be just a welfare payment. There's got to be something else attached to it that says, "Look, this can't go on forever. This is why you're in trouble. We now have to work towards getting you out," and they have to agree to that. That has to be part of the deal is what I'm saying.

COMMISSIONER WOODS: From your perspective and your experience with a lot of people who are exactly targeted in this recommendation, if you could elaborate on that for us, that would be useful; just a few lines that give us some guidance there.

MS MATTHIAS (RFCSSA): Okay.

COMMISSIONER WOODS: Skill upgrades: there are so many programs that are available and the people that you often see going to them are in fact the top 30 per cent, although quite often they will have their own private advice and they can pay for it and get what they decide is in their best interest. Then there's that middle group who are always attending the programs and are part of it, looking for innovation. But there are a number who don't, and a high proportion of those happen to be in your client base. Is there anything constructive that can be done to turn around their approach and attitude and receptiveness to improving skill bases in farming, let alone developing skills for off farm? But putting that one aside for the moment, assuming an ongoing involvement in agriculture, what lessons can you help us understand?

MS MATTHIAS (RFCSSA): Just to preface my remarks, I guess the reality for some people is that they are never going to be viable. I think that is a reality for a number of our clients. They're never going to be viable and so we have to work with them to whatever outcome.

COMMISSIONER WOODS: If they choose to stay in farming but do it on their bat: perfect; up to them.

MS MATTHIAS (RFCSSA): That's right, but do they receive assistance? That's another thing, you see.

COMMISSIONER WOODS: Yes, a separate question.

MS MATTHIAS (RFCSSA): That's a separate question. But I also believe that there is not enough - and this is what we're talking about: the study about those that have actually exited and how happy they are and they wish they'd made the decision years ago. I think there needs to be community awareness, a real awareness program about the fact that there is life after farming, there is something else that they can do that is rewarding and profitable. It's about changing those attitudes of that small group that says, "I'm going to sit here forever. This is the only life I know. I'm not going to move from here. It's just wonderful; a wonderful lifestyle."

COMMISSIONER WOODS: That's fine if they're self-supporting.

MS MATTHIAS (RFCSSA): That's right, but these I'm talking about aren't.

DR BYRON: Are you talking about recognition for prior learning?

MS MATTHIAS (RFCSSA): All of that. I think we need to do much more work with the educational sector to make sure that the training is in place to get them from here to somewhere else. But not only that: it starts right back here with the farmer, where he thinks it's okay to do that; it is okay to move to another lifestyle; that's pretty good as well. There's a lot of education and awareness that has to happen with it. You can't just say, "Move on."

COMMISSIONER WOODS: Charlie?

MR GOODE (RFCSSA): I hear over and over again that they don't have time because they have to travel too far to attend these courses to be trained. My suggestion is that a real advantage for these farmers would be to have mobile courses rather than people having to travel, after work, two hours to attend.

COMMISSIONER WOODS: Sure.

MR GOODE (RFCSSA): Also, I think there's a real advantage in a mentoring program. There are some very good farmers in the areas that would be happy to share skills, and that's not encouraged. So mobile training courses and mentoring would certainly be the answer to your question.

COMMISSIONER WOODS: Thank you for that. They're very practical contributions.

MR BLESING (RFCSSA): The draft report so far talks about the private benefit to the individual of training courses, but my recollection is that it says it's still good for the industry as well.

COMMISSIONER WOODS: Yes, absolutely.

MR BLESING (RFCSSA): There are community benefits.

COMMISSIONER WOODS: Yes.

MR BLESING (RFCSSA): If you consider New Zealand and Australia as a whole, and other industries, and some work that's done with Indigenous young people through ILC, training is considered a given in an industry. Training and a certain attainment of skill levels and attitudes towards operating in the paid labour force are treated as a given, and people are encouraged and trained towards that. It's not negotiable. I think the agricultural sector, the farm sector in South Australia that we're talking about, needs to be quite clear, as SAFF were this morning, that, "These

are the skills required to operate in today's environment and this is what you need to strive to attain. If you don't want to do it, that's fine, but you'll need to find another career."

COMMISSIONER WOODS: There are other professions - you know, you can't continue to be a doctor unless you do your professional development every year. We don't have that in farming and we're not going to suggest that there be a farming licence; but I do hear very clearly what you're saying: that, if you want to be in farming, you should have the skills appropriate to farming. Whether you'd go far enough to say you almost need an annual farming licence; no.

MR BLESING (RFCSSA): No.

COMMISSIONER WOODS: But we share your sentiment - but how to bring in that understanding that this is a complex business you're running and you need a skill base?

DR BYRON: The perception, I think, amongst the people who get into trouble is that farming is pretty easy and any mug can do it. The reality is, to be successful you need to be very, very clever, very switched on, very professional; completely on top of not only the business, the OHS, the environmental - and so on. So the people who think that farming is easy and that they don't have to have all those professional skills and business management skills - it's inevitable that they'll get into trouble.

MS MATTHIAS (RFCSSA): Absolutely.

DR BYRON: But you could say the same thing about people who are great chefs who can't run a restaurant business, people who are good electricians but can't run an electrician's business. Those people end up going bankrupt, too, not because of the lack of technical skills but business management skills.

MS MATTHIAS (RFCSSA): So it's a good thing to have a mix of both, isn't it?

MR BLESING (RFCSSA): However, it's part of our role in servicing clients in financial difficulties. Having training programs that are easily accessible is a great way of helping clients move.

DR BYRON: Provided they'll go to those training programs.

MS MATTHIAS (RFCSSA): Yes, that's right.

COMMISSIONER WOODS: Which is why some of the mentoring, some of the mobile courses - but anything else that can be done, because you're still not going to get some of them there.

MR GOODE (RFCSSA): ChemCert is a very good model.

COMMISSIONER WOODS: Yes, a perfect example.

MR GOODE (RFCSSA): It's been introduced now that farmers cannot use chemicals unless they go through the certification.

COMMISSIONER WOODS: Yes.

MR GOODE (RFCSSA): That's something we should extend into other areas.

DR BYRON: Yes, because that drives a level of professionalism in attitude and behaviour, doesn't it?

MR GOODE (RFCSSA): Yes, it does.

MR BLESING (RFCSSA): It's cost-compliant.

MR GRANGER: Kay, you mentioned you had 2000 people on your books and they've kicked since July. Why is that?

MS MATTHIAS (RFCSSA): Why has it kicked? Well, the season was very poor finishing, as you know, but the majority of client workload - over 800, in fact - is in the Riverland, and we've just put another rural financial counsellor there. That's where our major workload is; and of course, parts of Eyre Peninsula, as you would have been aware, having visited there yesterday, are pretty grim; parts of Charlie's area are still, and the pastoral area has been. We've had a lot of clients and a lot of work in the pastoral - Upper North cropping. So South Australia on the whole, apart from a few pockets, is still very dry.

MR GRANGER: The federal government initiative to address some issues of exit for the irrigators in the Riverland, is that starting to bite?

MS MATTHIAS (RFCSSA): Yes, it is. In fact, I had a chance to talk to the minister about that on Wednesday. It's a very good initiative but there are a couple of anomalies that really need fixing that are preventing a bigger take-up of it, I

suppose. As an example, and this is just one example: because it's up to 15 hectares of irrigate on, you might have a farmer that's got 18 hectares and he irrigates 14. He's precluded from that exit grant. The other issue is not being able to irrigate it again for five years, so that prevents the next-door neighbour, who may have water, from using that land. So there's a couple of issues around that, but certainly the interest in it has been extremely high.

MR GRANGER: Thanks.

COMMISSIONER WOODS: Any concerns again on that, on business planning, across our draft report - because we have a very good perspective on dealing with the number of people who would be directly affected by this, so I extend you an invitation to put in some supplementary material.

MS MATTHIAS (RFCSSA): All right.

COMMISSIONER WOODS: That would be very helpful. I apologise, we're going to have to draw it to a close. We are running over time. It's sad, but it reflects the quality of the conversations we've been having. Thank you very much for not only your earlier contribution but for today and in anticipation. Don't go to great length, but if you could capture some of those thoughts and put them on the record, that would be really helpful. Thank you very much.

MS MATTHIAS (RFCSSA): Thank you all for your time.

COMMISSIONER WOODS: Can I call Pristine Forage Technologies to the front, please; and apologies for the delay in bringing you forward. Thank you very much for coming. We've got the benefit of a set of key points. Could you, for the record, please state your name and the position you hold in the organisation you represent.

MR LAKE (PFT): Thank you. Good morning. I'm Andrew Lake, the managing director of Pristine Forage Technologies.

COMMISSIONER WOODS: Thank you very much. You've given us the benefit of a number of key points that you wish to raise today. Please proceed with an opening statement.

MR LAKE (PFT): Thank you. I have a short set of notes on here which will take a couple of minutes to warm up. I hope my computing goes the distance. I missed the first - - -

COMMISSIONER WOODS: Round of discussions.

MR LAKE (PFT): I think I must have been overseas at the time when it was all talked about. At any rate, I thought the report was excellent. If anything, I think the sorts of recommendations coming out of that are overdue, so we very much welcomed it. The concern I have is that we do have solutions to a lot of this stuff but that there are manifest barriers within the industry which will stand in the way. I should make a couple of points. First of all, I'm a scientist, very much a scientist, a statistician, geneticist and plant breeder and I look at things from that point of view. The particular region that I'm most interested in with respect to drought is the broadacre cropping region. Most of my remarks will relate to that.

COMMISSIONER WOODS: I'm particularly interested where you talk about that you've "developed various pasture-forage legume varieties, et cetera, but that there are impediments to their adoption", as to what are those impediments and are they impediments that the government can or should do something about in terms of overcoming?

MR LAKE (PFT): I think so. In particular it relates to the RD and E aspects of how we got here in the first place. Again, that's my major focus. The particular points that need to be raised are a couple of things within - first make a couple of points within the report itself. A lot of people talk about how it's important to destock, and there's an emphasis on stocking and the impact of drought on stocking. In fact, the way an annual plant grows - an annual pasture plant or an annual grain plant - is the same thing. The first part of its life and the bulk of its water use goes into growing nutrients. The latter part of that life goes into building seed and building a bit of bulk. There's not actually too much of an impact on further nutrient

production, so from an animal's point of view, all the nutrients are there. Another thing that I am is a farmer. I've been farming 30 years. We've been through droughts and we've never actually run short of feed in a drought.

COMMISSIONER WOODS: Can you just give me a quick thumbnail sketch: where are you and what size operation are you running?

MR LAKE (PFT): Southern Hills. We're only a hobby farm, if you like, down in the southern Hills near Currency Creek; 160 acres prime lambs.

COMMISSIONER WOODS: Thank you.

MR LAKE (PFT): We've never been short of feed in a drought. We've been short of feed at other times, but it very much emphasises the point that drought is something which impacts on crops, not so much on pastures. I think it's at 3.2 of your report, it actually shows that.

COMMISSIONER WOODS: Page 48.

MR LAKE (PFT): Page 48 sounds about right. If you look at that, obviously there's a huge impact on grain production, which as I said reflects this impact on seed production - not on nutrient production but on seed production - whereas if you compare livestock production and, apart from 2002 and in the year after 1982, there's very little obvious impact from drought on animal production. Therein lies our interest obviously in our solution to drought, in a sense: take the emphasis off crops and put it onto pastures. This is where the RD and E part comes in.

The late 80s, through the 80s and into the early 90s, there was a switch from our sustainable lay farming systems in the wheat-sheep zone where you had crops integrated with legume based pastures. You had a switch to focus on the crop, and that was accompanied by people forgetting about their pastures, the legumes started to disappear out of those pastures, and the carrying capacity of those pastures collapsed. In fact, if you look at the data - and I love looking at data and analysing trends - we have lost about half of our sheep out of the wheat-sheep zone. We haven't lost any pasture area. The carrying capacity has been, roughly, halved, and most of that happened in the late 80s, early mid-90s. It has since, more or less, plateaued. But that reflects the loss of the legume out of the pasture.

The other thing that that did, which was predicted at the time, and which unfortunately was ignored, was that that robbed the entire system of a nitrogen source, and that has been absolutely critical because if you look at the data again of wheat yields - and I'm intending on putting in a submission; I have these graphs here but you'll have to wait until I put in a submission because I - - -

COMMISSIONER WOODS: Thank you.

MR LAKE (PFT): The fact of the matter is that right up to the early 90s we had a steady increase in the average wheat yield per unit of area of about 2½ per cent per year, and have had for 30-odd years. If you look at the data since about 1992, it's actually quite clearly plateaued - and that's pre-drought. There's now evidence that, even allowing for the droughts, it's actually starting to fall off, and that's what we're calling the nitrogen drought effect. At the same time, the costs have escalated enormously because they're finding that they're actually having to apply more and more nitrogen just to get a crop because the soil is just losing nitrogen hand over fist. So it's a case of complete unsustainability now, so far as cropping is concerned, irrespective of drought.

COMMISSIONER WOODS: You'll be supplementing this with your submission which will give the graphs and things.

MR LAKE (PFT): Yes. I'll forget that, but it will be in the submission.

COMMISSIONER WOODS: Yes. If you could focus on the impediment side of the issue, that would be particularly helpful today.

MR LAKE (PFT): Impediment initially was lack of RD and E, appropriate RD and E.

COMMISSIONER WOODS: By government or by the whole system; by agriculture generally or - - -

MR LAKE (PFT): By agriculture generally, but it has been, up until relatively recently, focused on government.

COMMISSIONER WOODS: Yes, sure.

MR LAKE (PFT): And, in particular, in relation to long-term trials. There were a lot of long-term trials being run through the - well, that were terminated in the late 80s and early 90s.

COMMISSIONER WOODS: By the old DPI.

MR LAKE (PFT): Yes, all of those things, and that was disastrous because that was the time when it was really needed to be monitored. It's no surprise that wheat yields and so on have fallen off - they haven't fallen off a cliff yet, but they've certainly fallen off and, for some people, the costs have risen so they have fallen off a cliff essentially.

COMMISSIONER WOODS: Yes.

MR LAKE (PFT): It was just a matter of when it was going to happen. That was a failure of the research community, an absolute failure, that those trials were knocked out at a time when they really needed to be kept going. So that's the first barrier: there is still no acknowledgment within the public sector and within the RRDCs of the need for more than short-term research projects.

There's also very much a cropcentric view of this whole thing. Somebody this morning briefly mentioned pastures and animal production. Within the wheat-sheep zone people think, "If I'm going to get out of this, I've got to crop." In fact, they're only cropping themselves into more and more trouble. They need to get back to having good pastures and getting that nitrogen input which will then generate enough profit out of their crop to actually - - -

COMMISSIONER WOODS: We were over on Eyre Peninsula yesterday and we spoke to a number of people - - -

MR LAKE (PFT): What was their reaction?

COMMISSIONER WOODS: - - - operating the sheep side as well as just the crop or - - -

MR LAKE (PFT): Right. That's good. It's been a long road. That actually raises the next point, I suppose: nobody is making any money out of advising farmers to grow pastures, and good pastures. It's all within cropping. Growing a good pasture is relatively easy by comparison to growing a good crop, so you have agronomists out there and they make their money out of growing crops. The same with all these services industries: they make their money out of farmers growing crops and they make their money irrespective of whether that farmer goes broke or not. The first person who gets paid is the agronomist. If the farmer can't pay him, the bank pays him the next year to make sure that the farmer gets the best possible advice and has the best possible chance of getting out of the mess he's in. So it's actually a self-defeating thing. So you have this, what I call, addiction to crops.

It's also evident within the farmers themselves. They're slow to change. A lot of them are fairly change-averse, and particularly when you get into trouble, and you can understand that. They also like their tractor cabins; it's a nice cocoon. I like sitting in my car and driving around the countryside and seeing all the beautiful varieties we grow, but if I spent all my life doing that I'd go broke. So that's a problem. The third aspect of it is the big size of the cheque that comes in.

COMMISSIONER WOODS: Yes, absolutely - "One good crop and we'll be right."

MR LAKE (PFT): Exactly; absolutely seductive. Those are the basic barriers. You have that there.

COMMISSIONER WOODS: And how to overcome them?

MR LAKE (PFT): How to overcome them? With respect to RD and E, there certainly needs to be government and RRDC input into systems research, much more so - if I can offer you an example. The research that has been done, too, has been in the wrong directions. In our own field of pasture research, there have been something like 50 or so varieties, annual varieties, plus about 15 perennial varieties of lucernes produced over the last 15 to 20 years, and virtually all of them have been commercial failures. Virtually all of them have been aimed at old systems. A lot of them duplicate what each other does, and since we moved into the private sector we've gone ahead and actually gone ahead of that public sector thing, and now they're trying to play catch-up.

Well, it seems to me they are perfect resources: people resources, within pasture research, who know about pastures. Instead of being deployed to do something that's already been done umpteen times, they would be better deployed - which is something I actually said 20 years ago when I was still in the public sector - in getting adoption of these varieties and systems.

COMMISSIONER WOODS: In DPI or CSIRO or - - -

MR LAKE (PFT): SARDI.

COMMISSIONER WOODS: Of course, yes.

MR LAKE (PFT): Or Department of Ag, as it was, in one of its many iterations.

COMMISSIONER WOODS: Yes.

MR LAKE (PFT): Getting the adoption of the varieties and the systems and showing the farmers why these systems are good; getting the nitrogen story out: it costs around about \$50, depending on where the price of nitrogen stops or settles. During the year it was about \$75 a tonne in fertiliser-nitrogen equivalent which was exported off the property. Now, you take \$75 a tonne off the price of wheat and there are not too many people could have grown it profitably. There's no nitrogen accounting at the moment. That's another aspect of this. We need nitrogen accounting. It's not the nitrogen you put in.

COMMISSIONER WOODS: No, it's what's available.

MR LAKE (PFT): It's what's taken off, it's what goes out, which needs to be accounted. And again all these longer-term things are somewhat against the trend, I suppose you'd say, with respect to cropcentric RD and E. I'll say GRDC as an example. 99.5 per cent of their investment is not pastoral. Within the wheat-sheep zone, those legume pastures are the basis for keeping those systems going or restoring their sustainability.

COMMISSIONER WOODS: Though, interestingly, we understood that in some wheat-sheep areas there's more attention now being given to the potential for active fallowing and rebuilding nitrogen and retaining soil moisture, et cetera, so is that in the direction that you are also - - -

MR LAKE (PFT): In a way, yes. It's certainly a step in the right direction.

COMMISSIONER WOODS: So you're talking one way of overcoming the impediment is through building up the RD and E capacity.

MR LAKE (PFT): Yes.

COMMISSIONER WOODS: And not only of government departments but the RDCs, et cetera.

MR LAKE (PFT): Yes. I think there's a major problem at the moment within the RDCs, the GRDC in particular to be honest. The GRDC in particular has got a very incestuous relationship with the public sector. The public sector is also driven by crop research because that's where the farmers think they're going to make their money. It's also where industry wants them to go, because that's where they make their money. So there's a lack of objectivity, I think, and a lack of long-term thinking within GRDC because of that incestuous relationship (a) with the public sector and (b) with advisers and agronomists.

COMMISSIONER WOODS: Are there any other ways that government can constructively overcome the impediments, or is that your main focus?

MR LAKE (PFT): That's within the system side of things, and things like the nitrogen accounting. I think in the re-adoption of pastures - if I can put this in some context. I did some quick calculations. You have an episodic drought, say one year in five, which will cost you about \$5 billion in lost production. If you project forward the impacts of this loss of legumes out of pastures and the impact (a) on animal production and (b) on the plateauing rather than a continuing up of crop production, you're talking about five or six billion dollars per annum lost production on average today, compared to episodic drought costing you, on an annual basis, about a billion dollars; five billion bucks one year in five type thing. So that puts it in perspective. It's that loss of legume out of the pasture which is really impacting very heavily.

Drought, if you like, is the straw that breaks the camel's back, but it's a weakened camel by virtue of the fact that the soils are run down and the systems are not sustainable. Banks are, in a sense, loaning money on the basis of land which is overvalued, because it's been so depleted of nitrogen.

Another figure for you: if you calculate the nitrogen that's been taken off farm with crops since about 1990, at current nitrogen prices - and they're not likely to come down too much because they're tied directly to fossil fuels - if you calculate that value at today's replacement, the difference between nitrogen that's added and nitrogen that's been taken off, you're talking about \$15 billion, somewhere between 10 and 20 billion dollars, and that has to come out of the value of the land, because it's just been mined out.

Getting legumes back into the system is the way to repair it. However, there's nobody working in helping farmers to do that. There are varieties being produced but there's no D and E part of the whole thing.

COMMISSIONER WOODS: I understand.

MR LAKE (PFT): And what we've done is developed new systems which make it a lot easier. We've got the varieties to suit those systems. That's where we've run into the barrier. It really needs that push of technology transfer, and it's an area of market failure, because the private sector agronomists don't get any money out of it, or they don't at the moment get any money out of that sort of activity, and there's no public sector activity going on in that area, despite the fact that, as I said, there's a

significant amount of human resources and very well qualified human resources available that have been put into variety development instead of into this. So that's actually a really good source.

COMMISSIONER WOODS: You've built all that into your submission?

MR LAKE (PFT): Yes.

COMMISSIONER WOODS: To the extent of reflecting today's discussion, you might want to expand on it. That would be helpful to us.

MR LAKE (PFT): Yes, for sure.

COMMISSIONER WOODS: I'm conscious of time and that we do have others lined up, but is there any sort of focal point that you wish to bring?

MR LAKE (PFT): There are a couple of focal points on top of that RD and E. As I said, there's no incentive, no money at the moment available for tech transfer for pasture improvement. There's also not the knowledge out there. There's that huge knowledge gap that I referred to; the lack of knowledge of where the farming systems are going and where the nitrogen has gone and how much capital has been lost in the process. That needs to be got out there. It's not something which is going to happen through the private sector.

COMMISSIONER WOODS: I understand that point.

MR LAKE (PFT): Or let me rephrase that. It's not something that's going to happen through the private sector unaided.

COMMISSIONER WOODS: Who delivers it is a separate question to who funds it.

MR LAKE (PFT): Yes.

COMMISSIONER WOODS: I understand.

MR LAKE (PFT): So that's critical. There needs to be funding for technology transfer to support technology transfer. This is a real area of market failure, if you like. Also, I think something which would be small but would be really useful is actually sending signals to farmers as to what is happening by giving them some sort

of perhaps rebate on costs for pasture improvement or for advice relating to pasture improvement with legumes, because it's that sort of signal, I think, which might say to them, "Hey, there's something going on here," and make them sit up and take notice.

DR BYRON: Is there a simple and readily accessible portable method for assessing nitrogen in the soils at the moment that will enable people to monitor the rate of depletion on their own property?

MR LAKE (PFT): You could do it just by working out how many tonnes of grain you send off your place versus how much nitrogen you bring on. That gives you a balance sheet. But in terms of the current status, probably not, because it's a very difficult thing to measure. The nitrogen itself is tied up in an organic bank, so the total amount might be quite high, but if it's on a high organic carbon soil then its availability is quite low.

DR BYRON: Yes. But you commented before that a lot of people don't realise that the value of the soil is lower because the nitrogen has been mined out of it.

MR LAKE (PFT): Yes.

DR BYRON: So if somebody was thinking of buying another property to expand or whatever, you could have two properties that look very similar - one has got good soil nitrogen and one has been depleted. Can you readily find that out or do you - - -

MR LAKE (PFT): You'd tell by looking at the crops; compare them to the roadsides. That's the other thing to do. Look at the roadside, and when you've got more growth on the roadside, as there is in a lot of places these days, your farm is in real trouble. It's really depleted. The sorts of things I'm talking about are subsidies for people who go and seek advice, to get advice, and another one which is worth considering, I believe, is a subsidy on the price of buying seed. It wouldn't cost much but it would certainly send a message. My estimate is that, if you spent 20 million bucks over five years, you would really get people sitting up and taking notice and saying, "We're getting a rebate," and that's based on, say, a rebate of 50 per cent on the cost of seed. It would cost you a maximum of 20 million bucks over five years.

COMMISSIONER WOODS: Assuming that the seed price didn't go up to reflect the fact that there's a rebate out there.

MR LAKE (PFT): Yes. That's always a potential - - -

COMMISSIONER WOODS: "Welcome to the market."

MR LAKE (PFT): Yes, exactly.

COMMISSIONER WOODS: I do apologise for the short amount of time we have available, but if you could forward that submission to us, we and our staff will go through it in considerable detail and, if we need any further questioning, we can come back to you on that.

MR LAKE (PFT): Certainly.

COMMISSIONER WOODS: Thank you very much.

MR LAKE (PFT): Thank you for the opportunity.

COMMISSIONER WOODS: We will have a short break of five minutes, given that we have others who have been waiting here patiently to take part in this process. Thank you very much.

COMMISSIONER WOODS: Our next participant is Productive Nutrition. For the record, could you please give your name and the position you hold in the organisation you represent.

MS JOLLY (PN): Productive Nutrition, and my name is San Jolly and I'm the director.

COMMISSIONER WOODS: Thank you very much. We've had the benefit of a submission that you've provided. We've been through that and looked at feed budgets and other things, and genuinely very helpful insights into how to improve self-reliance which is a lot of what the focus is of your submission. But have you got an opening statement that you wish to make?

MS JOLLY (PN): Yes, I do. What I'd like to address today is really one section of this report, and that's the objective of self-reliance and preparedness for dry times, climate change and/or drought. Just to give you a little bit of background as to what I'm talking about, I was a nurse for 23 years and then I went to university and did ag science, and then worked for a feed company for five years, and for the last 15 years I've been out consulting on my own.

The reason why I give you that background is because my particular interest is in education and upskilling, and teaching and courses. That's really where my discussion today is going to come from. The last 10 years that I was a nurse I spent teaching student midwives in a labour ward, so I've spent a considerable amount of time teaching and educating. Over the last 10 years, our organisation has run three-day sheep and cattle nutrition courses and taken them out around the regions and on farm, et cetera.

COMMISSIONER WOODS: They've been well received?

MS JOLLY (PN): Yes, they have. Anything to do with nutrition is usually pretty well attended, yes, and the feedback has been excellent.

COMMISSIONER WOODS: Just on that, do you do a baseline at the front end of these courses, where the farmers say what are their production levels, what are their practices, and then go back afterwards and say, "Well, you've been to that course. Let's now go back six months and see where you're at, what you're doing, what change you've made" - what was the net impact of that course on their productivity?

MS JOLLY (PN): It very much depended who was the agency that was running the course. For quite a few years we ran courses through the Rural Industries Skills Training organisation in Victoria.

COMMISSIONER WOODS: Yes.

MS JOLLY (PN): They got the groups together and identified the people who were interested, and they did the background work about what each individual wanted to know, what their goals and objectives were, and what they wanted to get out of it. But I guess one of the things I want to talk about today is this lack of follow-up, and certainly most of those courses - the vast majority of those courses - were FarmBis supported, and there was no ongoing capacity within FarmBis for those sorts of follow-ups. We did actually try at one stage to do a follow-up one-day course, which would have been a review, but we and RIST and the other South Australian organisation, Rural Skills Training, just haven't been able to attract any funding for that from FarmBis because it just didn't fit the FarmBis model.

COMMISSIONER WOODS: That would be a recommendation of yours? You'll have noticed in our report that we promote the old FarmBis and a lot of what it was trying to do.

MS JOLLY (PN): Yes.

COMMISSIONER WOODS: But you'd say add on a benchmarking and evaluation module into that process?

MS JOLLY (PN): Yes, I would. That would really be the general gist of why I'm here today: I think within the report the focus on a marked increase in RD and E is admirable and certainly necessary, especially with a lot of the funding organisations at the moment having a terrific lack of funds. I think that's fantastic. But I think the most important thing that's missing off that is adoption.

COMMISSIONER WOODS: Yes.

MS JOLLY (PN): We were just having a discussion then about the fact that the follow-up as to what has been adopted from everything that's been delivered is just not there, and really there needs to be a substantial investment in that area, because I would say that a lot of the training programs that we've had out there for the last 10 years, while they've been really good for information and for awareness, the evidence that I have seen is that the adoption and uptake rate is really poor. I was interested to hear that you were having a discussion with the rural financial counselling organisation about mentoring, and that that's been picked up in the report, and I would certainly support that. I think there's a vast proportion of the farming industry that are very good farmers, although undereducated for the

demands of farming now, but that they're unable to take that vast amount of information and go home and have the confidence to implement it. I think that's where we're seeing a big obstruction to coping with dry areas, dry times, and becoming self-reliant.

COMMISSIONER WOODS: So in a sense there's some but maybe not enough R and the same with D. There's some T in the training but not enough E in the actual working with the farmers to get it happening on the paddock. So mentoring is one of those things. What's the rest of the menu that says how to get - - -

MS JOLLY (PN): I think probably one of the most successful models that we could look at from the dairy industry is the establishment of focus farms. That has facilitated a huge amount of change in the dairy industry and given people confidence to make change. They can see it working on someone else's place. But it's not just farmers learning from other farmers, and certainly there's a lot of value in that, but there are also a lot of poor practices that are passed on from farmer to farmer as well, so I see the advantage in focus farms in that that change can be facilitated and observed so that it's not just bad practices being passed on.

COMMISSIONER WOODS: How would you choose them, though? Whoever gets to be the focus farm obviously gets an awful lot of public benefit pouring in on them. So would you do it by some tendering process or some nomination process that would then involve selection?

MS JOLLY (PN): I think a tendering process is a very good idea and that in each state you have some diversity of operation, so that you would have, for example, in South Australia maybe a high rainfall, a wheat-sheep and a pastoral or something. You were also saying before that there's a percentage of farmers who don't come along to group learning, and they don't, and once again they're not necessarily bad farmers; and also there are the top farmers who don't engage in that either, but that's all looked after.

COMMISSIONER WOODS: They just buy their agronomist, to come and - - -

MS JOLLY (PN): Yes. Focus farm learning tends to get those farmers in, because they love to see what their neighbours are doing. They may not come to a classroom and sit down and do a course, but they're more likely to learn on farm, and I think you will pick up a greater proportion of those people.

COMMISSIONER WOODS: Sorry, which people are we talking about? The middle group or the bottom group or - - -

MS JOLLY (PN): We're talking about the group that doesn't go to group learning.

COMMISSIONER WOODS: Okay, yes.

MS JOLLY (PN): Yes, that doesn't go to courses, for a range of reasons. Another thing that I would like to address in terms of education is certainly the older farmers that left school early - and I think everybody is well aware of their need for upskilling and education as farming gets harder - but there are also the young people who are going to universities, and I would like to speak for a few minutes about the university education.

Our company actually reviewed the practical curriculum of the University of Adelaide's agriculture programs about three or four years ago and undertook wide surveys of all sectors of agriculture in this state. The overwhelming feedback is that university graduates are not graduating with the skills that they need to facilitate change on farm. Most of the practical on-farm component has been eliminated, and then that makes it extremely difficult for those graduates to go out and advise farmers. So somebody has to do the training of those university graduates in between leaving university and becoming able to advise farmers.

DR BYRON: But aren't there a number of ag faculties around Australia - or universities, rather - where the university farm has been or is about to be sold off?

MS JOLLY (PN): Yes. Quite a lot.

DR BYRON: Your point is that that's exactly the wrong direction.

MS JOLLY (PN): That's exactly the wrong direction, and from agribusiness, from the undergraduates, the postgraduates, from farmers - it really didn't matter who we interviewed - there was a consensus that those skills need to be maintained, because a lot of young people who go and study agriculture at university don't necessarily come from farms, and so that's a pretty important - and if they come from farms where farming practices are maybe not as they should be, or modern or up to date, then it's a very valuable part of their training. We've employed three graduates in the last five years that have all come with very good qualifications and all of them have come off farms, and they have just been unable to do the job, with an enormous amount of training, and our company is not the only company that's identifying this problem.

COMMISSIONER WOODS: So that report that you did, is that a public document?

MS JOLLY (PN): No.

COMMISSIONER WOODS: Is there any information in that that you could negotiate a release on that we could get the benefit of, given that you understand where they're coming from?

MS JOLLY (PN): I would certainly try to do that, yes.

COMMISSIONER WOODS: You could see what would be of use to us.

MS JOLLY (PN): Yes.

COMMISSIONER WOODS: Even if you drew some general conclusions from it.

MS JOLLY (PN): Yes, I will endeavour to do that.

MR GRANGER: It's a bit of a challenge even if you forget about agriculture. If you talk about any young kids coming out of the system into anywhere, the same issue applies, doesn't it?

COMMISSIONER WOODS: Well, it's like nursing.

MR GRANGER: Just bringing practicalities to a job; just the experience thing. Companies or industries have got to be mindful of bringing people through the system and training them, like on the job or whatever. I think I'm only defining a problem, not giving you a solution here.

DR BYRON: Thanks very much!

MS JOLLY (PN): Yes. I just wanted to highlight that, because I think there is a distinct focus in the report about extension and there is definitely a need for extension, but I think what needs to be clearly identified is that there is a lack of people with the appropriate skills to actually meet those extension requirements. I don't need to spend time here going into the constraints of small business, but it used to be the role in the past for governments to do that training. It was always the training ground for graduates, and then some left and some stayed, and that's always the way it's been, but it's not like that any more and there is a big gap in the expertise that is around to upskill farmers.

MR GRANGER: The experience I had with the sugar cane industry and the Research and Development Corporation there - I mean, that was the bane of our lives. All the good work that was on shelves - right?

MS JOLLY (PN): Yes.

MR GRANGER: And - well, I'm not talking about the strategic stuff that sort of reaches beyond the horizon as we see it, but just getting people to participate, growers to participate, was one model that was bearing good results in terms of the "I" thing, the implementation thing, or the adoption, and just the good old models involving extension. If you could get people to be in that sort of business - I mean, it was horses for courses, is what I'm trying to say, and there's no one model that you can apply. But if you don't involve the punters who you are expecting to make some changes, I don't reckon you've got any hope, unless you find the silver bullet, and I can tell you what: in all the years I've been working with them, I ain't yet found the silver bullet.

MS JOLLY (PN): I'm not a great believer in silver bullets.

MR GRANGER: But you've got my undivided attention if you have got a silver bullet.

MS JOLLY (PN): No, I haven't, sorry. But I don't want to lose you!

COMMISSIONER WOODS: But picking up these points: as you say, if you want good extension that delivers implementation in the paddock, then you need people skilled to be able to deliver that understanding in a very practical way that is accepted by the farming community. The old DPIs used to be the training ground for a lot of them and then, sure, a lot of them would go out, but they had that apprenticeship, so to speak. But now, with so much of it privatised - and particularly small business can't afford the overheads of having people on board who aren't bringing in income, because your business model just doesn't allow you to do that. So what is a practical solution out of that?

One might be to sort of subsidise you for people who are through a learning program, but it starts to get a bit hard to define the parameters of such a subsidy, who gets it, on what conditions and how do you monitor it and things. But nonetheless, before I start cutting off options, how do you actually resolve this? Do you go back to the old DPI days and have the ag graduates coming in and spending time enough till they can go out on their own? What do you do?

MS JOLLY (PN): I guess possibly in the future that model could and possibly will return, but I think that the expertise that was in the departments has pretty much jumped ship, so even though, certainly within South Australia - but I need to clarify that we work all across southern Australia - the department is in the process over the last 12 months of putting on a lot of young graduates, they don't have the older expertise still in the system to train them.

A lot of these graduates come in - and you may have seen in my submission there's some reference to this. A lot of these young graduates come in on the back of programs. The government has got funding to run a program about - you know, it could be anything - making more from sheep or something. So they pull in a line of graduates because they are funded, and so then they are the people who go out there and deliver the information, but they don't have the expertise and they don't have the experience. It's the same in our organisation; it's not just the government. If we employ a young graduate and give them a manual to take out and go and run a course, I don't think we're going to get very far at all.

COMMISSIONER WOODS: No.

MS JOLLY (PN): And I see this as a major impediment to upskilling at the moment: that there is not the training being invested in the people who are trying to do the upskilling.

COMMISSIONER WOODS: So the train the trainer, which is a point you make quite strongly here.

MS JOLLY (PN): Yes, absolutely.

COMMISSIONER WOODS: But part of that training has got to be practical stuff on the ground.

MS JOLLY (PN): It does.

COMMISSIONER WOODS: "Here's how it works, and why."

MS JOLLY (PN): Yes. So I think that is a big issue that I would really like the commission to take on board.

COMMISSIONER WOODS: Yes, I understand that.

MS JOLLY (PN): And the universities, which is something that really needs addressing. There are some universities - the Marcus Oldham model is still very good, where students have to have 12 months' practical experience before they even start and then it's a four-year course, and then in the second year they have an agribusiness placement. So at least the Marcus Oldham graduates are starting to really tackle the issue, but it's one of the very few universities in Australia that are

doing it. So I guess it's a two-pronged comment here. One is about the lack of experience in the people that are trying to provide training to the farming community and the other one is that we can't assume, because young farmers now have university degrees, that they are necessarily going to be right up there.

COMMISSIONER WOODS: Absolutely.

MS JOLLY (PN): So I guess they are the two things that I wanted to highlight there in terms of education. The other comment I would like to make about livestock management - and once again this is all about moving to self-reliance, which I'm very much in favour of - is the lack of nutritional knowledge and expertise and the lack of nutritionists and the lack of university training of nutritionists. We're one of the few private nutrition consulting companies in Australia. There's a single business over in Western Australia, which doesn't employ any graduates at all, so there's no training going on there, and that guy is not far off retirement, and the University of New England is probably the only university that has any nutrition focus at all, and that focus is steadily moving towards monogastrics and away from ruminants just because of the people that are in those positions.

So there's a considerable lack of nutrition expertise available to farmers, and nutrition is actually the basis for managing livestock cost-effectively through a drought and through dry times. We just see time and time again farmers making the wrong decisions about what feed to buy in or what feed to keep, and a lot of their feed costs could be substantially reduced if they had a better understanding of nutrition or if they had people to advise them.

Unfortunately, there are really intelligent organisations who are picking up these university graduates, these commercial agencies who are now filling that gap, and in terms of - and the real financial counsellors I am sure would see this as well: that because there are very few organisations like ours and the government just doesn't have that capacity at all, then you've got agencies like Elders, Landmark, those people, who are taking advantage of farmers' lack of knowledge to manipulate them into buying products, and that's where most of the education is now coming from, because it's financed.

COMMISSIONER WOODS: And coincidentally they've got a drum of it in the back of the ute.

MS JOLLY (PN): That's right. And so at times when farmers should be making really strategic decisions about what stock to cull, what stock to keep and what to put in containment and feed, they can really substantially control their feed costs and their profitability if that information that they're getting is accurate and not manipulated to provide them with a product. That is a huge challenge for the industry right now.

COMMISSIONER WOODS: Yes. I read with great interest your destocking regime and how different it is to - - -

MS JOLLY (PN): To the norm.

COMMISSIONER WOODS: To what common practice is, yes.

MS JOLLY (PN): It makes sense. As soon as you understand about nutrition, you understand that to hang onto the younger stock is the worst thing you can do, and the vast majority of advice all over the country is to cull from the oldest first. Yet the oldest are the ones that are going to have the lambs and the calves next year, not the youngest.

COMMISSIONER WOODS: And have the least-nutrient diet.

MS JOLLY (PN): That's right, because even though the young animals are small in terms of bodyweight - and daily intake, they actually eat as much as the old animals, but with their nutrient requirements being so much higher, the cost is so much higher.

COMMISSIONER WOODS: I thought that was very practical. What I don't understand is, without using the phrase "rocket science", if that's actually how it happens, and certainly it came across to me that way, then why is this old information still out there and common practice? What prevents farmers from adopting best practice in very practical things such as this? Where's the impediment?

MS JOLLY (PN): The impediment is that there are not enough people on the ground with that knowledge, and certainly our company hasn't got the capacity to train the amount of people that are needed to get out there and provide that knowledge. That would be impediment number one. That sort of education is not going on. That practical, science based education is not going on in universities. We do our bit but we're only one company. That's really why I set up the business, because I could see that that's the information that we need to get out there.

But most of the older advisers - when I say "old", they're probably all my age and younger. They'd be my age, but I suppose because I've been in this industry a relatively short time - you know. That's not really the right choice of words. Anyway, you know what I mean.

COMMISSIONER WOODS: Yes.

MS JOLLY (PN): They just have these preconceived ideas, and even people I work with out in the field, whether they be in the public or private sector, when they repeat these things, I say, "Look, this is just rubbish. You've got to stop saying that," and you go to the next field day when they're there and they're back on it again. So it's really hard to get change.

COMMISSIONER WOODS: But is it a matter of getting credible experimentation or is that already there? Is it already documented? Is the science base totally demonstrated and it's leveraging the R and even the D that's there and getting it into the E phase or would there still be benefit for more R and D as well?

MS JOLLY (PN): The evidence is all there. The books are available. They're quite difficult. Nutrition is quite a complex science, and they're quite difficult. A lot of the nutritional recommendations are published from the States, where they're updated about every 15 years and, based on a review of the literature all around the world - and there's an Australian scientist who sits on that committee as well, so it's not like it's American nutrition. The conversion calculations for a lot of people are just too hard and getting graduates interested in nutrition is hard. It's hard, and the old adage that's out there is: provided there's green feed in the paddock and there's enough of it, everything is taken care of.

There have been so many little pockets of research done over the years which show that that premise is fundamentally flawed, so it's about extension. The research is all there. It's just that there's no-one getting the message out there, and the current group of advisers or generation of advisers is more comfortable hanging onto what they know, I think.

COMMISSIONER WOODS: I understand that. All right. Other points?

MS JOLLY (PN): Really just about preparedness for dry times and drought. I think everybody would be aware that profitability has been pretty much driven by stocking rates in grazing enterprises forever, but one of the difficulties - and once

again this is an extension focus - is: how do you know when to stop? That message is not out there. How do you know when your stocking rate has gone over the edge, which has happened to a lot of people as the climate has got drier. We've seen it a lot, and I'm sure you've seen it a lot as well.

COMMISSIONER WOODS: But also some of them are of the view that if they just hang on a bit longer and just hang on a bit longer - but, of course, the degradation becomes all too evident.

MS JOLLY (PN): That's right. So I guess my question to the commission - if I'm allowed to have one - - -

COMMISSIONER WOODS: Yes.

MS JOLLY (PN): - - - is: how do we stop that? How do we break that cycle? How do we get to those producers and say, "This is when you stop," because a lot of them don't know? In that way, risk is just not managed at all.

COMMISSIONER WOODS: Or some of them don't have the financial resources or whatever to be able to fall back and say, "It's all right. I can destock because I can live off this or that, and I'm much more interested in protecting my pasture long term than I am on trying to eke out the next bit of money." Part of the answer is to build their overall capital base - some of it's financial; some of it's the natural base; some of it's infrastructure; some of it's skills - but to get those who are going to remain in agriculture to upskill, to build their capital base, and therefore will be more comfortable with making those decisions when it becomes apparent.

Again, your idea of the model farming type approach, when you see the best farmers starting to destock their land, it's a very good signal that says, "Hang on. Maybe I should be contemplating this decision myself."

MS JOLLY (PN): Yes.

COMMISSIONER WOODS: And to get that information out and about - the "focus farms", that was the phrase I was looking for. If they're sending up signals that they're looking at their pastures and their stocking rates and that, they're starting to destock.

MS JOLLY (PN): I think people are frightened about the economics of it, too. It's something which I guess to me just seems so easy, but it's so difficult if they're your livestock. It's easy for people looking in from the outside to see that, if you can sell that sheep while it still weighs 60 kilos and put \$35 in the bank, somehow that's just got to be more profitable than having it drop dead.

COMMISSIONER WOODS: Yes. Also, though, it requires farmers' increasing need to understand that they're running a very sophisticated business. They're not sheep farmers who need sheep there to justify their existence.

MS JOLLY (PN): That's right. It's about where you put that money and - - -

COMMISSIONER WOODS: Yes. There are all sorts of fundable forms of finance, some of which is an FMD, some of which is sheep, some of which is your pasture cover, and they're all interrelated bits of capital and, as a businessperson, you're managing that capital base and getting the best return you can from it; not that you're a sheep farmer who needs sheep.

MS JOLLY (PN): Who needs to have sheep.

COMMISSIONER WOODS: Yes.

MS JOLLY (PN): Otherwise you'll be broke. That's right.

COMMISSIONER WOODS: So getting that skill base is very important. Sorry, I'm rabbiting on.

MS JOLLY (PN): I'll keep moving. I've talked about the adoption. I think the government investment in an RD and E proposal is definitely a must, but there needs to be an A added in there as well, and there needs to be a lot more monitoring of what happens at the end of these programs. We see these programs coming up continually. There always seems to be a new program for something, that's got so many millions thrown at it, and what has it actually delivered? What has changed? That's just not happening. It's not happening anywhere. You see these programs; people are employed; they're out there delivering X, and there's no follow-up, no measurement - - -

COMMISSIONER WOODS: Absolutely.

MS JOLLY (PN): - - - about, "Where's that investment gone?" Probably a classic example, to some extent, is the last Grain and Graze program. There were lots of really great things about that program, but it was a multimillion dollar program and, other than encouraging farmers to sow cereals for grazing, really what other return on investment was there from that? There were a lot of farmers who were doing that already. So there are those sorts of things that I think need to be investigated and better monitored to get a better return on investment for the taxpayer and also for the farmer.

MR GRANGER: Many programs fail to have clear, unambiguous objectives, let alone clear performance indicators for when the journey is finished.

DR BYRON: So even if there was an evaluation, you couldn't do it because you didn't know what it was supposed to achieve in the first place, or what the benchmark was at the start.

MS JOLLY (PN): That's true. But there's also the problem that, even if you do know what the objectives are and they weren't achieved, that then the program is funded again. You just think, "This is crazy."

DR BYRON: We need to do things much smarter.

MS JOLLY (PN): I think we could be a lot more strategic about it. Can I just have a minute to make a comment about the FarmBis to FarmReady?

COMMISSIONER WOODS: Yes, please.

MS JOLLY (PN): And also the professional grants that are out there. One comment I'd like to make about the professional grants is that there was a comment in your report about the poor uptake of them - these are the \$5000 grants. Our experience with the people that we've talked to is that most people don't even know about them. That's been the biggest problem. When I've been out running, workshops or whatever, I say to people, "If you want to do something, these grants are available," and I would say that 99 per cent of people, farmers, I've come across in the field don't even know about them.

COMMISSIONER WOODS: Yesterday on the Eyre Peninsula was another good example of that.

MR GRANGER: Yes. We were talking about programs there. They were saying, "Oh, hang on. Can you tell us the details of this." We said, "Turn to page X in our report because there's the detail on it."

MS JOLLY (PN): So I think there's a big communication problem that, from a government level, needs to be addressed. I am greatly in favour of combining expertise - government and private sector working together - and I do quite a lot of work in conjunction with government agencies on the ground. I think there's expertise in both camps. They both need to work together and I think those communication channels need to be opened up to the private sector so that everyone knows what's going on. At the moment, that's not the case. I also think that there's quite a lot of competition for funding from various organisations, which is creating an atmosphere of secrecy. You know, there's a program coming out: naturally, any

government program will be disseminated through government channels - that makes quite logical sense. But the government agencies are now also under pressure to get return on their investment, it's no longer a free-for-all, so it's not in their best interests often to disseminate that information widely. As part of the whole funding model, it really does need to be investigated - this information flow - and somehow needs to be made open to everybody. I don't have any answers, I'm afraid.

COMMISSIONER WOODS: We're certainly into transparent information. That's our whole model.

MS JOLLY (PN): Yes, I think so. But I think that the idea of those grants is really good for those people who are not group learners; for people who at least they've then got the opportunity to be able to be assisted, one on one, on farm, if they don't like group learning for whatever reason. I think I've just about run out.

COMMISSIONER WOODS: We do have the benefit of the document that you've provided. A lot of that goes into some of your earlier comments. But during the course of this discussion you've made a number of very valid and focused points about the extension, the adoption, the importance of benchmarking and evaluation, and we realise that, being a small business, any time you spend in public you're not out there earning income from a client, but if you could find another hour sometime in the next week to wrap up your thoughts in a way that we could pick them up and use that understanding in our report on that side of it - the importance of the benchmarking, evaluation, the adoption, and what lessons you've learnt on how best to operate with the individual farmers in that respect - that would be very helpful to us. Neil, have you got anything else?

DR BYRON: No.

COMMISSIONER WOODS: Bob?

MR GRANGER: No.

MS JOLLY (PN): There was probably just one question that you asked that I didn't answer.

COMMISSIONER WOODS: Sure.

MS JOLLY (PN): That was: how can the government assist organisations like ours to train people? My view is really no different to the government. It's really a case of who cares whether you're government or private? If you have expertise in a particular area and are willing to train people in that area, then maybe there's some process by which you can put in a tender to tender - - -

COMMISSIONER WOODS: Yes, be contracted to deliver that.

MS JOLLY (PN): - - - to do that, because I mean - - -

COMMISSIONER WOODS: Totally agree.

MS JOLLY (PN): - - - I'm not going to be in the workforce all that much longer, and I would really like to be able to train a heap of graduates in nutrition - it's certainly needed - and, if there was any way that we could share that with government agencies or whatever, I think it would certainly meet a community need.

COMMISSIONER WOODS: Yes. There are two separate questions: what does government fund, and then the second question is who delivers that, and that doesn't need to be a government employee. That can be whoever has got the expertise; they contract to deliver that.

MS JOLLY (PN): Yes.

COMMISSIONER WOODS: Either in-house or outsourced. We understood that.

MS JOLLY (PN): So I'd just like to say thank you very much for giving me the opportunity.

COMMISSIONER WOODS: Excellent.

DR BYRON: Terrific.

COMMISSIONER WOODS: I found your submission very interesting. I learnt a few things, which is very good, as we all did, but the conversation has revealed a few more understandings that you have. We have got some of that now on transcript, but if you could also do some follow-up, that would be excellent.

MS JOLLY (PN): I'll do that. Thank you very much.

DR BYRON: Thank you.

COMMISSIONER WOODS: Thank you for your time.

COMMISSIONER WOODS: We call now Rural Clay Services, please. Thank you for being patient and waiting.

MS WEAVER (RCS): That's okay.

COMMISSIONER WOODS: Could you please for the record state your name, the position you hold and the organisation you represent.

MS WEAVER (RCS): My name is Elizabeth, and I am the owner of my business, which is Rural Clay Services.

COMMISSIONER WOODS: Elizabeth Weaver. Is that correct?

MS WEAVER (RCS): Yes.

COMMISSIONER WOODS: Thank you.

MS WEAVER (RCS): Rural Clay Services is a clay-spreading business and also I'm an agricultural contractor, because clay spreading only runs from January through until May-June, depending on when the rain change in the season comes. When I stop doing clay spreading, I then do contract spreading using a Marshall spreader on a Mercedes truck, where I spread gypsum, urea, et cetera - whatever products the farmer might need. From September to December to windrowing. So I can see first-hand what impact the drought is having on the crops and the land.

My clay-spreading business is, of course, my main income-earning capacity, and the Department of Agriculture have conducted trials on Eyre Peninsula, Yorke Peninsula and Kangaroo Island, and it has proven that it's a valuable method of land management because it helps with non-wetting soil, sand dunes and sand drifts. It can improve crop yields, reduce wind erosion, weed management, and reduce frost damage.

My business works closely with Rural Solutions and I was involved in three trials in 2006. My business has only been going since 2006. Rural Solutions work NRM because there are subsidies available for this work. So my business must meet and ensure best practice methods are met and adhered to. My business relies totally on farmers and, due to the drought, farmers will not borrow money for land management, which has resulted in my business suffering due to little work being required in 06 and 07.

In my third year, which was the 08 year, I have achieved 90 per cent of my business plan. I have an accounting diploma, and prior to starting my business I sat with my accountant and worked out what my business plan would be so that I knew

what my break-even point was. I have had problems with Centrelink. I do receive an exceptional circumstance payment, which makes it a little bit easier for me to put food on the table and pay some bills.

COMMISSIONER WOODS: Is that an interest rate subsidy or hardship?

MS WEAVER (RCS): It's hardship.

COMMISSIONER WOODS: A hardship relief payment.

MS WEAVER (RCS): Exceptional circumstance payment.

COMMISSIONER WOODS: Yes. Thank you.

MS WEAVER (RCS): The problem I have with Centrelink is, when you take information in to them so that they can send it on to the Drought Team, they have not been readily willing to give me a written receipt number, which the Drought Team have advised me that I should request.

COMMISSIONER WOODS: What's their response when you ask them?

MS WEAVER (RCS): When I took information in to the Gawler office, the lady said, "There's a pen." I said, "I beg your pardon?" "There's a pen. You can write the receipt number down." I said, "No, I'm sorry, I want a written receipt which is printed out of your computer." "Oh, we don't normally do that." I said, "Well, I'm going to stand here until you give it to me." So she did give it to me.

COMMISSIONER WOODS: Very good.

MS WEAVER (RCS): I've got problems with PIRSA, because I have applied for interest rate subsidy. I have been rejected and they have given the reasons. I have appealed, addressing those reasons, and I have still been rejected, and even though I answered their reasons why they have rejected me, my second letter that I got back was just basically a standard roneoed letter of my first letter. They did not answer any more. So I'm appealing for the third time.

My comment about that is that I don't believe I'm going to get a fair go, because on the appeals committee I have found out that there are two farmers and a PIRSA representative, so basically there is no representative of small business, and you will have one farmer who may say - this is just a scenario - one farmer who will say, "Yes, we should support her," and the other one, "No, we shouldn't," and who's going to make the final decision? PIRSA.

Another reason why I believe it's not being fairly applied is that a silage contractor in Victoria has received the subsidy, yet another silage contractor in South Australia has been rejected. From one state to another, how can there be two exactly the same contractors, yet one has got it and one hasn't?

From what I have been able to find out, which is very difficult, there have only been a few small businesses that have been successful in getting the interest rate subsidy. You can't find out any statistics as far as how many small businesses have applied. A lot of the small businesses, as soon as they have applied and been rejected, have just given up because it's too hard, because some of them have been receiving advice from Rural Financial Counselling saying, "Don't bother, because you won't get it."

COMMISSIONER WOODS: "Because you don't meet the criteria"?

MS WEAVER (RCS): They might meet the criteria, but they either don't have an accountant or they don't have enough experience. The farmers don't have enough experience to actually go in to bat to put the second appeal and third appeal down in writing.

COMMISSIONER WOODS: Because isn't one of the roles of the Rural Financial Counselling Service to assist people with those applications?

MS WEAVER (RCS): Yes, it is. I had the rural financial counsellor out when I put my application in for exceptional circumstances payment and her input was nothing, because she could not give me any more information, she could not suggest anything, because I had prepared it thoroughly. She couldn't give me any more.

COMMISSIONER WOODS: But if you had prepared it thoroughly, isn't that what was needed and therefore - I mean, what else were you looking for from her that you weren't able to do?

MS WEAVER (RCS): For the exceptional circumstances it was fine. For the PIRSA, when I got her out again, I would have liked her to have given me - when I appealed, I would have liked her to have given me two options: (1) to attack the appeal from a financial point of view, which is what I did, with statistics, et cetera; or (2) just to sum up very clearly and in just two pages "why your business should get interest rate subsidy".

How I'm going to handle the third appeal is that I have got another financial person to help me - my accountant plus somebody else - and we are just going to not attack it from the financial point of view, because they obviously don't read it, and to just sort of sum it up and say, "She is viable. Even though she's made a loss, if you

take out the depreciation and you take out the machine repayments" - you know, I can meet - if I have achieved 90 per cent in my third year, I can be viable, and it's only because of the drought that I am not being viable.

The rural financial counsellor has been very successful in advising me that there was a dump truck course and there was a forklift training course. The dump truck course, I had to wait one year. I did have my name down, and I have just found out in the last week that that's been disbanded because the funding has run out. The forklift training course, when I found out, that was totally booked up. I rang up and said, "Well, are you going to run another course?" "No."

The reason why I would be going to a dump truck course would be because of the debt that I've incurred over the last three years. I'm at the point where if I don't go and get a job where I earn pretty good money, which is working in the mines, because I believe I've got the experience to do that, I'm not going to repay my debt.

So basically what I'd like to know from you guys is: where do I go from here? How do I get PIRSA to understand that the drought has in fact impacted heavily on my business, but then by the same token I find out that the interest rate subsidy is not going to continue?

COMMISSIONER WOODS: As you would realise, the Productivity Commission is currently conducting an inquiry into drought support, and these hearings are based on our draft. So in terms of the detailed administration of your particular client situation with PIRSA, we aren't able to assist you in that, but I assume you realised that before you came.

MS WEAVER (RCS): Yes.

COMMISSIONER WOODS: But we would certainly be interested, given your experience with the system, if you have any views on our draft report: which parts of the report you found were appropriate and we should continue with, or if there were any parts of our report where you felt that we should reconsider some of the views. I don't know if you've had the chance to look through our draft report.

MS WEAVER (RCS): No, I'm sorry, I haven't. I've just spoken to Anthea and she is going to send some information to me so that I can have a look at that.

COMMISSIONER WOODS: It certainly would be very useful for us, given that you have experience with these programs, if there is some contribution you could make to that. I presume you haven't come to these hearings expecting that we could somehow arbitrate between you and PIRSA.

MS WEAVER (RCS): No.

COMMISSIONER WOODS: There is an appropriate process to go through, and we don't have the knowledge of your case to be able to offer any detailed guidance for you. But I suspect you were aware of that beforehand.

MS WEAVER (RCS): Yes. The problem with PIRSA is that I don't believe small business are getting a fair go. For instance, my business has made a loss because of the drought so I'm not viable: I got rejected. There's another business that they are saying is viable: they still got rejected. There's another business who got rejected: he's a silage contractor. There's another business down in the South-East. There are two brothers running the business or whatever. Obviously they took drawings so that they could pay and put food on the table: they got rejected.

I know there are farmers who are getting it and farmers who aren't getting it, and I know that there is anger starting in small towns, because I've just come back from Yorke Peninsula. I've been over there basically since October, doing windrowing, and the farmers are segregating, as far as those who have been successful and those who haven't. That is a dangerous situation.

MR GRANGER: Are you a member of a small business association that could "plead your case"?

MS WEAVER (RCS): No. All I've done to do my final appeal with PIRSA is that I have attacked it from a different point of view. I have sought advice from my accountant and another person who has got a solicitor background, and he is going to go from his point of view.

MR GRANGER: I don't think it's reasonable to enter into your private business, but intuitively you really do need that extra help. That's why I asked are you a member of an association that could probably look at your case. It sounds like you're ready to face them again for a third challenge, but you do need some extra independent sort of advice to position your case.

MS WEAVER (RCS): Yes. As I said, my second attack was from a financial point of view and they really didn't want to read that, so therefore the last attack can only be from a word point of view.

MR GRANGER: It sounds as though you're learning by experience, albeit the hard way. But you just do need those people in there to maybe give you that extra perspective.

MS WEAVER (RCS): Unfortunately, three years ago when I sat down with my

business plan - which is very achievable; it's nothing over the top - we didn't take into account Mother Nature. We didn't take into account the drought, and I can assure you, up until the end of August this year, things were looking really good and, if things had kept on going, I would have quite easily achieved my business plan for 09, but no rain.

COMMISSIONER WOODS: Yes, that is true. Is there anything else that you want to raise with us?

MS WEAVER (RCS): No.

COMMISSIONER WOODS: Thank you for your time.

MS WEAVER (RCS): That's okay.

DR BYRON: Good luck.

MS WEAVER (RCS): Yes, I'll need it.

COMMISSIONER WOODS: I will now ask the representative of Agvance Rural Services to come forward, please. Thanks very much. Could you for the record, please, give your name and the position you hold in the organisation that you represent.

MR BUTTON (ARS): Stephen Button from Agvance Rural Services. I'm the director. I come here today as a small business operator. I'm an agricultural contractor and started contracting some 16 years ago. Up until the time of the drought, it was quite a profitable business, and the problem I have is that small business in rural South Australia has been forgotten about. It is impossible to get exceptional circumstances funding. I've been rejected twice. I have a perfect situation where I should be accepted. It's been profitable for a long time.

COMMISSIONER WOODS: Where exactly are you based?

MR BUTTON (ARS): At Saddleworth. My contracting involves seeding, spraying, fertiliser spreading, windrowing, baling, deep ripping.

COMMISSIONER WOODS: Using your machinery or - - -

MR BUTTON (ARS): Yes, my machinery, which I've built up over the years. I started with nothing and through - it would have to be - good management we've survived this long and built it up over that period of time.

COMMISSIONER WOODS: So you went through the 94 drought and things.

MR BUTTON (ARS): We started at the end of the 94 drought. There is a difference between small business and the farming sector, and I don't know why that is, when farming is small business at the end of the day.

COMMISSIONER WOODS: In some cases, a very large business. But, yes.

MR BUTTON (ARS): Small to medium business, as a rule. There is no difference at the end of the day when you come to pay your tax, but when it comes to interest rate subsidies, in the eye of the government there seems to be a difference. To use a fairly strong word, it's almost racist, because why can farmers get interest rate subsidy but small business in country based businesses cannot? I know of two situations - in fact, three situations - where the contracting income of a farm wasn't declared and they got interest rate subsidy the first time through. In the other two situations it was rejected, but when the off-farm contracting was excluded from the application it went through. Yet, because I'm not labelled a farmer, I cannot get it, and yet I do everything that a farmer does bar own the land that I do the work on.

COMMISSIONER WOODS: Given that you've been in business - if it's since the end of 94, so 14 years?

MR BUTTON (ARS): Yes.

COMMISSIONER WOODS: Presumably you've had a wide range of seasons in that time - - -

MR BUTTON (ARS): Yes.

COMMISSIONER WOODS: - - - although not drought as such until the last few years, what sort of risk management strategy have you built for your business? Have you diversified your income base? I realise that you've got a diverse range of agricultural-dependent skills and capacities.

MR BUTTON (ARS): Yes.

COMMISSIONER WOODS: But have you built some drought-proofing into your business plan?

MR BUTTON (ARS): I've intentionally diversified, because when I started I just started spraying, broadacre spraying. Then we got involved with windrowing, and we've brought in all these other things. Over the years, it's always changed as to what segment of the business performed best.

COMMISSIONER WOODS: Absolutely. It does.

MR BUTTON (ARS): You would never get the whole lot performing at the top in one year.

COMMISSIONER WOODS: That's life. Yes.

MR BUTTON (ARS): Three years ago we brought in hay. If we hadn't brought in hay baling, I wouldn't be sitting here now. We would have gone broke. But yet it's been held against me in my application that I've spent money on equipment diversifying my business. That is one of the criteria that they've rejected me on, but yet I've managed to bring this diversification in, strengthen my business along the way - - -

COMMISSIONER WOODS: Yes, I was going to say: isn't that a good business decision?

MR BUTTON (ARS): But it's been held against me in my application.

COMMISSIONER WOODS: Held against you for getting public money - - -

MR BUTTON (ARS): Yes.

COMMISSIONER WOODS: - - - but not held against you for the strength of your business.

MR BUTTON (ARS): That's right. I've put away commodities, as in dealing with straw, grain, et cetera.

COMMISSIONER WOODS: So you've done some hedging in that sense.

MR BUTTON (ARS): That's right, yes. One year of drought, I don't hesitate; you just keep going. Two years it starts to hurt. Now we've got to three, we will seriously look at walking away, if we possibly can. We can't continue on without some form of business help, and I don't know of any business - whether it be farming or whatever - if they go through three years of what we've just gone through, with very little income, whether they would survive.

COMMISSIONER WOODS: The majority of farms, even in this - which is one of the worst three droughts in the last 100 years - still don't get interest rate subsidies. They've drought-proofed their business to continue to be viable or to continue to be able to draw down their drought-proofing strategies. So the majority of farmers don't get financial support during even this period of drought because they've built their business to have that strength and capacity. But there are some who do. In your case, with your business, you're employing others and you've had to reduce labour, or were you a sole operator?

MR BUTTON (ARS): Yes. I used to employ a lot of labour.

COMMISSIONER WOODS: Or subcontract.

MR BUTTON (ARS): Yes. I used to employ up to 10 labour units.

COMMISSIONER WOODS: By subcontracting, or directly on business or - - -

MR BUTTON (ARS): Most of them employed directly, and two of them are subcontractors.

COMMISSIONER WOODS: What are you down to now?

MR BUTTON (ARS): About one and a half, because the business just cannot support them because our workload has diminished so much. Even though we have diversified and done other things, we still don't have that workflow at peak times.

COMMISSIONER WOODS: That diversification is obviously a positive in terms of your business - that you wouldn't have stayed in business for as long as you have if you hadn't done that.

MR BUTTON (ARS): That's right, yes. I've been saying this for a number of years: if I had FMDs available to me, it would have been a very, very good management decision to have put a fair bit of money away and then - - -

COMMISSIONER WOODS: Do you own a trust structure or something whereby you can defer payment of tax on some of your income?

MR BUTTON (ARS): No. We don't have those things available in small business.

COMMISSIONER WOODS: Well, tax structures aren't only confined to FMDs, but presumably you've got an accountant who advises you on the best structure.

MR BUTTON (ARS): Yes. That would have been very worthwhile, if I could have done that - delayed tax and had money available to bring back into the business at these times, because if a farmer sneezes I catch a cold. If it doesn't rain in the right week, our business stops. At the moment, they've got colds so I'm in a critical situation, like a lot of small rural businesses. I don't know how farmers can farm without rural small business contributing. You can't get mechanics to come and work for you if there are no workshops left in the town.

COMMISSIONER WOODS: Yes. Farming is becoming a very interdependent business these days.

MR BUTTON (ARS): Yes.

COMMISSIONER WOODS: It's not just a self-contained farm any more.

MR BUTTON (ARS): There seems to be a big difference between EC funding from state to state - a big difference - and I think if anything changes in the future it needs to be controlled from the federal government, not by each individual state.

COMMISSIONER WOODS: Certainly the direction of our draft report - and I don't know if you've had a chance to see it - - -

MR BUTTON (ARS): No, I haven't.

COMMISSIONER WOODS: Okay, that would be helpful - is that you have a single national policy platform, and it might be administered separately but you would have a common set of rules and of administrative practices. It's not just good enough to have the rules the same; the administration and application of those rules should be consistent across the country as well.

MR BUTTON (ARS): Yes. As far as education is concerned - and that's been brought up a lot today - it comes back to the individual; if you want to know; if you want to be proactive or reactive in your industry. In my case, I've done a lot of education to try and get to where I need to be and to be ahead of the pack basically, and if you want to be there you'll do the hard yards to get there under your own steam, not be told that you've got to do this or you've got to do that. Over the years I've founded the Broadacre Sprayers Association of South Australia, the Grain Harvesters Association of South Australia. I'm currently on the board of the Fertiliser Services Association of South Australia, Best Management Guidelines Committee for the Fodder Industry Association, as well as studied an MBA at Adelaide University, which I never completed. So if you want to know these things, if you want to take financial control and have a bit of control over your destiny, you'll get in and do it, not be told that you've got to go and do these courses and do these things to improve your business structure.

COMMISSIONER WOODS: True. But there are some who don't do the courses but then still say that the taxpayer has an obligation to fund them to stay in business, which we find a little disturbing.

MR BUTTON (ARS): If you haven't done the hard yards, why are you asking for help at the end of the day?

COMMISSIONER WOODS: Yes; very good question. You have sat through these, I notice, and, given your experience in the industry and the education that you've undertaken, do you have other commentary on the matters that have been raised? That would be quite helpful to us?

MR BUTTON (ARS): Education is a big thing, and it's not just - it's the whole lot. Farming is very complex and it is becoming more complex, and it is becoming more difficult. I'm not in agreeance with climate change. I think it's just the word of today. Australia has been changing for the last hundred million years and it's going to continue to change for the next hundred million years or however long it lasts. We have to acknowledge that. Maybe mankind has sped it up a bit and we have to manage that in the future. I suppose I look here today and say, "Well, is there a problem with the farming sector? Are they being reactive and just going with what

they're being told or are they here today saying what they want to happen and being proactive?" I actually wrote down some things. The Farmers Federation I suppose have represented the farming sector here today. We've got Rural Counselling Service and four other businesses. I think that's got to tell you something.

COMMISSIONER WOODS: What's that?

MR BUTTON (ARS): Well, four businesses are here, trying to have some control over the change that's going to take place in the six to 12 months. Why isn't this room full of farmers?

COMMISSIONER WOODS: We have other forums where they do come.

MR BUTTON (ARS): Yes.

COMMISSIONER WOODS: Yesterday we were on the Eyre Peninsula and we had 20-something and, apart from a couple, they were all farmers. We do have workshops and days when we bring the farming and small business communities together, but in these more formal hearings we tend to focus primarily on the peak groups. So today is representative of only part of our process. We were in the wheatbelt in WA and we'll be in Dubbo and we'll be at Mildura and Roma, and we'll have rooms full of farmers, and we have done on the way through. We've had 81 meetings leading up to our draft, which unfortunately you haven't had the benefit of reading. We were in 31 towns around the countryside and we had 20 and 30 farmers at a go. So let me assure you that we are speaking directly to the farmers.

MR BUTTON (ARS): Right.

COMMISSIONER WOODS: Today is part of a process but not representative of the total process.

MR BUTTON (ARS): Right, yes.

COMMISSIONER WOODS: And we've had many other contractors, anywhere from Tasmania through to Queensland, so we have heard that voice. It would be useful to us, if you did have some reflections on what you've heard today, or if you did get a chance to dip into our report, to give us some feedback on that. You are in the industry; you've got good experience.

MR BUTTON (ARS): Education. Like the other speakers have said, education. You can never have too much knowledge, and there is too much reliance on the farming sector from agronomists and suchlike. If I want to know something, I'll just go and ask someone, and I may only get one or two opinions. An educated person can make a lot better decision.

COMMISSIONER WOODS: Entirely true. And we, as you will notice if you do get a chance to look at our draft, think that much more expenditure should be undertaken in not only the research and development but also the extension and training and education side of that. It's one thing to have the research done; it's another to actually get it out in the paddock and have it making the benefits.

MR BUTTON (ARS): Yes, and a lot of this education is not just for the farming sector.

COMMISSIONER WOODS: No.

MR BUTTON (ARS): It's for all rural based businesses, maybe over 50 per cent of their income coming from the farming sector.

COMMISSIONER WOODS: Yes, we agree with that.

MR BUTTON (ARS): That way, everyone can move forward. I have a few other issues with what farmers get. Even though I don't own the land, I do exactly the same thing, and it's becoming an economic problem, because farmers are going off farm to improve their viability, and because they may have, for instance, subsidised registration on their vehicle, they're using that to get an off-farm income which is then competing against other businesses and damaging them along the way.

COMMISSIONER WOODS: It would be useful if you sort of tracked through a couple of those points and submitted them to us, because that's useful information to have on the public record.

MR BUTTON (ARS): Yes. In my district I suppose I'm competing against nearly nine out of 10 farmers who are out contracting in some form or another, whether they be harvesting contracting or seeding or spraying or whatever, so it's extremely competitive.

COMMISSIONER WOODS: That would genuinely be helpful to us, if you could give us some indication of where the competition is not on a level playing field.

MR BUTTON (ARS): And interest rate subsidies possibly aren't helping that much either, where your small businesses aren't getting it and the farming sector is. And it's not just creating a division in the farming sector and one farm to the next, right alongside one another, but, yes, right across the board.

COMMISSIONER WOODS: We're very aware of the divisions that the IRS system has been creating, and the whole EC process for those who are in and those who are out.

MR BUTTON (ARS): Yes, that's right.

COMMISSIONER WOODS: And we think there's a fairer way of going, which we outline here.

MR BUTTON (ARS): Yes. Whether it's prudent to change things in mid-drought, for want of a better word, I don't know.

COMMISSIONER WOODS: And again you would have sat through some of the evidence this morning which comes to us quite forcibly that perhaps trying to end it after the next season might be too early and to let the current drought run its course.

MR BUTTON (ARS): Yes, let it runs its course, finish it, then - - -

DR BYRON: Switch over to the new system.

MR BUTTON (ARS): Change to the new system.

COMMISSIONER WOODS: Or run the new system in parallel for those who aren't in EC areas.

MR BUTTON (ARS): That's correct, yes.

COMMISSIONER WOODS: That's good advice.

MR BUTTON (ARS): That covers it pretty well, I think.

COMMISSIONER WOODS: Excellent. Thank you very much, and apologies for the late start.

MR BUTTON (ARS): No, that's quite all right.

COMMISSIONER WOODS: We were running a bit late, but it's been helpful. Thank you very much for making the time available.

MR BUTTON (ARS): No worries. Thank you.

COMMISSIONER WOODS: Are there any other persons present who wish to either provide evidence or provide supplementary evidence? That being the case, we will adjourn the hearings until a later date.

DR BYRON: 9 o'clock in Brisbane.

COMMISSIONER WOODS: Brisbane, on Monday. Thank you very much.

AT 12.59 PM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 1 DECEMBER 2008