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**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

INQUIRY INTO GOVERNMENT DROUGHT SUPPORT

**PROF MIKE WOODS, Presiding Commissioner
DR NEIL BYRON, Commissioner
MR ROBERT GRANGER, Associate Commissioner**

TRANSCRIPT OF PROCEEDINGS

AT BRISBANE ON MONDAY, 1 DECEMBER 2008, AT 10.30 AM

Continued from 28/11/08 in Adelaide

INDEX

	<u>Page</u>
LYNTON FREEMAN	291-310
GROWCOM AUSTRALIA: MARK PANITZ	311-324
QUEENSLAND FARMERS' FEDERATION: JOHN CHERRY PETER PERKINS ADRIAN PEAKE	325-355
MICHAEL WILLETT	356-384

PROF WOODS: Ladies and gentlemen, welcome to the Brisbane public hearings for the Productivity Commission inquiry into government assistance for drought events. I'm Mike Woods. I'm the presiding commissioner for this inquiry. 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, metropolitan, provincial and rural areas holding 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 already made 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 participant, Mr Freeman. Could you please, for the record, state your name and whether you are representing any organisation.

MR FREEMAN: My full name is Lynton Noel Charles Freeman and I'm not representing any organisation.

PROF WOODS: Thank you very much. We have received your submission. You have tabled with us further supporting evidence today. Do you have an opening statement you wish to make?

MR FREEMAN: For a long period of time I've been involved in a dispute with the National Australia Bank and that's brought me into a process of following interest subsidies and drought relief through. I have helped other people with their drought

relief problems and particularly business. At this stage I'm at the stage where things could be put together by your committee and made public.

PROF WOODS: Thank you. How do you wish to present your evidence today? Do you want to take us through some of the key features as they relate to our draft report?

MR FREEMAN: Did you have any questions to start with?

PROF WOODS: Well, we have been through your material in some detail. You do address various issues about the impact of the support and the various impacts at state and regional level and the like but I think they're all fairly self-evident. You do focus on issues of dispute resolution and the like. It would be interesting and relevant to us to understand what views you have on how to improve those processes in general program design. But most of the material here is extensive and easily readable.

MR FREEMAN: Yes. So there's no opening questions to ask me?

PROF WOODS: Yes, please.

DR BYRON: I guess I'm particularly interested in the relevance of your experience in terms of looking forward from where we are now and whether the draft recommendation that we proposed to basically phase out the interest rate subsidy over the next two years, what the implications of that are for your evidence. Or in taking us through this could you sort of focus on forward looking rather than sort of getting into the history, which may not be terribly relevant given our recommendation of phasing out IRS.

MR FREEMAN: Yes, okay. Well, the part that I can deal with most of all is the statistics and the quiet rise in the interest rate subsidy payments and how that came about. That will give you not just one idea but many ideas on how to control things. In the fresh material that I have give you there's a judgment, C.H. Magill and Another v National Australia Bank.

PROF WOODS: Yes.

MR FREEMAN: In your report you talk about the variation between the states. You only name Victoria and New South Wales but in actual fact the Victorian system is fairly close to what is in Queensland. In that New South Wales judgment - I won't go into the details of the judgment further but at the findings on page 3, this was under the old PIBA loan system where many of the things that were in interest subsidies and drought relief programs came from that experience.

In those findings they came up with some things that are particularly important to you. That was based on informal letters and informal contracts; that the prior negotiations and the contract were admissible, at 2. Then at page 4 we come down to (iii). At (iii) it says:

It was unnecessary for the business efficacy of the contract for an acceleration term to be implied and as such the Master erred -

they accelerated the interest on people from the PIBA program through. Now, that becomes a particular problem when you're dealing with interest subsidies because the banks accelerate the interest on persons and then change their program, and -

(b) As a result of the finding as to acceleration the respondent was also in error in combining the accounts.

That was the National Bank combined the accounts.

This comes under a particular process that came out of a case in England, National Bank of Greece v Pinios. But they found that the PIBA loan was not therefore subject to normal banker-customer relationships, and that's not how interest subsidies have been worked. They would have to be changed in the future to work in with what this judgment is saying.

The next judgment is one between Freeman v National Australia Bank. At page 5 it deals with a document - even though the bank had just renewed the facilities they wrote to their manager and they said:

Reduction of debt is not negotiable. Our file comments 3/1/96 remain relevant. This is primarily a holding operation and should seasonal conditions, commodity prices not have improved by expiry date to enable commencement of a realistic amortisation program for customer ... sale of assets as is.

That bank manager made a decision to fit in with that program without actually looking at any sort of document outside of the document that he constructed. So that the bank policy was to take the person out on interest subsidy even though they were making their payments and they weren't in any trouble.

PROF WOODS: Yes, I noticed that you had material in other parts of your submission about meeting the viability criteria of the subsequent four years and the like - - -

MR FREEMAN: Yes.

PROF WOODS: - - - and that you spelt that out in your - - -

MR FREEMAN: This is in judgment though, you see, and this judgment was compared to the New South Wales judgment. So when this was published in Victoria in about 2002, Victoria - the National Bank and the ANZ Bank they adopted this process that is in this judgment. In New South Wales they adopted the process that's in the front part of it. When you go on, what compounded the problem with the variation was in Queensland in 2002 the chief justice used that judgment of NAB v Freeman at a conference and told the finance industry that was the way to go.

PROF WOODS: Yes.

MR FREEMAN: So they went that way. Now, the part that becomes very important is when people are negotiating with the bank in a dispute situation, there is a judgment in the Northern Territory called James Laferla v Birdon Sands. It spells out the way that the bank, their solicitors and barristers are supposed to approach these things, and they don't approach it that way. So what happens is Elizabeth Cunningham tried to put an act through, and that would bring it back to that James Laferla process.

It probably needs some support from you, but even if they were to bring that in to the policy now, it would stop a lot of the problems. The next part is how the banks manipulated the money, and how you'd have to stop them manipulating the money to get the maximum benefit for the bank and the least benefit for the trustees and the government, and the way they did that is through what's called non-accrual, and their non-accrual facility allowed them not to charge tax against - not to put interest into taxation in their accounts, so that they put it off to a reserve fund, and what they had to do was to get around these problems.

When that New South Wales judgment came out on 13 August 2001, they immediately issued people that were in court dummy bank statements, or the National Bank did - dummy bank statements with interest applied because they knew they couldn't apply the interest. So that's how they got around it. But in actual fact, they should have paid tax on the money because when they did that, if a court accepted that as a bank statement, then they'd apply money as a debit against the account which took it out of the reserve fund and meant they should have paid tax on it in the first place.

How many of those exist, I don't know, but I'd imagine there's quite a few, because it all came out of government inquiry in 2000 into what they call shadow ledgers. Now, if you're going to change these things and going forward in view of

the way that you've looked at the program of avoiding interest subsidy, there is the old PIBA-type scheme that was here, where the bank guarantees the money, but there are many other types. Right now there's a big group of government-controlled or statutory controlled funds that have been put aside by rural industry. Those funds are self-generating in income that could go towards some sort of program as a division or whatever.

But if you want to avoid interest subsidy in the future as far as drought goes, then that's not an unreasonable way of doing things. The system of "pay it back when you can afford it" is what we used to have in Queensland, and I think they still have it in Queensland. That's not exactly totally successful in every direction, but the fact that you can start a scheme up and put all that government money in those farm deposits into a bucket and ask the banks to lend on that money or to use that money in some way is not unreasonable because it's not there as a bank benefit. It's there as a benefit for the person involved and for the public. It's under a public statutory process.

As far as individuals goes, in business, I've found that anyone in business that applied for drought subsidy, because they had to be non-viable, the bank immediately sold them up, sent a demand and sold them up. In Queensland, the banks wouldn't agree to them getting the subsidy even though the Queensland Rural Adjustment Authority gave them the subsidy. So that the banks said, "Oh, no, you're unviable. We're going to sell you up." The National Bank had a process of if they just didn't want to put someone on, they had an agreement with the Queensland Rural Adjustment Authority in a roundabout way - I'll explain how that works - in that they would just say, "We're not going to renew the facilities," and the person would go down the chute.

That worked very well for the banks because the bank, if they wanted to reduce their exposure in a particular area, it was very easy to do it and not very fair to the customers, and that was the major problem with the interest subsidy problem situation; how can you get around it? They had a contract and it was a contract that most of it would be verbal, but it was a contract with the Queensland rural adjustment authority under the scheme as well as with the bank and the farmer. If the bank didn't live with this contract, no-one upheld it, and they don't in Queensland, because they look at - particularly in Queensland. They just look at it as a debt. But in New South Wales, they upheld the contract in that Magill judgment, which is a very important issue and that's why New South Wales was different, I presume.

In the Queensland Rural Adjustment Authority, the way that the banks were able to control their programs inside the authority - and I'm not sure that it deals with the - that is, within the ordered act of the state or the ordered act of the

Commonwealth, but they had a program where all applications went to a central point onto a table. They had people in there from all various banks, and they just took whatever file that they wanted and dealt with it. In other words, if a bloke from the Commonwealth Bank, and he knew the Commonwealth system very well, and he may still have loyalty with the Commonwealth Bank; "We'll forget about that." He might handle the Commonwealth Bank's debts, which is not exactly independent and not exactly the way it should be done.

So that is another reason why in Queensland and Victoria you see a different program, where people might be eligible for the subsidy and they might get the subsidy, but the bank wouldn't accept it, and that was quite common. As you know, the man inside QR or the person dealing with the file inside QR would talk to the individual's bank manager, so the program would very easily get corrupted. I'm not suggesting that that's the total reason for it, but it wouldn't help. To avoid all these things, it is quite easy. It is a lot easier than it could be.

First of all, all people now and all banks and all rural adjustment authorities could have a program brought about and you could issue instructions under Magill. That would immediately start to bring in that the applications and the contracts between the banks and the rural adjustment authorities become law or become more effective in law. The second thing you could bring in would be that interest - if the bank doesn't accept interest off the person, like the subsidy interest from the rural adjustment authority or wherever, then the bank cannot increase the interest in risk because what they do is, they refuse the interest. Then the person involved has to - - -

PROF WOODS: Sorry. What's the motivation for refusing the interest?

MR FREEMAN: There isn't necessarily a motivation. Files are handled by the individual bank managers. Individual bank managers make those decisions themselves. Inside the organisation you have cultures and you have people and you know how it all works, without me explaining it. So where you have a culture in the organisation that a particular person goes a particular way and they've been trained that way, they will do that. They will do it always. So what happens is, if you have a bank manager that says, "I don't like peanut farmers," or, "I don't like wheat farmers," or so on, and they have this problem, they look for that problem and as soon as that problem comes along, they'll knock them out.

So the bank doesn't necessarily need a policy direction from the top to say, "All right, we've got to have a redemption of so-many billion dollars this year from your branch." They don't need that. They don't need to even hear that. They just have to transfer the right bloke to the right place and they get the result. That's generally about how it's done. So the ease of it is, from a ministry point of view, if the bank

has to reduce its exposure in a particular area, it just arranges the program. How do I know that? I've been seven years at GIO which is now Suncorp, and that's how it was done. It happens with a lot of things like that.

It's not necessarily a thing that the bank tells them to do it. People just know to go and do it because that's the way they've been trained. In these programs, we're talking about people that have been trained in the bank and they work in the Queensland Rural Adjustment Authority and the culture of the authority takes on the culture of those individuals that have been there, maybe at the start, maybe as they come in, but the culture of the authority isn't the culture of necessarily being helpful. It's a culture of fitting in with the bank because the bank controls it, controls those people, and they see the bank as controlling everything because that's their culture.

The way around that is to make it so the contract is binding, as best you can, so that the bank cannot just refuse the interest subsidy and then say, "All right, we want our interest." Right? Because in reality, what that is is if you were to go to Weaver and Craigie, you'd see that demand for a bank is - instantly the bloke has a cent more than whatever the bank demands and that's in the account then the demand falls apart. So in actual fact where they refuse the interest subsidy and the interest is there then the bank hasn't got a leg to stand on. But it's not seen that way in law - sorry, it's not seen that way by the judiciary, especially in Queensland. I can't say about in other places but in Queensland it's not seen that way. It's just seen as though they owe a debt to the bank and they forget about the actual rights of the individual in so many cases; of the customer. So they have to be changed and they have to be brought in, either statutorily or by yourselves in some way.

PROF WOODS: Can I sort of go back behind this a bit, because you made a very important statement in your submission that the most important aspect of drought support is its ability to allow flexibility in the paddock.

MR FREEMAN: Yes.

PROF WOODS: That's the essence of - - -

MR FREEMAN: That's it.

PROF WOODS: I was very impressed with that statement. What worries me about programs such as interest rate subsidies or even deferred interest loans and the like is that they channel attention and activity into one set of programs that you then have to meet the criteria. There are a whole lot of administrative processes that - you will have noticed in our draft report that in fact we tried to get away from that approach. I detected some support from you in at least moving away from interest rate subsidies if not from that whole approach in your earlier statements.

But having had this extensive interest and involvement with the operation of the interest subsidy scheme, could you give us some reaction to our proposals which are basically to create a welfare scheme that is always on - it's not drought related, it's whatever causes the hardship - but then to move government focus and investment to research, development, extension, business management skills and the like rather than these forms of capital support; with the one exception of farm management deposits, which we say have a benefit. Our reason for supporting FMDs is that they are non-distortionary. Farmers can use that money when they want, in what manner they want. So again, it meets that criteria that you have set out which I find quite important, allowing flexibility in the paddock. I mean an FMD does that to perfection in the sense that it is entirely up to the farmer.

So the trouble with other capital schemes and particularly things like accelerated depreciation or others is that they tend to channel behaviour into certain areas, even if that wasn't necessarily the farmer's first priority. But if that's where you can get a write-off or if that's where you can get a subsidy or if that's where you can get grant support then you tend to channel behaviour that way. I'm not sure that government is the best entity to be deciding those things. I think it's exactly as you say, that it's flexibility in the paddock that counts.

MR FREEMAN: Yes, well, in Australia there's a history in agriculture of switching from one product line to another.

PROF WOODS: Absolutely.

MR FREEMAN: So it becomes very important that that flexibility is there. What tends to happen is - with the scheme, with the interest scheme the way it is, is that is available the way it is being done now. They changed it in 2005 and it's a lot more flexible. But if you're talking about a capital incentive scheme, sometimes to switch programs there is capital needed and it doesn't necessarily come from prior savings. The reason obviously is it's so big. The capital input can be so big so that the savings just can't grant it. It's like councils or any other major body that has to use large heaps of capital.

PROF WOODS: If I can reinforce that point. We were talking to some South Australian grain growers Friday last week. Their capital outlays to move to limited till farming practices and the like, they're talking hundreds of thousands of dollars just for the machinery, let alone restructuring their farm operation. But the big ones were saying the important thing to cope with what you're describing as the high cost of switching over, which is true, was (a) to expand their properties so that the cost per hectare kept coming down, because it wasn't the cost of the changeover that was important, it was the cost per hectare of the changeover that was important; and that

they were then creating commercial budgets that they'd go to the banks and others to fund. But I agree with your point, that there is a big cost.

MR FREEMAN: Yes, capital ratios is what you're talking about, on dollar per hectare. Capital and working ratios vary so much. If you were in South Australia you might have been down on the Yorke Peninsula. If you noticed that one side of the - very close to the coast - - -

PROF WOODS: Totally different practices.

MR FREEMAN: Yes, very close to the coast it changes until you get to the centre of where you get the better soils.

PROF WOODS: Yes.

MR FREEMAN: So the productivity that's involved with those things, while it can be used as a point of saying okay, it's not wise to do it, how do you equate for a situation where somebody in the poorer land on the very coastal side of the peninsula, can't buy a neighbour to bring his cost per hectare down? I think it's a very good way of looking at it, is to bring the cost per hectare down, but that's only in the capital basis. The cost per hectare in production is what they have to get down to make the bottom line work.

The things that you were talking about, the other system of product development and research and so forth, is really important and really the way to go in all productivity programs. The problem that you have though is when you get to the bottom line, is to put all costs against - all outlays against all income to come up with your productivity, and when you go to come up with the productivity program it doesn't always change if research is paid for by the farmer. So that means that there would have to be a change in program and attitude to research, which I don't think is unreasonable but the thing is how are they going to do it? With private research you run into the problem of they have got to make money out of it and it doesn't always work out that they can make money out of it. So that becomes a problem in itself.

The programs that are going to be streamlined, they're the ones that make the maximum money. That's where that becomes a problem. So how do they make it? They have to sell the products or they have to make it into a chemical or something like that. So the research that you're going to have that is going to be environmentally effective is probably going to have to be paid for by government because it is going to have to come in a different way.

PROF WOODS: Yes, because there are broader community benefits, not just able to capture the RD and E through product sale.

MR FREEMAN: Yes, well, nowadays - - -

PROF WOODS: That's a perfectly appropriate role for government where there are those broader benefits.

MR FREEMAN: Nowadays we are looking at a different way of assessing crop losses for insect damage and all that sort of thing. It's not done the way that it used to be; if you saw one insect you'd spray it. It's not done like that now, or it shouldn't be, anyway. It should be that you assess what the losses are, can be, and then you make a decision, so that chemicals are kept out.

But as far as the - getting past the normal routine operation, as far as government support for subsidies and programs like that, sometimes it may be that its a short-term basis of doing things. In other words, the bloke has a program for six months to switch enterprises or to dominate his enterprise in another way. Should it be that he gets a tax deduction for the changeover or his FMD deposits goes in there and so forth and so on. Should it be that by putting his money through his FMD deposits even though it may be millions of dollars to go out of cattle into crop or whatever, that he avoids a tax angle on that way? I don't think so. I see it as a difficulty when they start to do things like that.

I think more appropriately may be to keep the scheme of FMDs at the 300,000 but come up with a way that these loose contracts are overseen so that the banks - and it's done on a 12-month basis so that, okay, the bloke wants to amend his contract, he's got a contract with XY Bank, and we come up with a program like the PIBA program where the bank guarantees it but he miss so many payments over a period of time - maybe five payments over the period of the loan, so that they have to be paid at the end and that sort of thing. That would make it so that switching enterprises would be a lot easier.

PROF WOODS: And capitalising the interest on the way through?

MR FREEMAN: Well, if it's a situation where he is getting interest subsidies I don't believe the bank should be able to capitalise the interest because the demand - any demand that the bank puts up for interest he has satisfied at least half of it, hasn't he?

PROF WOODS: I was thinking the residual interest that he is liable for.

MR FREEMAN: The residual interest? Well, the program is set out in that judgment. So it's quite an easy guide. Yes, well, they said that they can't capitalise the interest on the way through. It's only a 12-month basis.

PROF WOODS: Yes.

MR FREEMAN: That's the point in Pinios. Pinios is all about capitalise interest in the normal banking programs.

PROF WOODS: Dr Byron? I noticed some reference to native vegetation.

DR BYRON: Yes. I was reminded of that.

PROF WOODS: Price input on that one as well. Thank you for tying the two together. That was actually quite useful.

DR BYRON: I'm still thinking. Maybe Bob could have a go?

PROF WOODS: Yes.

MR GRANGER: No, I hear what you say. Are there any banks that perform okay in terms of your perspective; any models out there of good behaviour?

MR FREEMAN: I think that a lot depends on the individuals in the bank and the stage the bank is at. At the moment I would imagine that the banks would be looking for every little working capital they could get. So I'd imagine they'd be making it pretty hard for some people.

Now, the big issue is viability and the big issue in your stuff is viability. The way that they assessed viability was that if a person's bottom line didn't exceed the amount of interest that they received, interest subsidy they received, so that if the total gross income was, let's say for argument, 100,000 and with subsidy they had a 110,000, that was accepted as being viable. But you see, the banks didn't accept it as being viable. So in Queensland and Victoria the banks got the upper hand and they screwed people out there on that basis - that were accepted on that basis. There came the major problem. Therefore the acceptance of the contract at the start was really important because it accepted those procedures. That was the minister's guidelines, both state and federal, along - - -

MR GRANGER: Can I get back to - how would you describe the capacity of the average cockie to sit down with the banker and sort of get to a reasonable position with the contract?

MR FREEMAN: I think the contract is basically - - -

MR GRANGER: Is it a black hole in this whole thing that you're talking about, the

capacity of the individual farmer to get a fair go or what?

MR FREEMAN: No, I don't think so. The capacity? The problem is that all the law and regulations are on the side of the bank. The banks just do what they like. It's an 800-pound gorilla, as Kerry Packer said. They're just doing what they like. Once you get a culture in an organisation that says, "Oh well, the bank says they want to do this, we'd better do it. We'd better do what they want."

MR GRANGER: I just want to tease this out because in our consultations that we had I've got to admit this: I was waiting to hear a lot of complaints about unreasonable behaviour by the - - -

MR FREEMAN: Banks, yes.

MR GRANGER: - - - banking community. Now, in a couple of spots there I must say I think I pushed the envelope a fraction and I couldn't get any takers.

MR FREEMAN: No, well see, in - well, most of them would be too frightened anyway. But in 2005 they changed the scheme.

MR GRANGER: I don't think I was talking to frightened farmers.

MR FREEMAN: In 2005 they changed the scheme and they changed it so that it became a lot more reasonable so that a lot of those things didn't happen. But in there is my 2004 submission to the minister's program. Once you check that out and you went through that in detail you will see the way they were doing it. The minister - Warren Truss was particularly aware of what they were doing. In Queensland he took a lot of money off the Queensland government and the canegrowers scheme to try and sort it out. I think he did. I think he did the best he could to sort it out.

PROF WOODS: One of the centre points of the IRS scheme is this question of assessment of viability. You will notice that in the scheme designs that we have put forward none of them require that to be assessed and a decision made on it by an external authority, that really the onus becomes on the individual farmer to work out whether they've got a future in farming or not. We give them - we are recommending that they get household support for a number of years on a hardship basis but in terms of business support none of the proposals that we offer are triggered by this question of viability. I think your case study reinforces to me the importance of not having some external party making these judgments because they are a very personal judgment as to whether you can or can't see a future in farming and whether you've got the capital resources behind you to be able to continue through adverse periods and come out the other end and be a viable self-sustainable

operation.

MR FREEMAN: Yes, there's a little bit more to it than that. When it comes to assessing viability one of the major problems is it's assessed today. Viability is assessed today and the program that has been in force is for a program in the future. So if they assess viability on today's figures but the program is for two years or three years - for instance in a cattle program if they buy cows it's going to be three years. So it gets lost, you see. So the viability becomes an issue that's lost. That was the value or one of the values of the productivity part of the drought program.

When it comes to the question of viability and personal decisions, yes, under the old dev bank program there was - a man could decide or a family could decide how much money they wanted to live on. Some people could live on the smell of an oily rag and some people had to have hundreds of thousands. That program made allowance for that. This now is a different kettle of fish altogether. What is happening or what has happened is we've had an upgrade in the size of properties, we've had an upgrade in all costs and we've had a program that hasn't really changed inside the financial structure of the Australian farming industry - of the Australian capital providers. So that the structure that they needed to go with to go with all of the technological programs had to be up to the individual farmer.

You're saying do farmers understand - in a general view do they understand the technological changes? I think they do. I think one of the frustrations they have is that the people that you're talking about no-one attacked you about viability because they're gone. They're just gone. They're not in the industry any more. The banks got rid of them. They're gone. So there's no-one there - - -

PROF WOODS: I don't know that that's an absolute statement.

MR FREEMAN: Well, it's pretty close.

PROF WOODS: We have come across a number of farm enterprises that sort of, you know, have wandered in and out of viability depending on a whole range of circumstances, of which drought is just but one.

MR FREEMAN: Yes.

PROF WOODS: Input costs and the like.

MR FREEMAN: Yes, well - - -

DR BYRON: But we were told last week in Adelaide by a farmer that appeared before us that his view was that most Australian farms were seriously

under-capitalised and underestimated the risks they were facing. He gave the example of putting in a crop that cost a million and a half or something and said you're basically betting half the total capital value of the enterprise on the crop.

MR FREEMAN: Yes, I think that would be fair.

DR BYRON: His suggestion was that the reason that farms as a business enterprise get into trouble with droughts or floods or frosts or locusts or commodity prices or whatever is simply because they don't have the buffers or the reserves to be able to ride out those sorts of shocks, that they're too close to the margin all the time. Any reaction to that?

MR FREEMAN: Yes, I think that could be right in a lot of cases. The thing is, when does an enterprise become marginal? You're looking at a variation, such a variation over a short period of time, you have to assess in yourself or within the enterprise when that part becomes marginal. For instance, people that switch from sheep to wheat and cattle and so forth and so on, when do they and how do they make that decision, you see?

DR BYRON: Yes.

MR FREEMAN: A lot of that decision is made on the practicality of the market.

PROF WOODS: That's where improving business skills as well as agronomic skills is important, presumably.

MR FREEMAN: Perhaps. I think there's a lot of people that do have the business skills. You know, it doesn't take much to add up a couple of columns, and that's basically what you're doing.

PROF WOODS: Well, the evidence from the rural financial counsellors is that they are fairly heavily involved with a number of people who haven't - - -

MR FREEMAN: Got the ability.

PROF WOODS: To get good solid farm budgets and understand the risks. So there is a proportion of the farming community out there now. They may not be the scale and level that you were operating at but certainly the evidence that we've had before us is that there have been a number who haven't got those skills.

MR FREEMAN: Has anyone brought up the process of changing the culture and the attitude of the financial industry and of the rural adjustment authorities and everybody involved in the culture of finance and the way they provide their finance?

PROF WOODS: Indirectly. I think you would be the explicit participant in this inquiry on that matter but others have indirectly referred to it.

MR FREEMAN: Yes. I think the culture's very important. I think that some sort of culture education program for those authorities is really important. I think it would - and I'm sure it would have saved you a lot of money in the past, would have saved the government a lot of money in the past. It's a culture program that becomes a big issue. To give you an idea, if an enterprise has a million-dollar interest debt and a capitalisation of say \$5 million, then it becomes very profitable to move that off so that for a financier he's going to look at selling that one off before he looks at selling off another one, isn't he? That's what has been happening.

You're talking about the additional risk. That's where the risk comes in because crop programs are very short-term finance, often on bills, and bills have got to be paid immediately on time and so immediately someone is in trouble. So if they have got a capitalisation of five million and they've got no income for the year but they've only got a debt of a million dollars, the bank is going to tell them to sell out and haul up and preserve their capital, where that may not be necessarily the best program not just for the individual but for the community as well.

MR GRANGER: Do you think grower organisations, farmer organisations, do a good enough job in regard to being sort of watchdogs in regard to these matters? I mean I wouldn't know one farm association that doesn't at some stage really rattle the cages about banks, foreclosures and the process of dispute resolution - - -

MR FREEMAN: Yes, I don't think that - - -

MR GRANGER: - - - and all that stuff.

MR FREEMAN: I don't speak to a lot of them but I don't think that they really generally understand. This is not - if they want the sort of material and the sort of thing that I'm giving to you, they have to get someone outside to get it. That's not being critical of them, it's just the experience.

For instance we have got a big blue on now in Queensland about mining tenements and how they're going to affect the individual. There's a lot of things in there that if they're handled right will help the individual but you see a gross argument across the board all the time. Those programs were meant to be - all those compensation programs were meant to be on individual process. Then there comes the problem of compensation is only payable once. So if the property changes hands the original bloke keeps the compensation, doesn't he? It doesn't go on. That is how it has worked. It's not that it's bad. I think it's probably quite good.

But the issue is that that's what you're facing, a gross program to try and change things on an broad perspective from organisations, not that the organisations don't come back to try and handle the individual, I'm sure they do, but the program is that people just - they can't have people with the breadth of knowledge; they just can't have them just hanging around the office, they just can't afford it. So they have to buy it in. Now, who decides when to buy it in and how much they pay for it and how they're going to do it? That becomes a problem.

Even though their heart is in the right place and I agree with community organisations - they do a lot. They do a lot and they can do a lot and that's where they come from. But there is a lot more they could do but they probably can't do it. They're restricted by - they've got to talk to politicians, they've got to get along with them. They've got to talk to you fellows, they've got to get on with you. It's how it works. So they're just another part of the organisation.

MR GRANGER: At the end of the day it would concern me if we just relied - put all our eggs in the government basket to - - -

MR FREEMAN: You can't.

MR GRANGER: I mean in a perfect world - - -

MR FREEMAN: It would be wonderful.

MR GRANGER: - - - I think we wouldn't have any worries but I think it's important for all parties and stakeholders to be pretty vigilant on all the battle fronts that you've been talking about as well as what we're doing.

MR FREEMAN: Yes, well, you would have seen a lot of it with your native vegetation program. You would have seen the battle fronts line up pretty well there. That boils down to a for or against. This isn't a for or against, this has got a lot of variables in it.

If you're going to go back to viability, and that's what you were talking about before - if you're going to go back to viability perhaps - there's a program of assessment. I found that most procurement officers understand the viability. It's just that the control - they lost control of it to the individuals in the organisation that want to go with the bank or the finance, whatever the financier was. The program is supposed to be that it's a joint agreement between all parties, and that's what the politicians say and that's the way the regulations read. But that has never been enforced. So if you were to come up with a program to enforce that you're going to take a lot of the culture problems out and a lot of this viability material that you're

talking about is going to be answered.

How many times can you change enterprises, you know? That's the point.
How many times can you change enterprises, you know?

PROF WOODS: You mentioned earlier, and you deal with it in your submission, about exit payments.

MR FREEMAN: Yes.

PROF WOODS: Again they're a vexed issue, that the current structure of the exit payments being the people before they can actually access their funds need to have sold up, although you can get a broad assessment of what you might be eligible for prior to the sale, but they're not taken up in any great numbers. Partly that's because of the thresholds, if that's the only net equity you've got left then you're a pretty marginal operation for a lot of farming practices, not everything but for a number of practices at that point anyway.

Would you do something different about exit payments? I mean what guidance can you offer us as to how to assist those farmers who come to the realisation that this isn't going to provide a source of income for their household into the future let alone put aside funds for their own retirement and all the rest of it, and yet still recognising the importance of the family home, the commitment to the local community, the lack of recognition of skills learnt while farming. There's a whole range of issues there.

MR FREEMAN: Okay. There's three models for exit payments. One is a superannuation-type where you can use the farm management deposit and use it as a superannuation scheme; which could be - in a lot of cases probably not enough money in it - but it could be set up so that it could allow family changeovers. In the 70s I designed a scheme that worked on that basis for the Queensland government. They started to do it but the government - something happened and they didn't do it. But to cut a long story short you can turn FMDs into a superannuation scheme and then turn that into money that can be lent back to the family.

PROF WOODS: Okay.

MR FREEMAN: The next process you're talking about on exit payments is when programs are structured so that - you're talking about a very small amount of equity left and then people can obtain funds. If you bring in the point where - or it becomes effectual that the bank - if they refuse an interest subsidy program then they can't accelerate interest on the individual farmer or can't enforce some sort of additional fee, then you're going to find that the program will be a lot more acceptable, because

one of the big problems is bankruptcy and you can't control what the bank does. So the bank will bankrupt everybody on the current program as quick as a flash because they will just accelerate the interest and take them out and they will take all their money off them. Now - - -

DR BYRON: Sorry - - -

MR FREEMAN: Go on.

DR BYRON: I was under the impression that there weren't very many bankruptcies in farming over the last decade because most people leave while they have still got some equity in the property. I was just wondering if you were equating selling the property and moving off to something else to being bankrupt, whereas what I've heard is a lot of people sell the property and still go away with a couple of hundred thousand in assets.

MR FREEMAN: Well, the way the bankruptcy act works is if under a scheme the inspector of bankruptcy is advised then no-one is bankrupted under the scheme. The old program that you had in yours, under section 116(2) I think (k) to (n), there was an exemption for all funds that came from exit payments, so that they got the exit subsidy of 40,000, it was exempt, and any property that they bought with that 40,000 was also exempt. Under the new program it's not like that. The 150,000 that they get, that's discounted, it's totally eligible for bankruptcy.

DR BYRON: Yes, it's not quarantined.

MR FREEMAN: Yes, it's not quarantined. So immediately it becomes effective to the bank or to any financier to allow people to move and then bring in the fees later, and don't forget there's lots of hidden fees that they can bring in, lots of secret accounts and realisation accounts and accounts that people don't even know about, but when you read the fine print in the contract they're there. Now, it's going to happen. If it's not happening, it's going to happen.

PROF WOODS: Can I come back to your first - you mentioned three types of exit payment approaches and the first one you mentioned being FMDs, turning them into super, and we similarly have had various people put to us that the FMDs were sort of, you know, money in the bank for their future.

MR FREEMAN: For a future project.

PROF WOODS: But with the change in the superannuation laws and the various incentives that are now there, do you think that the next generation of farmers, who are the current sort of young farmers, will separately put aside moneys into a formal

super account so that when they go through the process of succession and hand over the farm that they won't be taking out a large chunk of equity in that process and handing over a great bundle of debt to the next generation, that they will have built up a separate super account at the same time and in parallel with running the family business.

MR FREEMAN: No, I don't think they will.

PROF WOODS: Why is that?

MR FREEMAN: I think the pressures to increase your productivity, increase your income, on a daily basis - you know, on a daily, weekly, annual basis - are too high. You see, working on a mature program of a mature business, how many properties are mature? How many programs are mature? Very few. They have to be eligible inside the way of their own thinking to change enterprises, so it's not mature from that point of view. You're always going to have a capital requirement, and, if you haven't got a capital requirement, you've got an income requirement.

I don't think that they can. I just don't think they can. If you had a system like you have with levies, you know, against their income, maybe, maybe that might work. But if you've got a system and you say to individual people, "Well, you put your money in a superannuation scheme and do this," the first thing they're going to say to you, "That's 40 years away. I can't do that." Now, I did set up a lot of those sort of programs for people.

PROF WOODS: Well, that's why I was interested in getting your views on it.

MR FREEMAN: Yes, but when you set up the program it's not done on that basis, it's made flexible. For instance, some insurance companies had a break-even point at 10 years on those sort of investments and a redemption program, they got 50 per cent after two years. So that any incentive program that the person wanted to get into, if they put money in in that way, they could get money out to work on that basis. But it still kept the capital value in there and it came out as a loan, whichever way they wanted to do it.

If they crashed the program and went out of the insurance, then they lost half of it, out of the insurance program they lost half of it. So they didn't do that. They intended to do it, something like the way people used to look at buying a house when they put down 50 per cent deposit, I think. Now to say to people, "Right, you only pay in so much and you pay that money in over a 40-year period, I just don't think they're going to do it, not in the style that they need to. I think the incentive from FMDs where people can get it back if they require is very, very attractive.

PROF WOODS: And tax-protected on the way through.

MR FREEMAN: Well, it doesn't necessarily have to be tax-protected.

PROF WOODS: FMDs are, that's all.

MR FREEMAN: Yes, but I mean, it doesn't necessarily have to be. You see, you've got the program, the super, at the end, the 5 per cent and so forth.

PROF WOODS: I don't have anything else. Are there matters that we haven't covered that - - -

MR FREEMAN: No, not really. I think you've been pretty comprehensive. The only part that I'd say that I'd like to go on with is native vegetation, anything that you come up with. If you come up with a native vegetation type incentive and you were to put in a productivity program that could be supervised, I think it would probably be worthwhile. There would be a lot of people, I'd imagine, that wanted to refinance at a drought that would look at native vegetation programs where they could get productivity in other directions.

PROF WOODS: Yes, and I notice in your submission again you sort of draw on some specific examples in those areas.

MR FREEMAN: Yes, I think there's a lot of that.

DR BYRON: A few other people have brought up those things too.

PROF WOODS: Yes.

MR FREEMAN: Yes.

PROF WOODS: Thank you very much for your evidence.

MR FREEMAN: Thank you.

PROF WOODS: Can I invite the next participants from Growcom to come forward. Thank you very much. Our next participant is Growcom. For the record, could you please state your name and the position you hold in the organisation you are representing.

MR PANITZ (GA): Yes, my name is Mark Panitz. I'm chief advocate with Growcom.

PROF WOODS: Thank you very much. We have got some key points for discussion, but have you got an opening statement you wish to make?

MR PANITZ (GA): I was going to go through the key points.

PROF WOODS: Yes, okay. You have got five main key points there. Perhaps if you want to introduce them one at a time, we can then have a discussion on each as we go through.

MR PANITZ (GA): Okay.

PROF WOODS: But do have any overall comments being triggered by your paragraph that says Overall?

MR PANITZ (GA): Our view is that the work that has been done on the drought review so far has grasped the fundamental issue about moving from a reactive set of policies to a proactive set of policies. So we're quite supportive of that. Where we do want to go with those five main areas is flesh out more what proactiveness means. In particular, what proactiveness means in the horticulture sector, and the key difference for horticulture is that it's predominantly an irrigated industry and without irrigation horticulture doesn't exist, and that was recognised in your draft report that highlighted this issue of an irrigation drought and that that hadn't and still hasn't been adequately grappled with or dealt with in federal or state government policy. So we want to make sure that issue of irrigation drought is picked up as we move down the track.

PROF WOODS: Just on that, in that respect, as you're aware, one of the members of this panel has a passing familiarity with some of these issues.

MR PANITZ (GA): We acknowledge that. I think also we're supportive of the Queensland Farmers Federation and the thrust that they're putting into their submission, so there's no differentiation in what we're saying and what they're saying, although we're probably drilling down a little bit deeper into horticulture-related matters.

PROF WOODS: For which we're grateful.

MR PANITZ (GA): I think, more broadly, the process that we're going down the track of is about risk-management and preparedness, and as we go down that path there are some things within a grower and a grower's business that they can manage better if they have got the right tools and information, but there's also a range of things that we would have high expectation the government have a greater role in providing information on so people can manage risk better, and particularly those issues around climate change, rainfall, temperature predictions and all those sort of things.

PROF WOODS: Thank you. Just looking through those five points, I think there are going to be a number where we're in heated agreement and can usefully explore areas where we can develop our draft report further. But your first one, overarching, food and agriculture, food security policy. I mean, certainly getting an overarching policy is where we're wanting to head so that there is a common policy framework, even though it then has to be adapted in implementation to the specific industry sectors, such as yourselves, and we're very keen for that to happen.

But food security is an issue, the concept I think can be misused a bit. When you looked at the fact that in one of the three worst droughts in the last 100 years the value of food production has continued to increase and there's record highs; the productivity in agriculture is way ahead of the general market sector, almost double; 70 per cent of our food production is exported. I'm just a little concerned that given that picture, the food security can sort of drag in some emotive issues as distinct from getting down to the nuts and bolts of what is good productive farming practice.

MR PANITZ (GA): I acknowledge that. I think the reason that we're raising it is that there is quite a bit of - I'll call it discussion, around food security. I'm confident that people don't know what they're all talking about with food security, so we need to have that debate, and it needs to be put in the context of global climate change. So, you know, Australia obviously is a very good agriculturally-productive nation. Climate change is impacting on us as well as the rest of the world.

So the food security debate has to be in a global perspective and it has to have that climate change overlay of that and then, as part of that, Australia has got some roles to play and some opportunities but also some threats. So if we sort of ignore that global perspective, we won't get the policy settings right as we go forward, and we have been told that with climate change the traditional droughts will be more frequent, but we'll also have greater variations of climate extremes as well. So the food security debate needs to be put in that context.

PROF WOODS: I think as long as it's kept in that global context and not brought down to driving the detail of programs locally, then that's helpful. But sometimes the emotions and the facts can get a little bit caught up together. But you do talk then about the importance of a proactive approach and bringing together the various policies that impact on farming, whether they're climate change, natural resource management, etcetera; at the back end of our draft report we deal with that as well and identify the importance of that.

MR PANITZ (GA): I think the key with that, there needs to be more of this proactive nature and business planning about the sector, and farmers can only do that if there's a sound basis for their business in the first place. If the policy settings in which they're operating the business are - I'll call it shaky, or not quite the right sort of settings, it makes resilience and proactiveness on the farmer's behalf even more difficult to put in place.

PROF WOODS: Are there other points that you want to raise on that first one of overarching policy?

DR BYRON: I've said it before, and I'll probably say it again tomorrow, but, you know, everybody in Australia, I think, would agree on a proposition that Australia should have an agriculture sector that's vibrant, dynamic, profitable, sustainable, resilient, you know, innovative. The question then is how do we achieve that. When I lie awake at night thinking about that, I think whether or not Australia achieves those sorts of outcomes is going to depend very much on the people in the industries themselves, not on governments.

So then I'm thinking, well, you know, maybe governments can influence things around the edges, but you wouldn't want to rely on the politicians or Canberra bureaucrats or even Brisbane bureaucrats to deliver that; you know, it's really up to the people in the industry to make that industry world-class. So when you're talking about the policy settings, you know, you've already given us the example of the provision of information, weather forecasts and so on, what are the other sort of things that governments can do towards achieving that vision, without getting us into the sort of European Union thing where farmers get their income from farming subsidies in Brussels.

MR PANITZ (GA): There's certainly no expectation that we end up with a subsidised industry at all.

DR BYRON: Yes, which is inconsistent with that vision.

MR PANITZ (GA): We want very much a free market industry to work and to allow the people to do the best they possibly can. There are pieces of policy and

pieces of - I'll call it assistance, that can help a sector do really well. I'll use R and D as a good example. Government support for R and D is a good investment for government, it's also a good investment for consumers because a lot of consumers get the flow-on effect for that.

DR BYRON: For everybody.

MR PANITZ (GA): So that's an example of good policy setting. The other part of it is, as you know, the farming sector is hugely reliant on access to land and water, and any government policies around land and water have a critical impact on the farming sector. So they're the sorts of policy settings I'm talking about. There is also the link or the overlay between what the federal government can do and what state governments can do as well, so there has to be seamlessness between the two.

PROF WOODS: We're aiming to develop a national policy framework that all the states and territories have bought into, so that it's a collective framework but with then regional and industry specific implementation.

MR PANITZ (GA): Yes.

MR GRANGER: What strength would the states have, vis-a-vis the feds, do you think?

MR PANITZ (GA): Well, the states will still have - I'll use the R and D example, they have an R and D investment, so that needs to be significant. They also have a major say over particularly water use and bring in that whole issue of irrigated agriculture, irrigated horticulture, so the states have a huge capacity there, and also some of the land management activity. So if the state jurisdiction looks after some of the soil and water aspects, for example, then that needs to be consistent with the federal settings.

MR GRANGER: Just in respect of the states, currently states are having a look at this whole resourcing of R and D - for agriculture, I'll say, and it has got probably some serious implications for who does what in the longer run. This is an opinion, but do you think industry would be prepared to trade a bit to see R and D focused more outside our usual borders? Any interest in getting a better outcome? I'm referencing back to this whole climate adaptation variability thing, drought thing.

MR PANITZ (GA): I think industry is prepared to invest in R and D if they can see the clear benefit. You know, it's almost that simple. So if we're going into - I'll use climate change as an example, there needs to be an open door to industry to have its two bob's worth about where climate change research needs to go to help that sector, that is really important. In some cases they are already putting money, you

know, their own funds, into that sort of research.

PROF WOODS: We're sort of spending a bit of time talking about your point for at this stage, but we can wrap all that up when we get to it. Anything else on the first point? Okay, then you go on to irrigation drought, and as you note there we do recognise the difference between the irrigation drought which - not for everybody. A lot of people have had reduced water entitlements for a very long time but in other areas it's a more recent event and we need to differentiate between the two. But you talk there about a recommendation from the commission to pursue some other agendas. The water market including water licensing and trading, there's a whole range of initiatives there, I think, but what we're recommending is just part of a much broader issue. I know COAG addressed it again on Saturday.

But where you talk about water use efficiency programs, I wouldn't mind understanding a bit more from you of what you mean there, because there are two ways to go. We all clearly remember the irrigation management grants which seem to be a very efficient way of getting money to farmers. It limited requirements surrounding your eligibility for that scheme. Is that the sort of program you were thinking or are you actually talking about helping - again with the RD and E in terms of how best to use the water resource available?

MR PANITZ (GA): It's probably a bit of a mix of both. I will use the Queensland government's water use efficiency program as a very, very good example of industry and government working together to increase water use. So there's obviously a financial and productive benefit as well as a water use benefit in less water being used to create productive capacity. That program has done - the basis of the program is research and extension and added to that is - I'll call it incentives for growers to invest in better or newer technology to get reasonable outcomes. That model needs to be continued, in my view, because all the signals are there's going to be less water so we need to continually get more out of what water is available so growers will be continually needing to be on the leading edge of that technology and the adoption of it.

The thing that we learnt about the water use efficiency program is that, like most adults, growers don't always do things just because someone tells them to do things. They've got to learn themselves about the new technologies, make sure that technology fits into their farming business and invest appropriately just so they get good outcomes. The water use efficiency program is a good example of government providing some funding and industry implementing programs to get the elusive win-wins out of this sort of program.

PROF WOODS: Is that an instance where reference farms or peer-accepted farms demonstrating how it can work and their colleagues in the region then being able to

learn by looking, playing, watching, being involved - - -

MR PANITZ (GA): Yes, it's a very hands-on way of doing things. It's not sending people letters saying, "You should adopt this new technology." It's very focused on a particular region or a particular crop so it's specialised in that sort of way. It involves growers getting their hands dirty and seeing first-hand water use and their soils and their crops but also the technology that's applied to better use.

PROF WOODS: We understand the merits of such an approach. In part that can be either done by the government-owned research farm model or providing some funding for a typical farmer - however one describes that, that has lots of pitfalls - but having them adopt the technology at the front-end and then being prepared to have others come and learn from that. But how would you select such sort of model or pilot or demonstration farms, because there are public benefits accruing to them but there are also then costs being incurred by them in them themselves being involved in the extension. So there are trade-offs in that process. So how would you do that?

MR PANITZ (GA): I think there's three elements to a reasonable program. One is that there will always be a research need because we certainly don't know all we need to know about water use and its impact on crops for the different soil types and different regions and all that sort of interaction. So we need to be at the leading edge of research. So there's a research component. Usually state government agencies, or at least in Queensland, state government agencies are well equipped in the research area or also CSIRO, perhaps.

PROF WOODS: Yes, true.

MR PANITZ (GA): Then there is what we call the development of the extension component. That, in my view, is best done by industry, because industry people helping other industry people to learn and there's a better mechanism of adoption there. The third part of it is incentives to help growers pick up new technology and invest in new technology so they're being proactive in investment and they'll get a better outcome at the end of the day.

PROF WOODS: For that exact reason ie their choosing to see the merits of this new approach and invest in it, and as you say, get better outcomes at the end of the day, I'm wondering why you need any other incidents than that very outcome? You capture privately the benefits of the investment you make in the new productive processes. What other incentives do you need?

MR PANITZ (GA): Well, I think if there's a - if the issue of water is a national government community issue the use of it is by definition a national government and

industry issue. So the more that governments and the community can help the better water use at the end of the day the better off people will be. That's number one. Then secondly, with the incentive sort of model the work that we have done to date says, look, about a dollar invested by government to help provide for the change that's required is matched by about a \$7 investment by industry. So you get a very much leveraged approach to change processes, because we need to understand that there are people running businesses under a certain framework and a certain mindset and to move them from that position to somewhere else they need some help to do that.

PROF WOODS: To whose benefit?

MR PANITZ (GA): Well, firstly, they benefit.

PROF WOODS: Yes.

MR PANITZ (GA): Their business benefits. Secondly, consumers benefit because they get the results of good, cheap food. Thirdly, the rest of the economy and the community benefit because there's more water still allowed to go to environmental flows but we could still maintain our productive capacity.

DR BYRON: The idea of an irrigation drought would have been unthinkable a few years ago. I mean having irrigation was the way you made yourself drought-proof, the way people always thought. So what we seem to be seeing is that the people who were the most vulnerable and the worst hit around Australia in many cases were the irrigators because they thought drought would never happen to them whereas rain-fed agriculture people, they don't know when it's going to happen but they know there's likely to be another drought sometime. Is that the sensible conclusion to draw, that the people who had irrigation licences thought that they were drought-proof and therefore they didn't have to make the same sort of preparation that others did?

MR PANITZ (GA): That's partially correct. We're also working in an era - I'll call it an era - where water is open to market forces. So in my view what we need to do to go forward is that those water market forces need more predictive capacity. So say in history a grower might have had, you know, 100 per cent or 80 per cent allocation and that continued and continued and that person was removed, to a certain extent, from the market forces. So we need to make sure that those market forces, the water market, gives better predictiveness to the grower about what water may be available down the track. If that works better then the grower can manage risk as they see fit.

DR BYRON: So you're talking about derivatives, are you?

MR PANITZ (GA): No, I'm talking just in simple terms about say a two to three year time frame of what water is available because if you're running the water - using Queensland, for example, right? If you are SunWater and you - I'll say you control or you're supplying water out of a dam and we're going through a period of climate change, the water yield in that dam may well vary as we go into this climate change scenario. So it would be a pretty good expectation from the grower that SunWater has a very good handle on the yield out of that dam in a climate change scenario. They're the sort of things that we need to make sure to allow that whole water market to work better.

DR BYRON: I understand that there's a pilot scheme at St George where the irrigators actually have shares of the capacity of the dam, which means that they a bank balance, if you like, of water on a daily basis. If it rains they see how much their account goes up. If they draw some out it goes down. So that gives them much greater control of decisions of how much to use this season, how much to leave in the bank for next season. If think that next season is going to be a wet year I might use up most of the water in my account. In that sense it's giving the irrigators a lot more personal control. Most irrigators that we've discussed this with in other parts of Australia seem to think that that's a pretty desirable way to go. I was just wondering if you have any experience of it?

MR PANITZ (GA): Well, I would say that's a useful strategy of making - I'll say making the water market work better and better connected with the farmer so that they're more closely associated and they can more closely make decisions in their business around that. I think what would also be useful is that information about - if the dam in region X and if there's clear predictions for climate change in that region in terms of increased temperature or decreased rainfall, what is that going to mean for the long-term in-flows into that dam? That's more a strategic and very critical piece of information that is required.

PROF WOODS: But I'm not sure that the science is at that stage where it can deliver that at the moment.

MR PANITZ (GA): Well, that's exactly right and that's what is needed, because again, people can't manage risk unless they've got information on which to manage that.

PROF WOODS: That sort of is a very focal point of where we're trying to head of how to improve that information base because risk management is fundamentally what this game is all about, whether it's risks of climate, risks of crop prices, risks of fertiliser uptake, risks of import costs. It is a risk management exercise and basically the farmer is the risk manager who then goes to the capital base, which is either the

household or a third party, and puts forward a risk plan. So information and better understanding of likelihood of events is certainly got to be key to a lot of this.

MR PANITZ (GA): Absolutely. That's what I'm saying, the grower themselves and the business people, they need good information to manage risk, without that there's huge gaps in their risk management capacity.

DR BYRON: Flying blind.

PROF WOODS: Yes. No, we're in common ground. Anything else on the irrigation drought component?

MR PANITZ (GA): Well, I think my key point there is that in your draft report it was clearly recognised about the irrigation drought. I think that needs to be taken forward in terms of recommendations about a clearer set of strategies to deal with it.

DR BYRON: Yes.

PROF WOODS: Yes. No, you've identified an area where we need to build out in the final report. We take that on board. We agree. Meeting immediate and emergency needs. We have put forward a proposal that is sort of always there, it's not triggered only by drought. Whatever is the hardship issue that causes problems for a family that the income from the business or from other businesses or from other jobs is turned off then they need to have something. They need to have a program of support that at least for a few years reflects the individual nature of farming as distinct from just the general basic community support. So is there anything we need to discuss there in any detail?

MR PANITZ (GA): No, that was - broad support for that. When that is - the fine detail of that is designed I just think there needs to be a bit more face-to-face conversation with people that have been caught up in the irrigation drought to make sure that those safety nets are reasonably designed to meet their needs.

PROF WOODS: Yes.

MR PANITZ (GA): But not asking for anything more or less than anyone else.

PROF WOODS: Yes.

DR BYRON: Sorry, were you concerned particularly about the asset threshold? I understand that horticultural land is often extremely well priced. If we were talking about an asset threshold of somewhere between two and three million does that bother you that it would be too low for horticulturalists in general?

MR PANITZ (GA): Yes, well, that's part of the detail. The two to three million dollar threshold is reasonable but I think there just needs to be a bit more of a conversation with irrigator people to see whether that is actually the right level.

PROF WOODS: Is that something that you can pull together in part for us?

MR PANITZ (GA): Possibly, yes.

PROF WOODS: That would be helpful. I mean we have our other networks and participants but if there was something further that you could bring by way of some profiles and the like and people's experience with those that would help us greatly just to understand that impact.

DR BYRON: Because, you know, although a lot of producers would like us to recommend a higher threshold there's a counter-argument from the taxpaying public that why should somebody with assets of five million or 10 million or whatever be getting a taxpayer assistance through Centrelink.

MR PANITZ (GA): Yes.

DR BYRON: So we are fishing to see where exactly is a community acceptable level that is high enough to do the job of providing a reasonable safety net but not so generous that it would affect community standards; unquote.

MR PANITZ (GA): Yes, that's fine.

PROF WOODS: The other point that you might want to either reflect on now or come back to us is that we have taken the view of recommending to government that it not be an open-ended arrangement with the danger of some people sort of building welfare support into their business management model, in effect. So we have suggested three years at this higher asset level but if by then they have not been able to find a viable production plan they need to consider whether they stay in the industry or not. It's an individual choice. There would always be a bottom level community safety net anyway that everyone is eligible for. But do you have a view on whether this should be sort of an open-ended arrangement, that farms should be entitled to be on - - -

MR PANITZ (GA): I mean our view is that people in our sector, growers, want to work in a commercial market-driven environment and that doesn't mean being on some sort of assistance forever and a day. They recognise the peculiarities of climate and weather will impact on them from season to season and there's a need for some safety net provisions for them. But certainly they don't see their businesses as being

underpinned by ongoing support in that regard.

PROF WOODS: Okay. That has been a very common reaction from farmers and grower organisations but I just wanted to make sure that that was also your view on that. Which takes us then to one that we have started to deal with, the proactive policy self-reliance. As you point out we have identified a number of initiatives in the RD and E and business planning but you have identified four there which - being the first four of those five dot points being what I think is partway useful to an agenda for future R and E. If I can explain that certainly in our final report we intend to build out much more explicit detail of where some of that investment should go.

Can I jump to the fifth point at the moment though, which is increasing the cap on FMDs. You're not the first organisation that has put that proposal to us and won't be the last. From our point of view we think FMDs have considerable value. Yes, farmers do get a tax advantage by way of deferral, and that's true. But putting that aside that they are well used by the farming community, one of the reasons why we support their continuation is that they are non-distortionary. People can use those funds when they want in what manner they want. So they are different from things like accelerated depreciation for a schedule of investments which may direct farmers to do that rather than this because that's where they can get some additional benefit. FMDs are neutral in all of that respect, so they are very attractive from that point of view.

They are a very useful tool for helping build the financial capital base to draw in tough times, so we do agree with them. But they don't limit how much financial capital can put aside, all they do is limit the amount that is tax protected while it is in there. So if they want to put in cash management, trust deposits or buy bonds or do whatever they want, nobody is stopping them. All we are doing is identifying that bit which is tax advantaged by way of deferral, and that cost 76 million a year for the taxpayer. So there is an actual cost in having them. So we don't see a strong argument for increasing the cap, because nothing prevents a farmer from putting other money aside, but we do strongly support their continuation. Any reaction?

MR PANITZ (GA): One of the key drives of asking for an increase in that cap is because the nature of a lot of horticultural businesses has changed since then. There has been an amalgamation of businesses, the bigger have got bigger, the smaller have got out and that sort of stuff. A \$400,000 cap seven or eight years ago is less business effective to a business today that might need to be two or three times the size to be, I'll say, an economic productive unit. That is the fundamental reason to say that time has moved on, business has got bigger, therefore the cap should be increased to have the same relative benefit to that business as it did seven or eight years ago. That is the fundamental reason.

PROF WOODS: I think we hear the argument as a matter of being convinced that the support should be extended beyond what it currently is.

DR BYRON: Very few seem to be bumping up against that limit.

PROF WOODS: That's true. The average deposit is 70,000 at the moment, so it is probably not in your sector that they would be predominantly bumping up against it. A number of the pastoralists and others are more likely to bump up there where they are destocking during drought and fill up their FMDs fairly quickly.

MR PANITZ (GA): I think the other issue with our sector is if you are coming out of an irrigation drought in our section, then developing your productive capacity is very resource intensive in terms of planting, seeds, growing whatever crop it is, harvesting, packing, sending to market before money or an income is received is quite a high investment. That is probably a little bit different to some of the other sectors.

MR GRANGER: I was just going to say probably in the past, though, they felt as though they were drought-proofed, so interest in FMDs wouldn't have been as high as some other areas. But this is all changing as you've probably found out. I haven't got anything else, thanks.

PROF WOODS: You do express your objections to a very short transition period. Again you are in good company: we have had that reactions a number of times. We have listened. We do understand your point of view. We are looking at ways of how to extend that transition. In parallel Minister Burke and state ministers have given a political commitment that for those who are currently on programs in current EC areas and those EC areas continue to be declared as EC, then they can continue to be eligible to apply for particular programs. We understand the commitment from our point of view.

For those who are ongoing, we would want to surround it with some obligations. At the moment if you get IRS you don't have to be putting up business plans, you don't have to demonstrate how you are going against your increasing preparedness or anything. So we would want to have associated with any ongoing eligibilities, ways that assist farmers work their way out of their current situation. Any reaction to that?

MR PANITZ (GA): I've got two points of view. One is that the phase-out of the existing arrangements needs to be, as I've said, longer. So that is one part of it, but the most fundamental part is the phase-in of new arrangements.

PROF WOODS: Yes.

MR PANITZ (GA): The phase-in of new arrangements will take quite a deal of time because firstly the new arrangements need to be designed in detail, so that is a chunk of time. Then there needs to be those new programs - I'll call them "rolled out" or "applied" across farmers around the country. Our experience on other issues in engaging with farmers if we are changing culture and changing their risk management activities isn't something that is done in 12 months - it is much longer-term program. So we see a greater investment in time and more certainty that that is actually going to happen rather than just wind down something else.

PROF WOODS: That's an exceedingly important point, because the uncertainty and "Do I bother finding out about this? Is it going to last more than 12 months? Is it worth my investment?" are very important. There is nothing more frustrating than an endless rebadging and tweaking or modifying of criteria or "here comes a new program" coincidentally with some other part of the cycle. So we here you on that.

MR GRANGER: There is no one-stop shop on this whole drought thing. Maybe the emphasis should be the climate thing, but whatever you want to have as the lead badge. When you consider the states and the feds, I've always found it very difficult to get an overarching view of what support in dry drought times means. You can trawl through the web and eventually get there.

MR PANITZ (GA): It is really difficult. The fundamental missing things now is all the risk management strategies.

PROF WOODS: Yes.

MR PANITZ (GA): They are things that need to be built from the ground up, and we've put the suggestions there about developing our farm management, more information, research, all that sort of stuff, so it can all be packaged up and used by businesses in a meaningful way. Until we get to that using that info by businesses in a meaningful way, new policies won't actually get traction on the ground and change how businesses do business.

MR GRANGER: The thing I said about the federal/state interface - don't start me up on the research area: there are just huge volumes of information there. How does it ever come together. I would hate to be a farmer trying to get a reasonable picture of all the options.

PROF WOODS: Certainly those four areas that you identified: climate change, seasonal forecasting, water-use efficiency, farm management systems and business risk management, we completely agree as I said earlier that is a very useful agenda structure. Now, you mentioned your support for the QFF submission. They have got

a little bit more detail - not a lot I would say, but some more detail in there and we will draw on that. If there is any specific material that you have that would help us build that part of our draft report, it can be pre-existing material, maybe you've done speeches at conferences or written research papers on particular parts of it or done program evaluations - whatever is in readily accessible form that we could get hold of that would be very helpful to us.

So I am not asking for a whole new swag of work to be done, but if you could trawl through what you do have and pull it together and put a staple on and send it in, preferably in electronic form.

MR PANITZ (GA): There are two issues there. One is the content of something.

PROF WOODS: Yes.

MR PANITZ (GA): That's really important but also there's the how it is approached, how those programs are developed. I think that's really critical as well.

PROF WOODS: Importantly we're on the latter. The content is for the specialists, the scientists, the agronomists, the farmer themselves, everybody, that's not the Productivity Commission. But how it's packaged and put together and developed is something that we can usefully comment on and give some impetus to in our report.

MR PANITZ (GA): No problems.

PROF WOODS: We have wandered through and been very grateful for the way you have structured your contributions so we can follow through the debate. But are there other matters that we haven't raised that you'd want to put forward?

MR PANITZ (GA): No, that's all. We will fine tune the draft document that was sent to you that we've talked about this morning and I will look at those two areas of information that you've asked whether we've got some more and if we can get something to you without - I'll say easily and quickly, we will do so.

PROF WOODS: In the next couple of weeks, but just by pulling together pre-existing material wherever possible. We are certainly very grateful for the time that you have devoted to this inquiry and the very positive approach that you have taken in responding to our draft submission. Thank you very much. We will have a short adjournment for seven minutes and then resume.

PROF WOODS: Our next participants for this inquiry are the Queensland Farmers Federation. Gentlemen, could you please for the record state your names, the positions that you hold and the organisation you are representing.

MR CHERRY (QFF): John Cherry, chief executive officer, Queensland Farmers' Federation.

MR PERKINS (QFF): Peter Perkins, Queensland Farmers' Federation, project officer.

MR PEAKE (QDO): Adrian Peake, chief executive officer for the Queensland Dairy Farmers' Organisation Ltd.

PROF WOODS: Thank you very much. We have had earlier the benefit of a detailed submission from you and we have also with us a set of responses which I would like to work through. I think there are some very positive suggestions there. I am also quite happy to discuss the general tenor and tone of the response, but we can pick that up in debate as well. Do you have an opening comment you wish to make?

MR CHERRY (QFF): Just a very brief one, commissioner. QFF was very disappointed with the draft report from the Productivity Commission. I think we made that clear in our comments to you. We have been participating in drought policy reviews for nearly a decade. They identify the same issues over and over again; climate change, the importance of moving to preparedness, the importance of moving to risk management, the importance of getting away from transaction-based support, the importance of including a social policy element and an environmental element. We recognise all that and it's all in the report again.

But there is no pathway forward provided in the draft report from Productivity Commission that will get us there. That has two elements to our view. One is we need to have much more detail and much more of a robust discussion about what we mean in terms of programs for preparedness, risk management, climate variability analysis and social policy support. We need much, much more debate about the regional development consequences of all of these things - and that's something we will come back to in a second - and we also need much more debate about how we get from A to B. The thing which has sunk pretty much every drought policy review for the last decade has been getting from A to B, particularly in a context where large parts of Australia are in drought.

We don't believe that the recommendations that the commission put forward for absolute cut-offs in 2010 were a sensible, practicable, reasonable or politically realistic transition path to get us from where we are to where we would like to be.

We may even have to consider running two policies parallel for a while because at no point in Australia is any part of Australia actually out of drought. At the moment at least in Queensland, even though we still have 50, 60 per cent of the state, I think, EC declared, the portents for this summer are looking reasonably good, but the frustration for us, and it's something which isn't acknowledged by the commission, is to move to a preparedness model. To move to a risk-based preparedness model takes time and it takes time for farmers to develop the robustness to actually be able to run their models within their systems.

This is the frustration with drought policy reform in the last decade. It's why I suspect it has been delayed year after year for the last decade whilst we dealt with the worst drought in a hundred years because we didn't have those three, four, five good years in which a drought preparedness can be rolled out. That's why we think you need to give consideration to how you transition from A to B, possibly running policies in tandem for a while, conscious of the government's public commitments which are reflected in the ministerial council.

We're disappointed that the ideas we put to you in our original 30-page submission, the detailed two-hour meetings we had with you in July and I'm sure have come up from other organisations on detailed suggestions for preparedness and what new progress might look like haven't really been addressed in any detail in the commission's draft paper to date. We think that does need to be remedied. We don't think it's sensible or reasonable to say that a \$2.9 billion program can be squeezed into Australia's farming future given that program is only \$130 million over five years. That does not take into account the enormous scope of the task of shifting to a preparedness-based system.

We have done a lot of work in QFF on the issue of adaptation to climate change. We have a pretty good idea now as a result of some of the funding we received from DAFF last year about what we need to do as an industry to start preparing for climate change, how do we get the conversations happening between the scientists and the farmers and the program managers about how we deal with climate change and how that conversation has to be ongoing and continuing and built into some of the models we need to develop for our farm management systems, even crop modelling and weather modelling. We need to recognise that each part of agriculture is different and that the tipping points, the action points, the adaptation risks will be different for each part of agriculture.

QFF represents intensive agriculture which is the farming sector, the irrigated farming sector in particular. Drought policy in this country has never been designed particularly well to fit in our sector. I'm sure your associate, Commissioner Bob Granger, would acknowledge these things because he has a lot of experience in this area. We don't believe even the climate change adaptation tills being rolled out to

date by government have taken into account sufficiently the needs of the intensive agricultural sector. They are still designed in a broadacre, pastoral-typed environment and we need to remedy that. From that point of view we have to start talking about the issues of permanent cropping, the issues of continuous farming which is what an irrigated farm system is, the key questions of regional and industry infrastructure, which is critical to future development.

We also need to recognise whatever drought policy we come up with will not fit all circumstances. We also need to maintain a degree of flexibility for what we call regional industry based solutions. We need to get away from lines on maps true, but we need to recognise that there needs to be a bit of flexibility to protect those key aspects of industry moving forward that will allow it to recover when we come out the other end, particularly if we're dealing with extreme circumstances. With that mixture of comments I'll conclude. I think Adrian Peake from Dairy Farmers does want to address that last issue in a bit more detail before we move to your comments.

MR PEAKE (QDO): Thanks, John. One of the issues that John raised that we would like to provide you with some more information or more ideas was the recommendation dealing with transaction based subsidies. I suppose we can understand that argument that was put in the submission but what doesn't come through is that some of the real policy drivers behind that transaction based subsidy and particularly for the livestock sector the transaction based subsidy in terms of freight subsidies is really about protection, helping protect some of the industry infrastructure which is called breeding stock and relative to the livestock industry which then aids the recovery of those industries post-drought.

While there's questions about the efficiencies of transaction-based subsidies, if that arrangement is taken away, then there needs to be some ability, in my view, to respond to regional needs that looks at that protection of industry infrastructure when it gets into severe circumstances of drought. So from the dairy industry point of view it's not easy to move dairy herds. You can't pick milk infrastructure up and move it, so there are all of those flow-on impacts through industry chains. So my view is that if there is a movement away from these transaction based subsidies there needs to be a system in place to respond or provide for those regional industry infrastructure needs in times of crisis, of severe drought and whether the NDRA model provides an example of how that could happen.

But what I need to stress is the point that there needs to be an agency within the system, either at the state level or the federal level that does take a lead responsibility for it because what we've seen in the past and again, John, I think it's another reason why we haven't been able to proceed with reform on drought assistance is that while there have been ideas identified, it's about having agencies take responsibility for change and working with industry to have that change happen.

PROF WOODS: That's quite helpful and we'll pick that up before we conclude these hearings. In terms of how we deal with this to get the most useful contribution from it, we could spend the hour debating whether in fact the draft has no pathway forward or whether we in fact did try and fit the current program into the FarmReady budget but I think that would be a very unproductive way of spending the next hour. Perhaps we can turn our attention to where we can usefully expand on our draft report which is the whole purpose of having a draft and having hearings, calling for submissions to respond to it. So if you're happy that we take that approach rather than debate the fine points of your opening comments.

MR CHERRY (QFF): We would prefer that approach, yes.

PROF WOODS: Thank you. In so doing I think there are a couple of things: one the transition issue I think we can deal with fairly summarily. We have received extensive commentary on that transition proposal. In parallel, Minister Burke and other state and territory ministers have provided a political statement from their perspective that they will ensure that those who are currently on schemes in current EC areas, while those EC areas remain current, then they can continue apply and meet the criteria for those. So that provides a general underpinning. From our point of view we would wish any assistance given in those currently existing schemes to be associated with some further requirements where farmers focus on how to improve their situation and come out of the difficulties that they're currently facing themselves. For instance, the IRS doesn't have associated with it any requirements to demonstrate business programs and planning and the like that would help them move forward.

MR CHERRY (QFF): Just on that one, as I understand it, Peter, in Queensland at least there is a financial viability test.

PROF WOODS: There is a test as to eligibility but there is no then ongoing requirement for them to put in place a plan and equip their processes against progress on that plan, that's what I'm talking about. I'm talking about the future, I'm not talking about how you get into it but where to go to when you're in that situation. So we hear not only yourselves but others on that question of transition. There is a trade off in extending the transition in that you end up with two sets of schemes in parallel and we wouldn't want that to happen for ever, but we will work within the input that we're receiving. So our final report will provide a more directed transition pathway that recognises the current situation facing farmers and the period of time required to move on to the new schemes. I don't know that we need to debate the transition.

DR BYRON: Some people seem to have assumed that we were suggesting that EC would continue until some magical day when every square inch of Australia was not

EC declared. What we were thinking was simply as each EC declaration expired, that would be it. So there could well be an area that's in EC at the moment that goes on for another five or 10 years or something but we don't have to wait until every shire in Australia is drought-free for the new system to come in. But the idea of having the new system already up and running, effective, field-tested on the ground and so that as the current EC declarations expire the preparedness measures would be there and then when the next drought hits in seven years' time or whatever, people would be ready for it.

But just on the need for a transition strategy though, my understanding is that the QFF along with all the other primary producers and organisations committed to the risk management preparedness strategy in 1992. That's not a flippant comment, but it's not a new idea and one of our terms of reference is to ask what the impediment has been that has prevented greater levels of preparedness over the 16 years that this policy has been in place and signed on to by everybody. It may well be that one of the impediments to greater preparedness is that, you know, if you get into trouble, don't worry, the government will come and pick you up.

MR CHERRY (QFF): I think the quick response to that is the vast bulk of farmers have moved to a much more of a preparedness basis and I think there is plenty of analysis suggesting in terms of this drought the number of people have maintained production levels or managed to maintain some production levels is testament to the preparedness stuff that people have put in place.

DR BYRON: Exactly, and we try and make this point in this draft report that it's actually a good-news story. Even in one of the worst droughts in a hundred years, exceptional circumstances, a drought so bad that no farmer could possibly manage without government assistance, between 70 and 80 per cent of them are. If that's not a testament to preparedness, I don't know what is.

MR CHERRY (QFF): Exactly.

MR PERKINS (QFF): But the question we would raise is there is still \$2.9 billion worth of public expenditure that went somewhere and that's the question that's on the table, is that money being used sufficiently and effectively for the platform for the future, and we would argue categorically it's not.

PROF WOODS: I think you would find from our draft report that we are of similar mind.

MR PERKINS (QFF): That's right but - - -

DR BYRON: Can you just elaborate a bit more, please.

MR PERKINS (QFF): When you look at spending public money on solving a problem that the community regards as requires public money to solve it, the question then becomes, is the money spent sensibly? If you used other analyses like the recently announced assistance for the car industry, for instance, there would be measures available to determine whether or not the outcomes were achieved and you guys would be asked to probably assess that independently, as you do.

PROF WOODS: We do, with a slightly different outcome.

MR PERKINS (QFF): That's right. So the first thing that I noticed in your draft report is that you repeatedly draw attention to the fact that the goals aren't achieved but you don't provide the analysis as to why they're not achieved. I think that rests partly with the bureaucracies that administer - I mean, there is quite a detailed discussion about unintended consequences. In the real world there's no such thing as an unintended consequence. You take responsibility for the consequence and 80 per cent of the farmers who aren't getting government assistance they take personal responsibility for managing their affairs and doing the best they can and clearly with some success.

What we're proposing is this: that money needs to be spent so a lot more can be done for the productive side of agriculture who clearly do suffer stress, but they take their stress under their own wing and use their own resources to the best of their ability. We think the public purse should be open to provide them with that array of 15 items that we suggested under the farm management system approach that basically says, "We as a community will deal with climate and stress way better if we do that than if we continue with this patchwork that we have where money is channelled into a narrow, not a wide, spectrum and spent we don't know how." That to us is the big picture and then the nitty-gritty becomes - why don't we start putting these proactive programs in place now? Why is stopping us doing it? Why are the government programs not proactive and that question wasn't answered?

PROF WOODS: We'll move through that. Do you want to extend that any further?

DR BYRON: I hesitate a little bit. The statistics seem to suggest that the top 30 per cent of primary producers account for something like 80 per cent of the value of production. The bottom 30 per cent account for half a per cent of production, much less than 1 per cent. Other ABS statistics, the bottom 30 per cent basically haven't paid tax for the last 25 or 30 years. But that's also where most of the billion dollars a year of drought relief has gone, that is to the people in the bottom 30 per cent. If you're asking how should a billion dollars of taxpayers' money go into agriculture in a way that will enable Australia to have vibrant, dynamic, sustainable,

efficient world class agricultural industry, it may be that you shouldn't be spending a billion dollars on propping up the bottom 30 per cent of the distribution. There may be social reasons for doing that, but not agricultural production reasons.

I suspect that one of the reasons that so much drought money, under the guise of drought relief, has gone into that bottom 30 per cent of the spectrum of producers is because that's where the social issues are. Has it done very much for the quality of the agricultural industry or food security or whatever? Probably not. But it has kept people who are pretty borderline and marginal in many senses - location or quality or site or whatever - still in the industry for political reasons.

MR CHERRY (QFF): I hear this argument from bureaucrats, state and federal, a lot that, "We're just propping up almost like lifestyle farmers or people who are barely profitable," but - - -

DR BYRON: Tell us what's wrong with that theory.

MR CHERRY (QFF): There is a gate to assistance which is farm viability and the Queensland Rural Adjustment Authority is pretty robust and rigorous going through that. I know farmers who have been knocked back for assistance because they weren't viable.

DR BYRON: But that only applies for the business assistance, the interest rate subsidy.

MR CHERRY (QFF): The interest rate subsidy, that's right.

DR BYRON: There's no viability test for the EC household relief package.

MR CHERRY (QFF): That's right, yes. But certainly if we're talking about the business system reform which is the bulk of the \$2.9 billion that we are talking about because there appears to be a broad consensus that there needs to be a continuing social safety net of some sort and even in our notes we have suggested possibility a farm viability test might be part of that moving forward. We don't have a problem with that as a principle because what you're saying makes sense to us. But I just want to point out that when we move away from lines on maps and we're moving towards some sort of assessment we will have to come up against this issue of the individual assessment and the gates. One of the frustrations I've had with EC declarations, dealing with our last four and a half years of putting lines on maps is the reluctance of governments to acknowledge that the change in our climate means that within an area, giving its increasingly storm-based events, you can have people in drought and people in abundance side by side in the same district.

DR BYRON: Yes.

MR CHERRY (QFF): There has been a reluctance to acknowledge that the gatekeeping through the farm viability test can actually sort that out because it will be reflected in their figures and there is reluctance to acknowledge you can do that through QR or other bodies.

PROF WOODS: So we would be in common agreement that the EC process is not the best test, that you just use the one gatekeeping, you don't have a double gatekeeping process?

MR CHERRY (QFF): I think we're moving towards that because the EC process we found very frustrating. We had 900 farmers knocked off EC in Queensland in June and we would think that in most of those areas there was a reasonable start of a recovery; they hadn't recovered, but there was a start of a recovery. So we lost a recovery year which is something which frustrated us enormously which was part of EC policy suddenly disappeared in the last couple of years. But there were large areas where the recovery was at best marginal, and certainly patchy. Large areas of the Darling Downs where a lot of Adrian's members - where there are people still in drought and they were knocked off EC in June because on average 51 per cent or whatever it is, the magical figure comes out, said, "Rain to 50 per cent of the area so therefore they're out of drought."

PROF WOODS: Which is why our emphasis is on the single gatekeeping of what is the circumstances of that farm, and let's build some momentum of possible agreement on some of those things there.

MR CHERRY (QFF): It is very hard to do that because there was one suggestion that the gatekeeping through the financial counselling service but that's a question of whether a counsellor should be a gatekeeper and that's one of the issues we're a bit concerned about.

PROF WOODS: That's not coming out of our draft report.

MR PEAKE (QDO): The other thing, you need to be careful with generically blanketing farm systems with statements about 30 per cent and so on. It depends where farmers are at in their individual farming cycle. Some might be winding down to retire, some might be just starting up, taking over a farm or whatever. So you need to be careful with those sort of statements.

PROF WOODS: We do recognise in there the particular situations facing young farmers especially where they've taken over a farm where the retirement sum has been taken out as equity in the farm and they're not only given the joy of the farm,

but the joy of the debt that goes with it. So we do recognise their particular circumstances. Also industry by industry the farming models are very different and that is something that we're conscious of. On the question of RD and E and business management, in your submission you had 18 specific areas and we have read your submission and had been through all of those. You also had nine policy points for the framework and again they were ones that we were very conscious of. But where we want to go from our draft report to our final report is we've identified the importance of RD and E, we've identified the importance of business management skills, but we want to build out the detail of how to apply those and we're not talking about what the content of the programs would be: that's for the agronomists and scientists and farming community and the like to decide, and that's why you have RDCs et cetera.

But in terms of the frameworks and the priorities, Growcom very usefully provided us with some points that set out a bit of an agenda and as you would expect, they do include things like climate change and business management skills and the like. So we have your list of 18 areas there starting from farm management tools and working your way through risk management strategies, long-range seasonal forecasts and the like. We are intending on building our draft report out to go into some of those in more detail, but are there particular ones that you would draw our attention in today's discussion?

MR PERKINS (QFF): How many times do you have to say it? I can appreciate what the draft was about. If you were to sit here today and say, "What's a farm in 2010, 2012 going to look like," you know, it's going to be a farm manager that is equipped with multiple skills to deal with multiple set of risks. He needs the wherewithal of public support in the sense that the bureaucracies, the skill - departments of what are required, not just agriculture, are capable of providing independent assistance and advice where it's needed.

PROF WOODS: Yes.

MR PERKINS (QFF): Now, I have noticed that the Corish report, for instance, made quite a detailed argument that we need a lot more of this wider skill set in rural communities and I notice the social panel did it as well. Again, we would say, well, we've been bleating this call for quite some time. What is it that we have to do to motivate governments to shift direction so that they realise that this is what is required, that if you're going to have a Queensland-based department, the primary industries - that doesn't have an ability to deliver a range of advisory services that are needed for risk management, who is going to supply it?

Now, I notice you guys, of course, noticed that the private market supplies it to a large extent. What we're saying is it's not supplied sufficiently, that there's clearly

wide gaps in the types of skills that are required to assist farm managers. We're talking about family farms, right, not necessarily big corporate farms. It wouldn't be that hard to sit down with specialists in this field to mark out a path to do this. I know Mark's team will always come back to rural water use efficiency programs because they're practical on the ground - where an individual farmer might not figure it all out but with a group of advisers he will.

PROF WOODS: Yes, and we had a very useful discussion on that this morning.

MR PERKINS (QFF): I see exactly the same stuff in what the Kenny report has got. There are other social skills that people need too, not the least of which is the simple skill not to stress when you're under stress. It's a bland statement to make but that's where public services can be provided to assist communities and individuals deal with what we're dealing with.

We put on the table for you guys to have a look at the NDRA arrangements. The reason we did that is we think it's instructive to have learnt from Cyclone Larry. We think the speed with which industry groups could put industry specialists on the ground to go one on one dealing with farmers is a very instructive model about how to deal with stress. So it's those type of things that we believe it's not that hard to sit down and build the programs that will deliver preparedness, the ability to deal with stress way better than what we're currently doing. Now, 24.5 million isn't going to do it, not Australia-wide.

PROF WOODS: Has anyone been suggesting that that's what it would be limited to?

MR PERKINS (QFF): No, I know, but the new government - - -

PROF WOODS: So we put on the record that that's not in our proposal.

MR PERKINS (QFF): No, but the new government has a climate change strategy. We're re-badging things, right? FarmBis is not FarmBis now, it's something else, Rural Farm Skills or whatever it is.

PROF WOODS: Does our draft report deal with that? As I recall we actually suggest that some of the elements of FarmBis should remain.

MR PERKINS (QFF): That's right. One of your recommendations does. All we're saying is now is - spread it out. Now put the detailed programs that are required.

PROF WOODS: That's exactly what today's conversation is about.

MR PERKINS (QFF): Well, with due respect, I mean I'm not a public service.

PROF WOODS: No, but you've come from the industry that it will be affecting and so I would have thought that - - -

MR PERKINS (QFF): I would hide behind - - -

PROF WOODS: - - - this is where we come to for guidance.

MR PERKINS (QFF): Yes, but I would hide behind the argument that says, "Look, one size does not fit all."

PROF WOODS: We agree.

MR PERKINS (QFF): So it's not appropriate for me to sit down - all I can do is pull one or two examples that we know work and I would come - - -

PROF WOODS: That's why we're having extensive conversations with a whole range of groups so that we can find the examples across the board. We have dairy there, we have the broader QFF, we have dealt with grain growers, pastoralists et cetera. So we're pulling from all the various sectors. We're not limiting ourselves - - -

MR PERKINS (QFF): But we presented these - we gave the example, for instance, with your feed.FIBRE.future model, right?

PROF WOODS: Yes.

MR PERKINS (QFF): feed.FIBRE.future was a model that was brought in in the drought, turned out to be not spectacularly successful, but successful enough that you would want to use that model to go forward with preparedness programs so that cattle producers, livestock producers, could manage their feed and nutrition arrangements better. Now, you can't do that on a shoestring.

MR PEAKE (QDO): But that has led on to other programs. I mean we've now got the Grains - - -

PROF WOODS: Do you want to build on that for us? That would be helpful.

MR PEAKE (QDO): Well, the Grains to Milk program is the current one running, and that is about preparedness. There's a range of other programs that we have got like Dealing with Today, Planning for Tomorrow. So they are industry-led

risk-based preparation-type programs. But I suppose the frustration for us as an industry, if we could get more horsepower in those programs we could get the support for them, greater support.

PROF WOODS: So where are the impediments in that process? Is it the lack of government funding or is it the lack of having the extension capacity to run them out through your various members? Take us through some of those issues.

MR PEAKE (QDO): For an example - I can only speak from our experience.

PROF WOODS: Yes, no, that's all I'm asking.

MR PEAKE (QDO): But it's all of those things and more. There's a range of areas where we've had impediments in terms of being able to maximise the opportunity, so to speak. Funding support is one and making sure that funding support is well-targeted and coordinated.

PROF WOODS: Sorry, but if I can just build each one into a bit of useful depth for us. The funding support, is that in terms of the research and development that is being undertaken that underpins these programs or is it funding support for the promotion of them or for employing extension officers to wield them out? Where would you - - -

MR PEAKE (QDO): All three.

PROF WOODS: All three and more or just - - -

MR PEAKE (QDO): If you take it to the ultimate, like the rural water program, with our program we actually take the money and allocate a proportion of it to assist farmers to make change on the farm. Now, that's the ultimate. If you want to take it all the way through - - -

PROF WOODS: If you're not doing that at the end then the lead-up is rather pointless.

MR PEAKE (QDO): You get the latest R and D, you get it into a format that it can be delivered to the clientele and then you help the clientele to build their own capacity to use that technology on farm and then help them implement it up to where it's efficient and they are managing it well. So you're actually not just delivering them a workshop and then leaving them to it. You're taking them all the way through it and actually helping them implement it on farm. That's the ideal model and we have been able to do that with the rural water program and we have had the capacity to actually address a few of the what I call gaps or market failures. We do

have gaps in expertise out there in the marketplace in terms of the private sector. So we have been able to use those programs to help close those gaps, where an examples is say provision of technical advice on irrigation systems that's independent. It's not a equipment supplier trying to give advice.

PROF WOODS: No.

MR PEAKE (QDO): So we have been able to use a grant system to help the farmer see the benefit of accessing that advice but to also give the farmer the financial capacity to access that advice, to provide it. So by doing that process we're actually hopefully building the farmer's understanding that it's worthwhile. They get a return on investment and they get a better result for their farming system. So it's all of those things. But what I would say the overarching side of it that drives those sort of approaches is the partnership between government and industry.

PROF WOODS: I think that's a point, Bob, that you've been pushing, that if industry is not in there driving it but with government providing - - -

MR GRANGER: I'm concerned sometimes when I listen to Peter, and this is said with maximum respect, is I hear you saying, "Government, government, government," you know what I mean?

MR PERKINS (QFF): Yes, but - no, the FMS system is a farm - - -

MR GRANGER: I'll just finish this. I do think I've probably lost some faith - I want to square off here - I haven't got faith that government can deliver on all fronts.

MR PERKINS (QFF): That's right.

MR GRANGER: I hear the frustration that you talk about, about having said this all before, "Why are we saying it again? How come you're not listening?" Well, I mean at the end of the day all the tensions that exist between government and the community and the taxpayers - I mean I don't know when they will ever be resolved. But partnership, you know, if you haven't got a strong partnership you might as well give up and do something else.

MR PERKINS (QFF): That's certainly - - -

MR GRANGER: Sorry, Peter, I had to cut you off there.

MR CHERRY (QFF): That's certainly our frustration with the RD and E agenda more broadly, coming back to the point I made earlier that we have seen constraints put on particularly funding of state agriculture and DPIs around the country;

significant constraints. That's making it difficult to get roll-out of some of the programs which might underpin the risk management and the information we need to move forward. I mean been having a debate with our state DPI about can we get crop modelling taken out beyond the grains industry - it's about the only place it is at the moment - and no money to do it.

There's stuff that industry can do but the frustration for industry bodies, particularly in our group, is the number of farmers every year falls, the number of farmers in industry organisations continues to fall, and drought and flood commodity prices make it hard for us to invest. The other comment I did want to make about progress, moving forward, is the question of the FarmBis model. I'd be a little bit concerned in talking about the progress, moving forward. Peter made an important point, as did Adrian, that one size doesn't fit all. The FarmBis model assumes if you give a subsidy to a farmer, they'll go out and find the relevant thing. That assumes the farmer will take up the subsidy in the first place. What we're saying is there is a lot of cost effectiveness in investing directly in industry outreach programs, and we've had some enormous success in that. That reflects the fact that the state agency's capacity is continually being wound back.

Even the R and D agendas in the state agency is now the only way to get a state agency to invest in an R and D issue in agriculture, is to turn up with some industry funding through an industry rural R and D corp. These sorts of issues are driving it. We've found the more successful new extension programs are the innovative ones to get into dealing with farmers and getting them addressing these issues is one on one, farmer-led type extension programs, and they're working really well, and dairy has got some great examples. Cotton has some similar examples which have been funded by the Department of Agriculture. The Rural Water Use Efficiency program is a very good example of probably the most important challenge for us in terms of adapting to climate change, which is water use efficiency.

These are good models and they're cost-effective models, in my view. In trying to develop the case for what programs might look like, they should be part of the mix. The FarmBis-type model has its place because there are other providers, not just industry organisations, agronomists, financial counsellors and so forth. They should be part of the mix. The financial counselling service needs to be expanded to have a broader range because, you know, it's that one on one capacity which is vitally important. We need to have much more of a targeted R and D approach.

Even the Australia's Farming Future, unfortunately, even though they've announced \$46 million for climate change research, it's directed, in my view, too much at this stage towards the CPRS in getting over the line, not enough to adaptation. The minister has made that abundantly clear. It's about mitigation and adaptation. The adaptation challenge for farming, presumably you've looked at the

ABARE data on the adaptation challenge for farming, it's huge in Australia. In Queensland it's bigger than the other states, potential reductions are 30, 40 per cent in productivity against a baseline by 2030, 2040, 2050. All these costs coming at us - I'm an optimist, I think we can get there and be successful as we've been successful for the last hundred years. That continuing alliance, that partnership between farmers, between R and D, between extension, to link those two together is the key to it all and making that happen is what has made agriculture in Australia viable in the face of falling commodity prices for 100 years and that's what's going to make us viable against climate change in the future if we can put it back together again.

But the partnership between government industry which has been through the old DPI model, which has been fraying at the edges for probably a decade or two and it's got to be rebuilt in a new model and that's what maybe we can do out of this process.

PROF WOODS: I don't think you will get any disagreement from us and looking at some of those models is what we're searching for information on and that's helpful and we're aware of the Rural Water efficiency model, but we'd like to take up the dairy and cotton in some more detail and understand what are the successful elements of those because, as I said earlier, we're not interested in designing the content, but we are interested in ensuring that there is sufficient money into the appropriate frameworks and approaches that will have an impact much more than has been in the past.

MR CHERRY (QFF): Just a small exemption on the R and D, just a small project which we had funded out of DAFF last year which we would have loved to continue but we can't get funding for it, was an expert scientific panel trying to bring together climate scientists and our industry farm management systems program managers to identify the cutting edge of climate research, identify what the risk factors are for each of our industries and try to develop adaptation tools to fit into that. Cutting edge in that we were trying to get the science to stretch the parameters of the climate science down as far as we could to not just regional factors, but also the critical factors, you know, what is that changes farm decisions about climate change, the critical heat factors, the critical frost factors, the critical storm factors, those things. That was enormously successful for the year that we had it and we would love to keep it going, but we can't because it's expensive.

PROF WOODS: Expensive in the sense of the initial outlays as distinct from the benefits that accrue over the longer term?

MR CHERRY (QFF): Finding the investment within industry to maintain that sort of level of high-level liaison is well nigh impossible, speaking as a head of a peak farm body at the moment.

PROF WOODS: But part of the problem of having one year on-offs is not only not building momentum for change, but also from the suppliers of that research show if you get one year funding, well, that's terrific and if you're the scientist or the agronomist or whoever it is, "Yes, I can wheel this out." But by eight months, nine months' time into it they're starting to think, "Hang on, where am I going to get my next 12 months' grant or two-year grant."

MR CHERRY (QFF): That's right.

PROF WOODS: One of the whole reasons for our focus in our report is to maintain greater continuity and greater certainty and so that we have rolling programs that don't have these stop-start arrangements because they're difficult from your point of view, they're equally difficult from the scientific point of view and the research point of view because they're just swapping from short term to short term. One of the things that we found particularly is things like trial plots and like. You need long-term experience with those. They're not things that you can fund for a couple of years and then if there's no funding then put to fallow or somebody struggles on and tries to keep something going and you lose all the data and continuity.

DR BYRON: Just on the adaptation point, the Department of Climate Change has recognised - somewhat belatedly - adaptation as a major issue. So at Griffith University here they have set up a national centre of excellence of climate change adaptation. They have also recognised that probably the most important area of adaptation is in agriculture. This centre at Griffith has been funded over a long term so I would have thought there is a potential ally there.

MR CHERRY (QFF): We have met with them. Agriculture is down their list somewhat.

DR BYRON: That's interesting.

PROF WOODS: We're happy to help you move up the list.

MR CHERRY (QFF): It's on their list but it's down their list but they'll get to it and they've got a couple of very good scientists out of our area on their expert committee. But, you know, the adaptation task when you start looking at it outside of agriculture, it's storms, urban planning, emergency management, it's huge, health issues. Those human-type ones seem to get priority with the adaptation R and D dollar at the moment.

PROF WOODS: Over and above the production one?

DR BYRON: The meetings I've been to in Canberra agriculture has always been first or second on that list.

MR CHERRY (QFF): Yes.

DR BYRON: Anyway, lost in translation.

MR CHERRY (QFF): I don't want to be critical of the Griffith facility. They will get to agriculture, but at this stage they've got four or five priority themes and ag is not of the themes they developed out yet.

DR BYRON: Can I come back to the point you made earlier, Peter, about thinking what the family farm looks like in five years' time because a producer at the hearings in Adelaide last week - a family farm - said that in his view a lot of Australian farmers are seriously undercapitalised and they underappreciate or undervalue the risk that they're facing. He put it in terms of each year when he plants a crop he's basically gambling over 50 per cent of the total value of the enterprise on something that's extremely weather dependent and over the last three years it hasn't worked and, of course, you very rapidly run down the value of your business.

But if it's correct that a lot of farms are largely undercapitalised and that's why they're vulnerable to any increase in costs or reduction in revenues, I wonder if you've got any thoughts on this idea of joint ventures in agriculture that's come out of WA on the idea that there are people in cities who have capital to invest and who are willing to take risks and then there are farmers out there who need more capital injection and would like to lay off some risk. So, therefore, is there a possibility of the two parties getting together and doing a sort of joint venture so that the farmer, the landowner, still stands to make a reasonable profit on his property, accesses outside capital and lays off some risk. I just wonder if you've got any thoughts on any of that.

MR PERKINS (QFF): I think the capital markets in Australia work okay but agriculture is risky, particularly if it's a more opportunistic annual crop type agriculture. We all know the infamous Parkes, Dubbo centre of the universe is highly risky. That's the nature of farming in that region.

Look, I work for intensive agriculture where we tend to operate continuous production systems. So in that sense we're not particularly risky. It's more what do you do when the costs get out of hand and what is the fall-back position in terms of capital. Oddly enough, most of the constituents that I work for are reasonably capitalised in the sense they have low debt, so they could go and get more debt but they choose not to. I know the reason they choose not to, it's because they know that

next year might be just as bad. Now, how you solve that, to me, is education, training, risk management skills, get a wider range of options; which is what the more advanced do. That's again why we recommend that governments should be in here supporting those type of widen the array of options; education et cetera.

Just so we don't misunderstand what we're on about here, Bob, I don't think the QFF family is in the least bit interested in the government suddenly taking some enormous leadership role and solving all our climate risk problems. We're not that naive. What we're saying is this is an inquiry, if I have missed - it says, "Inquiry into government drought support". What we're saying is when is the government, of all of them, going to start being focused on preparedness? We're all agreed we should be doing it. So the government program should be. It's that void that we're finding frustrating.

In Queensland we have had a bit of good stuff going on here. Our climate change centre of excellence and the precursor people that worked up at Toowoomba, they have done some excellent work on understanding the Southern Oscillation Index, the El Nino/La Nina influences and there's plenty of farmers in Queensland are a lot better managers now than they were 10 years ago before that information became available. But as John pointed out, the focus has always been on the pastoral side of agriculture, not on the intensive side. So the time has come to broaden this climate research into all players.

That's why you will see in our submissions we keep saying it's not just about the family farm, it's not just about farmers, it's about the community. The community needs to be engaged in its climate risks as well. So when you're talking about the Lockyer Valley and Gatton et cetera, the community at large, the local shire, the farmers, the agribusinesses, they all need to understand these climate risks and have business plans and operations that serve to deal with it. That, to me, is where government money should be spent. The government should get on the front foot and say, "We know there are definable climate risks here. All players should be out there doing something about it."

So that's what we're talking about. We're not singling out that there's suddenly some winner take all opportunity here. If I take a punt that this really is a La Nina year and I invest some money in a wheat field in South Australia I might get a big return. Opportunistic farming is not what intensive agriculture is about. Intensive agriculture is about continuous production.

DR BYRON: Just coming to that point. If I think that having a good farm plan looking at all the contingencies, you know, risk management and all the rest of it - is in my best interests and is going to help my farm survive, why don't I just do it? Why do I even care whether the government says it's a good idea or not? It's in my

own interests to siphon up all the information I can find, digest, work out what's best for us and get on with it.

MR PERKINS (QFF): Correct.

DR BYRON: I don't have to wait for anybody in Brisbane or Canberra to say it's okay to do this.

MR PERKINS (QFF): Be assured that's what people are doing. The point that I think Adrian is trying to make and we have tried to make in our submissions is when you come to climate stresses and it's new uncharted territory - a term you guys used, I noticed - it's very difficult if you're running a continuous farming operation to pull back and do the type of analysis when you're in the pitch of battle.

The dairy industry, they themselves would admit that their dealing with the onset of drought probably wasn't as good as it ought to have been. The feed.FIBRE.future model probably came along three years late. The mobile financial counsellors that we put on to go to farms, again, we responded late but we've learnt that those sort of services have to be there because if you - I mean this is one thing I have learnt: people have got some good tools to help farmers make better decisions but I tell you what, farming is a busy business. If you can't find that extra two hours in a day to sit down with an adviser to go through the new software tool that you've got, it ain't going to happen. Again, this is where the provision of government services to come in and assist where people can find the time helps. You can't leave it entirely up to the individual. The individual will do the best he can, there's no question, but there's still - I mean we all know the public research on climate risks is underdone.

MR GRANGER: That's probably where the debate begins a little bit. Like you described a situation - and I hear what you say. But the hard question, the elephant in the room, is how long - why should we put those resources in to doing that sort of thing all the time when you could probably say that there would be the top end of the business - wouldn't need a financial counsellor, they're doing it themselves. I'm just trying to understand the profile of the person that we're really focusing on because I think the thing that we're dealing with here - we've put some figures around about 80 per cent don't even get \$1 out of the whole thing. So you've got the tail that needs so much attention. I know this is a harsh question, don't misread me, but I'm just asking the obvious. How much time and effort do you put into the tail in any industry? You know what I mean; not agriculture, in any industry.

MR PEAKE (QDO): To respond to that, Bob, I don't think you can talk about any one type of clientele. There's all ranges of clientele in the industry. So for us in our industry it's that public funds - they might be not accessing drought assistance but if

we can get support behind our industry programs that takes that leading R and D out into the field - every farmer asks the question. They know there's a whole heap of information out there but like Peter says they're all busy people. If they can access an industry program to say, "This is the latest and tested peer reviewed information that's available. This is how to apply it in your farming system." That's the link. Now, that's that top set of clientele and then you go on from there. There might be other clientele for whatever circumstance they need some support on financial planning, on restructuring debt, on accessing some government programs, because they're in a high-stress situation.

But there is no one set of clientele. There's different sets of clientele. So we have had to adapt our programs to deal with that. So we have had a mobile officer going around helping those people that you might classify as the bottom 30 per cent. But they're not accessing the programs because they're so far under the pump and stressed they're not getting off farm to make that engagement with the industry network or other services that are provided. So we have seen that gap and what Peter said, we would have liked to have acted earlier in the drought if we had the funding to do it. So now that we - once we did get the funding to do it to get that person on the road it has really made a difference.

So I think again, I'll put that warning across about be very careful about generic policy applications. I think that's where that partnership with industry is so important because we can provide the guidance then from an industry point of view about what's needed at that point of time in the circumstances that are there. But on the risk planning side of it, which is the longer-term stuff, the partnership approach is again so important because it's our industry R and D infrastructure that is doing the specific industry-type research which is going to lead the change into the future.

PROF WOODS: So there are some broad-based areas where it would be always on, and that's your basic R and D and ensuring you've got good extension programs and the like. Then there would be time and type specific ways of implementing that where you'd need to work through the industry bodies more so. So government can keep churning out the baseline R and D and making sure that it's relevant to what you need but then the further we go into the paddock the more it needs to be the partnership and guided - - -

MR PEAKE (QDO): I'd agree with that. I think you've got - and then that was like with the current situation, you've got some baseline programs but our people that are going into the field are working not only as a support service but a referral service, saying to farmers, "This is who you need to talk to about this issue or getting this assistance," and give them that referral.

PROF WOODS: Okay. I understand that.

MR PEAKE (QDO): If I could touch quickly on the R and D issue, and it's just on John's theme, one of the concerns I do have at the present time is about how the national agreement on the R and D framework across agriculture is actually folding out at the moment. We've seen decisions in a number of states in recent times about restructuring their research capacity in the departments before the actual framework nationally has been able to be implemented and that concerns me from a point of view that we rely on R and D particularly for setting up the industry for 10 years down the track, 20 years down the track. I think the framework agreement that has come out of the joint ministers is a good agreement in terms of the objectives. However, what I'm seeing personally at the moment or what I fear personally at the moment is agency seen as an opportunity to restructure and rationalise assets that may be not in the best national interests of getting the best outcome from RD and E. I just thought I would put that on the record.

MR CHERRY (QFF): You mentioned at the outset the 18-odd issues we raised in our original submission. I just wanted to draw your attention to page 5 of our additional notes we've given to you today. These are just issues that our QFF family has identified arising out of the issues paper and the comment to the ministerial council. None of those will be new to you, but I did want to draw your attention to those because some of them raise issues we may not have raised in our earlier submissions, under point 8 on our submission.

PROF WOODS: There are a couple there I highlighted. FMDs was one. We have had this debate as we've gone round the country and we might as well have it again. FMDs from our point of view - a number of people were surprised that we actually supported them, but we do. We think they're a very valuable tool to the farming sector. We note that there is some broad criticism about how during one of the three worst droughts in the last hundred years average balances have actually increased, but when you pull that apart you find that there are reasons for that. I won't go through all that, but we've done our analysis and we've done it state by state and we've done it industry by industry. We understand how they're working and we're satisfied that they're working broadly as they should.

We also, however, recognise that having an FMD doesn't create a ceiling on how much money in a financial capital sense you want to put aside for bad times. You can do other things apart from FMDs, you can have cash management trusts or whatever. All FMDs limits do is identify the amount that is tax advantaged by way of being able to defer your tax payment. It doesn't limit what financial capital you may wish to put aside in what years. It just identifies how much of it is tax advantaged through the default process.

So we think in that sense that then there is the trade-off between the cost to the

taxpayer, which is 76-odd million a year in the deferral compared to benefits to the farming community. So that's where the judgment lies. They're not free to the taxpayer, but they are a valuable tool to the farmer. But they don't constrain a farmer in how much money they put aside for their enterprises. On that sense we continue to agree that they're a very valuable tool, but we think where the balance is at the moment is roughly right.

MR CHERRY (QFF): I think there are two issues there. One was the question of the \$400,000 cap and the other was the question of the eligibility, particularly the exclusion of incorporated organisations. Increasingly, particularly as people for succession planning or for whatever purpose they decide to put in place, put in place family enterprise models, it doesn't make sense to us to exclude an incorporated entity that is essentially a family business from access to an FMD. It's just a small frustration. I think it's one that needs to be looked at. I can understand that you would want to exclude an agricultural big public company of some sort, but to say that one particular version of the family business model which is a corporation isn't allowed, but all the others are, is one anomaly which I think should be looked at. The \$400,000 - - -

DR BYRON: Is it an anomaly or is it just that you can operate as a sole trader, as a partnership, as a trust or as a company? All these four options have different pluses and minuses.

MR CHERRY (QFF): That's right.

DR BYRON: You choose whichever one you want, but you can't say, "I want to get all the tax advantages of being a company, but I still want to be able to use that and I'll have this over here and I want to be still eligible for the household relief payment on the other side." So there are different tax treatments, there are different eligibilities, there are different things that come with each of those four alternative structures. Each farm owner decides what's the best structure for them and they cherry-pick it.

MR CHERRY (QFF): That's taking the currently policies and structures as given, but you're doing an inquiry into those policies and if one of the policies is to push people towards preparedness, if your broad finding is, which we agree with, that the farm management system's deposit system broadly is working, then why should that decision then influence your structure given that you might choose the corporate structure for other reasons such as succession planning or whatever? I mean, that argument can go either way. If the policy itself stacks up, then why should it be constrained by the choice of business structure.

DR BYRON: What you're suggesting seems to be that company structure should

have all the benefits that come with a company structure plus all the benefits that come with any other structure. If we change the policies that way, then within days everybody would want to be a company because it's got every conceivable benefit from every conceivable option all packaged in there. That doesn't seem to make sense.

MR CHERRY (QFF): What I'm saying is that it doesn't make sense to say that farm management systems deposits policy inherently stacks up but if you choose to structure it in a particular way, you should be denied from it. That doesn't make sense either. So both of us aren't making sense.

DR BYRON: Correct.

MR GRANGER: Can I just say though I'm a little bit worried that we - let me try to be purist here. If policy is good, then it should be universally good. So if a policy is designed to encourage people to prepare by using cash surpluses and rolling them over from one year to the next so that they have got cash to deal with higher feed costs or to deal with some agistment issues or to deal with whatever, more expensive pumps and all those costs go through the roof every time we get a drought, why should we suddenly say, "We'll cap it at 400,000," because somehow or other that seems like a reasonably arbitrary farm cash operating surplus number and it's really still for the family farms.

PROF WOODS: We're not limiting preparedness by farmer or even farm enterprises if they go into an incorporated structure. All we're doing is saying how much of that should be tax advantaged? How much is it costing the taxpayer, that's the only debate really.

MR CHERRY (QFF): But you're also suggesting changes to it because you're saying that the FMD should be taken into account and the income support access as well.

PROF WOODS: Correct.

MR CHERRY (QFF): So you're changing it. So you're saying, "This cap is currently useable under the current circumstances, but we're going to change our circumstances because we're going to include the FMD in any calculation of access to income support, but we're not going to change the cap."

PROF WOODS: Well, we're not changing how the FMD operates, but we're saying, "If you want to make a call upon the taxpayer for hardship and you've got within your total available resources a significant amount of readily accessible financial capital sitting there, then" - again, the balance and it's judgment issue and

maybe you want to comment on where we've suggested that hardship limit be. But it doesn't seem reasonable from the broader community perspective for a farm household having access to a large level of liquids and still be drawing down \$17,000 a year from the community.

MR CHERRY (QFF): Yes.

PROF WOODS: These are not easily definable issues - - -

MR CHERRY (QFF): We're happy with that.

PROF WOODS: - - - they're judgments.

MR CHERRY (QFF): In principle we agree with you, but what we're saying is that you are changing the definition of an FMD by saying, "You would be required to draw down on it before accessing income support," but you're not changing the cap for investment in it, so you are changing the conditions of an FMD.

PROF WOODS: Only if those come out - - -

MR GRANGER: I think the original intention day one with FMDs was that very issue.

MR CHERRY (QFF): In principle we're not - - -

MR GRANGER: My best advice is that's what they're there about, to draw down.

MR CHERRY (QFF): In principle we're not disagreeing with you, but we are saying you are changing the conditions of an FMD by recommending that. You're not changing the cap - - -

DR BYRON: The rationale for having family farms was that the period in equity that comes from the different marginal tax rates. So the idea that rather than - if you have a really good season, rather than paying 49 per cent tax on it, or at that stage it was actually 66 per cent tax on it, you could put it away and take it out and pay a much lower tax rate on it. If the company tax rate is flat at 30 per cent that simply doesn't arise. There's nothing to stop companies from accumulating reserves. So when it was designed it was never designed, it was designed to solve the particular problem of the farm family with volatile incomes and having to pay the maximum tax rate in a good year and a couple of years later in a drought having no income. So the idea of being able to put money away, not for a rainy day but for a dry year or a dry couple of years, is I think a solution, a very clever solution, designed for the family farm that's set up outside of the corporate structure.

I haven't been persuaded yet why it should be extended to the corporate structure when they do have a constant tax rate, a flat rate of 30 per cent, whatever and they do have vehicles for accumulating capital. We can keep looking at it.

MR PERKINS (QFF): I would have hoped that - Mark has probably already explained this a little bit - a typical horticultural operation in this state will attempt to be integrated, will attempt to service a multitude of growers and have a packing shed and having an arrangement with a transport et cetera and their incomes fluctuate even within season, but certainly year to year, particularly if you get water restrictions. When those water restrictions are on, that starts to bring into being a whole host of capital issues because you've got to start to think about borrowing, a la these investors in the city who might want to invest in a currently dry horticultural operation but they're going to put on a La Nina year and water restrictions will be off. Who knows?

But those people I found in this last drought under just as much stress as I did just ordinary little family farmers. These guys have a big wage bill et cetera and they're struggling. These sort of allowances weren't allowed for them and that's one of the reasons why I keep saying once the policy passes the test that it's good policy, we should be very careful about then putting restrictions on it. If it's good policy, it's good policy. So if we believe that FMDs are pretty sound drought-preparedness tools that people can use, then I think let's try to make them universally available rather than then find ways to restrict them. That's really our point.

DR BYRON: If they were free, if they didn't come at a cost, then you'd be right.

MR CHERRY (QFF): The question is, is that a reasonable cost in the context that we're looking at abolishing a lot of programs that have a larger cost.

PROF WOODS: We admit it's a judgment issue but we - - -

MR CHERRY (QFF): Just to follow up on your point and just very quickly before you move on, one of the points we were making is with a continuous cropping system enterprises that costs rise during drought circumstances, so you move into a loss situation. So in that case, even with a corporate structure, you are talking about a loss-making year. So you'd be transferring income from a profit-making year to a loss-making year.

MR PEAKE (QDO): Not only that, John, to add to that issue is the actual cost of preparedness now. If you were to look at farming systems and the dairy industry in Queensland and how they've evolved in the last 10 years, particularly the ones on the Darlings Downs which has been EC declared for much of that time and in the north

all of that time, those farming systems have changed. But the cost structures in the system have changed as well. So it's not uncommon to have dairy farmers with a quarter of million dollars of silage put away. So the actual costs of preparing for drought management now are high. To put a cap on these things without taking into account changes in the environment out there, I think you need to be cautious about that. I see that whole cost structure continuing to shift.

PROF WOODS: It's not a cap on what you can do, you can have silage, you can do a whole lot of things to build your cap and all this does is put a cap on the tax benefit. I think we understand your point on that. Bob, were you heading in a different direction?

MR GRANGER: No, it's okay.

PROF WOODS: I'm conscious that we've got others who are scheduled to come before us very soon. We have been through the para 8 and - - -

DR BYRON: Before we leave that one, could you just elaborate a bit more on the regional flexibility component or have we already covered that?

PROF WOODS: Yes.

DR BYRON: I'm very taken by that idea and we've said everywhere we've been that we're talking about - - -

MR PEAKE (QDO): This is about having the capacity to respond to regional issues.

DR BYRON: The response should be localised and industry specific.

MR PEAKE (QDO): If I was to take you through it, the issue where I come back to, where I've previously explained on transition based subsidies, there was a policy behind it driving it and with the livestock industry protecting core breeding herds which then gave the capacity for industries to more quickly recover after a drought period. But that core breeding herd - and it could be a horticultural plantation that you can't pick up and move. In times of crisis where it goes beyond just a severe drought event the individuals are making the decisions and it starts to become a bigger industry issue. I see then if you were going to take transaction-based subsidies out which had some of that core policy in there about protecting industry infrastructure through that provision of that grant, then I think if we're going to take that out we need to have something in place to cover that issue.

NDRA responds on a regional issue so if there is a cyclone impact or

something of that nature and I see a lot of similarities that we need to have some ability to respond otherwise you would get to a point where individuals will make decisions but then those decisions could have ramifications for a whole industry and then you have industry infrastructure impacts and so on and flow-on employment, regional community impacts and so forth. So it's a negative flow-on effect, that's what I'm getting at. Then to recover from that, if you have that infrastructure degradation I mean for some of these industries the ability to recover that might not be there so you end up with a total loss. So I see from the investment from the public purse I think that issue needs to be looked at and looked at very closely.

DR BYRON: In Tasmania a couple of weeks ago we were told that they were concerned about core breeding stock, but they only tied the stock transport and the fodder transport subsidy to people who were receiving EC assistance, not people in EC areas but people who were EC assisted. It seems to me that the people who are actually getting the assistance may not be the ones who have the best genetic stock. You would want to make sure - - -

MR PERKINS (QFF): We don't do that in this state.

DR BYRON: - - - if you're protecting core breeding stock it was your really premium breeding stock, not the ones that probably could be culled without too much harm.

MR PEAKE (QDO): Each of the systems, as you would be aware, in the states that have got it are different. All I'm saying is, from a policy point of view, if that transaction-type based subsidy is being moved out, we need to come back and look at that infrastructure issue. For states that don't have it, I still think it's a core issue that needs to be looked at. Some of the areas are suffering exactly that now from the loss of water.

DR BYRON: But with the sort of implementation - I'm really attracted to the idea of regional localised flexibility across industry. The question then is what is the process for actually bringing in and managing those localised responses in a way that doesn't actually harm adjoining regions or across the state border? The people in South Australia can see all their lucerne going off to New South Wales because New South Wales has got a fodder subsidy which means that the people in South Australia either can't get fodder or have to pay three times as much for it. Ask them what they think of transport subsidies and you will get a very different answer from the guy in New South Wales who is receiving it or the trucking company who is receiving it.

PROF WOODS: Which is why again you need a national framework.

MR PEAKE (QDO): I agree.

DR BYRON: If we want to have localised and tailor-made responses for certain areas and industries, which seems like a good idea, how do we make sure that it doesn't - - -

PROF WOODS: You can have local implementation but within a national structure.

MR PEAKE (QDO): I think it has got to be a national framework, no disagreement with that. But more my point is that - and I don't have all the answers for this but it needs to be looked at. An agency needs to carry the responsibility because I don't want to get into the situation, from an industry point of view, is that this issue arises two years down the track after the policy is implemented and then people are passing the buck and no agency is taking responsibility for leading it.

PROF WOODS: I think the three things that came out of your front-end statement that I particularly noted is: protection of your industry infrastructure when things have gone beyond a drought into, "Hang on, this is seriously threatening this sector"; that you need to look at the NDRA model for parts of that; and you do need a coordinating agency who is actually responsible for its implementation?

MR PEAKE (QDO): Correct.

PROF WOODS: Yes, got those. Excellent. Other matters that you wish to raise before we - - -

MR PERKINS (QFF): I do want to draw attention to 10.1. I'm not sure that I articulated this as clearly as I should by the time I wrote my five little pages for you. We certainly discussed this when we were up here in June-July. We certainly agree that the declaration process has outlived its usefulness, both state and federal. There is no need for it any further particularly since we also essentially agree with the welfare component. People should - once they can demonstrate that they are under stress then of course they should be provided welfare.

PROF WOODS: Yes.

MR PERKINS (QFF): But what we would like to add to recommendation 10.1 is that there needs to be a mechanism for monitoring.

PROF WOODS: Yes.

MR PERKINS (QFF): Currently we have NAMS but NAMS needs to be further developed to provide the proper tool that's available to all of us so that we can

measure where climate stress might be occurring and how it might be manifesting itself. I mean that has always been the shortcoming in this country. For a country that has a lot of climate stress we don't monitor it very well. Simple things that we talk about in this state now is we need predictive models that can tell us what the water allocations are going to be in advance. Now, it's not that hard to do, actually, but it's hard to prompt a bureaucrat to put his neck on the line and say, "Based on the current circumstances, based on the climate model for this year, we think you would be wise not to think of getting more than 40 per cent of your allocation."

PROF WOODS: Yes.

MR PERKINS (QFF): They are doing it now in this state. We think they should do it Australia-wide. But there's all sorts of other things here. Like Centrelink; primary producers on Centrelink support, that should be monitored and it should be reported so that we, the service providers in districts, we can look and say, "There's still 800 people getting Centrelink support in the Darling Downs," or whatever.

PROF WOODS: Yes.

MR PERKINS (QFF): Which would tell us that there is that element of social stress. I don't think there's a better model than NAMS at the moment, so that's why we think - I've got a suspicion that the momentum to keep NAMS is waning. We want to put it back on the agenda and say no, it is a very good tool. It has been developed and it should be continued to be developed.

PROF WOODS: Yes, no, I particularly underline that maintenance for national climate monitoring and also the NAMS. I don't see any disagreement.

DR BYRON: The tool is much too good to be only used for drawing lines on a map for EC declarations.

MR PERKINS (QFF): Exactly.

DR BYRON: There's a thousand other things you could do with NAMS rather than that, even though that's what it was originally built for. You're right, that sort of continuous monitoring is absolutely crucial. But that leads to my one last point. The second of the three official reasons for why we have the national drought policy is to prevent degradation of the agricultural environmental resources during the drought and to assist with speedy recovery.

I have been trying to find information about - where we've been monitoring the quality of the agricultural environmental resources. The DPI here did a survey a couple of years ago. Most farmers, and in fact most non-farmers, think that one of

the most important reasons for having drought relief is to prevent that land degradation, both the agricultural and the environmental. Yet can we find any data to show whether that's happening or not? Most of the scientists that I talked to in CSIRO say well, probably the way we have been delivering drought relief in the past has made the land degradation even worse, but we can't give any statistics or scientific papers on it. I just sort of come back to the NAMS, having a monitoring system. Do we want - - -

MR PERKINS (QFF): Look, I can give you a little bit of a background on that. I'm personally becoming a little bit more involved with the regional catchment people.

DR BYRON: Yes.

MR PERKINS (QFF): Again, I can see value in having them linked up to NAMS, I really can. The issue is this: if we were to apply farm management systems more broadly, I think you'd find the answer will come, because the beauty of a farm management system for the environmental point of view is that it's multiple stakeholders. So once you've got multiple stakeholders taking on responsibility for a structured approach to managing land and monitoring it so that you can measure it, then you will see where the stresses are occurring and how they're manifesting.

I mean the obvious stress the southern people see is the dust. I mean it's a bit of a joke to us because we don't get dust that much up here. I mean that's a form of land degradation to the point of severe stress. For us it's more streams, but streams can be monitored. There is no reason why we can't use those regional bodies to do more monitoring and then the monitoring be public so that we know where the stresses are if they're there. But from a farmer's point of view the farm management system approach to the environmental management of the resource is a very sensible way to do it where the community can see the outcome. It's not just the farmer sees it, the community sees it.

DR BYRON: Within our farm management system approach there is monitoring of resource condition, which is in the interest of the farmer in terms of trying to prevent - risk of impacts from drought but also recovery afterwards. So that there are some systems out there but again, it's that partnership and resources to drive it.

PROF WOODS: Thanks very much. One of the points that sort of emerged over the course of this inquiry is to integrate the catchment management authorities much more into the total management system of agriculture. It seems to be there's a lot of potential there that is just not fully developed.

MR CHERRY (QFF): There is potential. In Queensland the catchment

management authorities are community-based organisations rather than statutory. So that makes it a little bit different up here. We have been developing partnership approaches with them and co-delivery of programs in many areas but certainly up here from a policy perspective it's a little bit more complicated because they are actually outside the realm of government. So one size doesn't fit all even there.

PROF WOODS: No, and I understand the differences. But nonetheless there's potential to develop further in that area. Gentlemen, we do have others who are waiting to present evidence. We did get to some positive and useful discussions for which we are very grateful. We will build on our draft report in the manner that we have indicated. To the extent that there may be supplementary information that you think we would benefit from, we would be grateful. Thank you very much.

MR PERKINS (QFF): Just before closing, how would - - -

PROF WOODS: Sure.

MR PERKINS (QFF): You're wanting some more information to be provided. The process for - - -

PROF WOODS: Our staff will come back directly to you.

MR PERKINS (QFF): Thank you.

PROF WOODS: Thank you for your time. If the next participants can come forward.

PROF WOODS: We welcome our next participant. For the record could you please give your name and whether you are representing any organisation.

MR WILLETT: Michael John Willett and no, I'm not representing any organisation and I've got no affiliations to any organisations.

PROF WOODS: Thank you very much. Thank you for your patience in waiting to come forward. We've had the benefit of a - I think it's four pages, if I can - three-page statement which has some background on the first two pages and a set of views at the end of that. No, it is four pages, yes. Do you want to provide an opening statement that sort of takes us through that, and in doing so if you can clarify what is your current farming structure because I notice as we progress down references to the Millmerran area which I drove through recently et cetera. But if you could just provide a little encapsulation of where you're at and what you're doing at the moment.

MR WILLETT: Where I'm at now. Well, probably the main reason that I felt strongly enough about coming down here today was, I think I was born in the wrong generation because I'm probably doing as much and more, you know, proactive work just to try and make the farm go, pay, and I wouldn't say I'm failing but I'm having a bit of difficulty with it, where my father was able to rear a family of nine, still be able to socialise and extend his portfolio of land quite sufficiently.

PROF WOODS: Was that during the 50s and 60s or you're going earlier than that?

MR WILLETT: Yes, probably started in - he was born in 1930 so he probably got going in about 1950 and then he come through and he really expanded into the 70s and early 80s.

PROF WOODS: You may have noticed that the last significant drought period was the 40s and that from the 50s onwards was not that intense.

MR WILLETT: Yes. Well, I used to argue black and blue with him because up until about three years ago he reckoned that this drought was nowhere near like what he'd been through, so we used to have a few good debates about that. But I got him in the end because I got enough detail and data - - -

PROF WOODS: Yes, exactly, the records are there.

MR WILLETT: - - - to show him that all the ones he was quoting on, they were just a bloody wind storm, they were nothing, you know.

PROF WOODS: That's right. If he'd started off in the 40s it would have been a slightly different perspective.

MR WILLETT: Yes. Then he went into a share-farming operation to get himself established. I probably gave the overview there just to show that in my lifetime so far I have done some fairly diverse things as far as farming goes. We've been in a few different avenues of agriculture. Some of them we have quite successful at and been happy, but some of them, probably learned a fairly hard lesson that, you know, you can't charge into an industry on advice from anyone. It's more an experience thing: once you get in there you learn along the way. The vegetable industry was one where it was a fledgling industry on the Darling Downs and we got into it. It had lot of shortcomings. I think in the end we probably would have been better off not going near it. But it was one way we looked at probably reducing our debt level in a quicker way than just poking along at grain growing or running cattle, you know. We looked - because I was in a partnership with three other brothers and a mother and father and we only, as unmarried partners, we only drew a very meagre drawings on the - usually it was dad giving you 50 bucks to go to the pub or something like that.

PROF WOODS: Yes, a bit of drinking money.

MR WILLETT: So we weren't living any high lifes at all, but our main aim was debt reduction and just try and get - you know, so we could get into position if another block of land came up we might be able to access it. But where I really probably found this report, that struck a nerve with me was the continuous recall of self-reliance and preparedness. All through my life that was what we were striving to do. We were striving not to have to go near assistance of any description and that. I have been a recipient of assistance along the way.

We got to a situation where we established quite a viable farm with all the boys in it. The problem then came along once we started having our own families, so we had to look at splitting up again. In doing that, we run into quite substantial costs because we had set up a trust and we were doing different things like that. When I went out on my own, I was really keen to prove to the world that I could do it, you know. This context here that's referred to as farmers become dependent on assistance, that was the last I - I think I went for a couple of years after any assistance had come in before I put me hand up and said, "I think I need some now."

PROF WOODS: Yes, that's what it's there for.

MR WILLETT: There's a lot of people of my age in the same boat. They didn't race straight in the day the assistance was announced. They kept going, they kept going, and it wasn't until the big bloke that holds that red biro and marks off their

account said, "You need some help here," you know, and it was more from banks advising us to apply for assistance than the farmers of my generation running in. But anyway.

Well, what I'm doing now, and it's been caused by a couple of things, is that at the age of 30 I was told that I had the wear and tear in my spine of a 60-year-old and the surgeon asked me what I'd been doing all me life and I said, well, I've grown potatoes, I've carted a lot of hay and I've driven on old tractors with no springs under the bloody seat. So I've had two back operations and a third one should be done but they're refusing to do that; they're telling me just to slow down a bit. I'm trying to run now what I consider a scaled-down farm to work in with my own health. I've purchased a cattle block up at Tenterfield.

PROF WOODS: Yes.

MR WILLETT: Now, it's only a hundred kilometres from where I used to farm at Warwick, and yet we had 52 inches of rain on that block last year. We're still getting exceptional circumstances and the block at home is not, but anyway, I'll leave that till later. I'm looking forward to being able to work the two together in a capacity that I can still provide for - I've got two boys finished school now; still provide for my boys, lead a reasonable life in that I'm going to kick over 50 next year and probably look at starting to do a bit more than just farm, farm, farm, farm because that is - the social fabric of farmers in our area, it's been seven-day-a-week farming and a lot of hours a day. It's not a seasonal activity where, as the Queensland Farmers boys said, we're farming all the time. We don't plant the wheat and then just do a bit of maintenance around the farm and sit back; we're out there every day making it pay. We need a pay day every day. We can't miss crops or our money running on - I think I've got 200 hectares now. As a full farming partnership, at one stage there only had about 400 hectares. We virtually couldn't afford to miss a crop.

In the Downs area through the 70s, the 80s, probably up till the mid 90s probably, you put sorghum seed in the ground and if you had any subsoil, if you had any rain from above at all, you took off two tonne to the acre. It was just - that's the type of ground; a deep subsoil profile, and you did need very - you needed very little rain to grow a crop. Well, we saw our rain deficiency start in 1990 and it's been on the wane ever since; down, right down to now that we're - we've got to the stage where, before this last rain - and they will come back - there's cracks in our subsoil you can nearly hold a five foot steel post in the buggers, you know. So a one-off rain event of five or six inches, that's just wetting the top, you know?

PROF WOODS: Sorry, can I just get the geography locked in my mind. I mean, I know Warwick well and Millmerran and Tenterfield, but Willow Vale, is that down on the road - - -

MR WILLETT: Well, if you're familiar with the Brisbane turn-off where all the roadworks are doing - - -

PROF WOODS: Yes.

MR WILLETT: I won't go into the main roads and that at the moment, we've had a bit of an argument with them.

PROF WOODS: No, no, okay. So that big interchange there.

MR WILLETT: Yes. Well, my property is due west of there by about two kilometres.

PROF WOODS: Okay. Yes.

MR WILLETT: Our family farm was straight across the road from the Glengallan Homestead where they renovated the big old homestead there. I don't know if you're familiar with that. I think I've mentioned it in there, my great grandfather - - -

PROF WOODS: Yes, I noticed that, part of the old station.

MR WILLETT: He was actually a shepherd on Glengallan Station.

PROF WOODS: Yes, I saw that.

MR WILLETT: He started the culture of growing lucerne on those Glengallan Flats. Well, that culture stayed through; that's why we always fell back on lucerne. Dad said, you know, "You mightn't like the work, you mightn't like the hours," but he said, "You'll like the bloody money," you know. So that's what we worked for. A very labour-intense lucerne enterprise, it wasn't until the last five years that we got a round baler on to the premises; dad wouldn't have one. It was all square bales; small squares and loaded, you know. There was no stackers, there was nothing. It took us fellows to come along and get rid of him off the scene for a while to do some updating.

PROF WOODS: So are you summer cropping sorghum in that area?

MR WILLETT: It is. It lends itself to just about anything.

PROF WOODS: But with the change in the rainfall patterns I've noticed through that area, instead of having a winter cereal crop rotation, they're quite often now going to a summer - - -

MR WILLETT: That's the way the weather pattern has gone. I did do a bit of research into it and, yes, our winter crop production has been short virtually since the early 90s. Our summer crop production stayed reasonably high until we got into the 2000s and then I've quoted there from a period from May 2004 to October 2007 we had 1203 millimetres or for a 12-month period about 350 mil which is half our average rainfall. But it wasn't for one year, it was 41 months. I don't know anywhere that could farm on that. The other thing is we've had our water allocations reduced slowly from about 1993 or 94 or something like that. 50 per cent reduction on metered bores in the last - this will be our fourth year at 50 per cent and local advisory committee had to fight tooth and nail to stop Natural Resources taking another 10 per cent off us this current water year.

PROF WOODS: What are you actually cropping at the moment? I notice you've got a piggery there.

MR WILLETT: Yes, I've got a piggery.

PROF WOODS: Is that fully stocked?

MR WILLETT: No. When I purchased that property it had a contract with Danpork piggery and when they sold out to Castlemaine KR that contract carried over and I kept going with them and then when the next bloke that purchased that facility of Glengallan Piggery they never approached me to renew the contract because my shed was getting quite old and had a lot of maintenance problems and needed a lot of expenditure and I just thought there was uncertainty in this industry completely, "I'm not borrowing another \$150,000 just to put a new floor in the shed." So I held off. I'd like to retain the licence on that piggery with the opportunity that my boys want to get it up and going again.

PROF WOODS: But it's destocked at the moment?

MR WILLETT: All but, yes. We're running a few house-grown pigs, yes. A bit of intervention with the EPA licensing that I'll be up for \$2800 a year to have that piggery licence and they tell me I should be grateful because it was going to be double that. There's a bit of an argument. I haven't taken them to task yet. But for 1050 pig unit piggery as against an industry ceiling of, I think, about 4800 I think that's quite unfair when there's no pro rata if I only want to run that piggery at half-full. The fact that it's licensed for 1050 I have to pay the licensing on it, but that's another matter too. This is probably one of the things that gets my goat up a little bit and want to do something. So at the moment I have about 70 acres of alluvial soil on the flat under total lucerne production and then when that wet weather came in last year it just about wiped us out because lost about four cuttings

of lucerne only to find out we were watering again within a month, so I put the plough into that.

Running probably a mixed farm where I've got a few cattle running to utilise stubble and lucerne paddocks in the winter, about 100 acres of grain production at the moment.

PROF WOODS: The cattle, do you just buy those in and basically agist or - - -

MR WILLETT: The whole idea of the Tenterfield block was to give me a nucleus of a breeder herd so that I wasn't going into the market when everyone wanted cattle which I found was a problem, you know. Everyone went in and paid stupid money for them and then everyone put them back in the sale and took 40 cents a kilo less for them, so that gives you a bit of an idea. The water restrictions are a big teller to my income because that just comes down to dollars produced. With lucerne were getting quite good production out of a megalitre of water. Ideally it's only a supplementary irrigation because of the small allocation. That doesn't go far when you're trying to grow hay.

I don't know whether everyone is familiar with the water needs of lucerne on that black soil. Dad used to have no irrigation in his day and every time we went to cut a paddock of hay it was as high as the table. He keeps telling us it was varieties, but it was just the seasons. There was always subsoil there for that lucerne to draw on. That subsoil has gone now. We have had instances on the flat where we have put strainer post holes down four foot and had to pour 40 litres of water in to get the soil to come out because it's just like talcum powder, it's just that dry it would not come out on the auger bit. Dad has said he has never seen things like that. He didn't think he would ever see that flat bit that dry. Probably nearly enough on myself over my time I have - as I say, we have tried to prepare. The main preparedness we did was we didn't berserk on machinery expenses updating that as against debt reduction. I was taught by my grandfather that you can have the biggest, flashiest tractor in the valley but come the drought you've got to keep paying for that bugger, where the old girl she costs you nothing and she owes you nothing and that's the philosophy I went into farming with. That is my layman's approach to trying to be prepared.

PROF WOODS: We're impressed what you and your family have done. Clearly you've explored a whole range of different ways and are desperately trying to stay ahead of the game.

MR WILLETT: It's brought up to us now than anything that we had to probably give the intensive lucerne industry away because we had some very big markets established for - I don't think in dad's lifetime and my lifetime in the lucerne industry we ever put an ad in the paper to sell hay and we were turning over in excess of

150,000 bales some years. We just had the clientele there which we've lost a lot of because we've fragmented - different brothers took different sections and then we split our clients up and then we had years that we didn't produce enough hay to keep them and they had to go looking. A lot of them are still looking for hay, which is good but I probably can't get back into that industry again.

The day I put the overview together my wife said to me, "I think you'd better go away and come back when you're in a better mood."

PROF WOODS: No, you've been very clear.

MR WILLETT: She said, "It can't be that bad."

PROF WOODS: We've read it very carefully, particularly your opinions on the third and fourth page are very focused. I'm quite happy to go through a few of these.

MR WILLETT: If you want to throw the questions at me.

PROF WOODS: Starting at the first one, yes, they are all real people. I would have to say that we were struggling to find those in favour of the drought assistance and it was easy to find not only five, but many more than five who put in written submissions to us saying, "Hang on, there are all sorts of problems with this and it doesn't meet the needs of the whole farming community." But we did prepare a box that had those for and those against and you can go behind those to the submissions and find out who those real people are. So let me assure you, these aren't created entities.

MR WILLETT: The thing that made me bite on that one was the actual comments of the people. Fair enough the assistance and the implementation of it might leave a bit to be desired, but don't blame the recipients for abusing it completely. A percentage maybe, yes, I won't deny that at all but I think you could go a long way in a well-established farming area like Warwick to find people that wouldn't have a problem with some of those statements. I think the reason why you haven't got too much actual individual grower or producer appearance here today or input, no-one knew about it. I actually went to the local rural advisory officer in the Warwick DPI and asked her, "Will there be any local regional meetings or forums run for some regional input to address this?" and she said, "No." I said, "Do you think you could see your boss and see if something could be arranged?" but a time factor was the thing, and that was the other thing: I think this to be addressed properly needed six, eight months, not one month.

PROF WOODS: I understand on the timing. In terms of regional forums, I mean, we're going out to Roma on Wednesday and we're just having a big collection of

farmers all sitting around the table talking to us. So we did that. We're doing that in every state. We're having two sorts of things: these are formal hearings, and it's normally the peak groups, but anyone is invited to come and give evidence. But separately we have roundtable workshop forum groups where we have a cup of tea and a bit of morning tea and we just sit as a collective group. They're primarily just the individual farmers and the sit around and they tell us exactly what they think.

MR WILLETT: Well, I would have preferred that.

PROF WOODS: Yes.

MR WILLETT: But Roma is a five, six-hour drive.

PROF WOODS: Yes, I understand that.

MR WILLETT: As against an hour and a half. And the other thing, that comment was made to me a lot too when I talked to people about this. I said, "Well, why don't you, you know, jump in the car? I'm bringing a Nissan Patrol down, there'll be a few spare seats," and they said, "Oh, how boring would that be?" you know?

DR BYRON: Well, we don't think it's boring.

PROF WOODS: Yes, I understand that. But the works - - -

MR WILLETT: And yet they were quite prepared to give me the whinges and the bitches about what it might mean if things were cut back on them and that.

DR BYRON: Terrific.

MR WILLETT: I'm first to admit, and I've gone into some of the reasons that the system is failing in a bit of detail.

PROF WOODS: Yes.

MR WILLETT: But anyway, so that's covered that one. That was when I was sort of in a - I got down about four questions before I got out of my mood I was in.

PROF WOODS: Well, we'll work our way down to get to the mood one. But just if I can reinforce, we put out a brochure and we did put on the back of that, which we circulated as widely as we thought we possibly could, where we would be meeting and that there would be farm group meetings and all the rest of it. So that's disappointing that that hasn't gone down - - -

MR WILLETT: Yes, well, it's probably too late now, the horse has bolted, but I did go to a forum that was set up by the Murray Darling Basin Commission and no-one turned up. When I asked them how they advertised it, they said, "Oh, we put a notice on the noticeboard of the foyer of the DPI building in Warwick."

PROF WOODS: Yes, terrific.

MR WILLETT: And, "We ran a little" - not a notice ad, but a little news bulletin section in the local paper. There were five of us there, and five of us didn't get the local paper. My neighbour was away and he said, "You can read the rag while I'm away," and I opened it up and I see this and I thought, "I wonder what this is?" So I said to her, "Righto, this was put on to give us some outlook on what we could look forward to if the Murray Darling system collapses any further. We all understand that if it doesn't start raining properly again, we can't just keep sucking water out of the ground." So this puts some options we could go to. But I said to her, "Righto. For surely someone had a list of EC recipients in that Warwick area? For sure a flier could have been sent out or something could have been sent out to let people know that was on," and that's a little bit the same as this: the people that are receiving this assistance, I think they had a right to know, or had been receiving it in the last 12 months. I haven't got on to the Southern Downs being taken off yet, but we'll cover that later.

PROF WOODS: Yes.

MR WILLETT: So that's just one point I wanted to push there.

PROF WOODS: Okay.

MR WILLETT: It wasn't out there in Regional Queensland for the average farmer, unless he's - yes, the proactive fellows that are on the Internet and in everything else, they had a feel for it and found out about it.

PROF WOODS: Yes. We're getting a fair turn up at Roma on Wednesday and we've had very good turn ups elsewhere. But yes, we can always get better at doing these things.

MR WILLETT: No. Well, it's a learning curve for us all.

PROF WOODS: It's certainly not from a lack of wanting people to be here. The next point I think is just a clarification point. The 150,000 farms, 20 per cent - I mean - - -

MR WILLETT: I tried to get some data on that, Mike.

PROF WOODS: Okay.

MR WILLETT: I found that anything over a 5,000 gross farm value was classed as a farmer.

PROF WOODS: Yes, it's very low, isn't it.

MR WILLETT: Yes. Well, wouldn't a truer figure be something like 100,000 or something like that, because - - -

PROF WOODS: Well, we've got figures for going up the various scale.

MR WILLETT: Where does it come into a cut-off figure with productivity from a farm that you can live on and income and not rely on all farm income overriding that farm income to make you eligible for exceptional circumstances? Do you know where I'm coming from there?

PROF WOODS: Yes, where is the cut-off point. I don't have a figure in front of me.

DR BYRON: We actually agonised for a long time about what is the definition of a farmer.

MR WILLETT: Were you happy with it?

DR BYRON: No. I think this 150,000 figure is very dodgy but that's because it's the number of people who have got an agricultural ABN number with an expected value of production of \$5000. I personally don't think somebody who is producing \$5001 is not what I would think - - -

PROF WOODS: Of itself is a self-maintaining farmer.

MR WILLETT: That's a hobby farm bracket.

DR BYRON: So where do you draw the line between somebody who is making \$5000 a year out of 40 acres and has two goats and a Shetland pony on it through to somebody who has got - you know, Stanbroke Pastoral Co or something at the other end? One of the people pointed out to us that if you look at the - this was a guy who had come into agriculture after being in other businesses and he reckoned you'd need to have a turnover of half a million to be a fair dinkum business and how many of that 150,000 people with an agricultural ABN number are in that bracket? About 15,000. Your definition of what's a fair dinkum farmer - if somebody has only a

100 acres and 50 sheep and these are their names, if he's got some off-farm income or the lady of the house goes out to work or whatever, does that mean he's not a fair dinkum farmer any more?

After looking at all these 101 different definitions we just said the ABS goes with this definition, if you've got an agricultural ABN you're a farmer. So for convenience we went with that. But do we believe that that is the perfect definition of what is a viable fair dinkum farmer in Australia? Absolutely not.

MR WILLETT: My whole point of that comment was if I was a person in town, a city dweller reading this, I'd think, "Bloody hell, only 20 per cent of them are getting it and look how much they're getting." I would have thought if you had a cash surplus taxable income of, say, 60, 70 thousand dollars you might have been looking at a self-sufficient enterprise with no off-farm income needed because you've got that criteria that you've got to meet with the exceptional circumstances of a limit of off-farm income.

DR BYRON: When you're talking about no off-farm income needed, you're in effect saying that a real farmer is somebody who doesn't have to work off farm, that spends 100 per cent of the time there. People like Beth Woods did this drought review four years ago for the Commonwealth government said that given the climate in Australia is all over the shop and therefore your farm income is highly volatile, the most sensible thing that any farm family could do is for one of the adults to have a nice steady job off farm where the mum is a nurse or a teacher or Bruce drives a tractor or grader for the council two days a week doesn't matter, but it helps to give a nice steady income flow into the farm when the agricultural returns are up and down. Yet we seem to, as Australians seem to - the bloke's a failure as a farmer because his missus had to go out to work. It may be that that's just very, very sensible given the climate.

MR WILLETT: Yes, I understand that.

DR BYRON: We shouldn't say that somebody who has some off-farm income is not a fair dinkum farmer.

MR WILLETT: The point I'm trying to make is there should have been a bit more definition given in this report as to that, to clarify it a bit more for the person that does not know that farmers start at \$5000 - - -

PROF WOODS: We'll unpack that 150 in the final and explain who is in there and how that works.

MR WILLETT: Thanks, Mike.

DR BYRON: I think you will find that most of the drought relief money goes to the people that are at the bottom end of the scale.

MR WILLETT: I did some research on that and I thought I found different, but I won't say because I just couldn't put my finger on it. Have you people got that with you, the breakdown of who the recipients are as far as their gross, not net farm income?

PROF WOODS: Not this morning at the front table.

DR BYRON: No.

MR WILLETT: Because I'm sure I had a look and I was going to refute you on that but I just haven't got it with me, so I can't say a word.

PROF WOODS: Okay. But you've got email contact, so - - -

MR WILLETT: If I find it I'll - - -

PROF WOODS: - - - if you find it just squirt it through.

DR BYRON: And I'll send you an apology.

PROF WOODS: The next one, the data. If you do want the data - I mean we put the map in because it gave a visual representation. But if you do actually want that data there's a table that lies behind the data.

MR WILLETT: Yes. No, well, that was all because I just thought well, you know, we've probably been as dry as anywhere in that Southern Downs.

PROF WOODS: Are you on email?

MR WILLETT: Yes.

PROF WOODS: Yes, okay. Well, we'll send you the table behind that one.

MR WILLETT: No, that will be good, thanks.

PROF WOODS: So that's pretty easy. The next one on figure 6. The acquittal would be on actual financials but the - so there would be two bits. You'd anticipate the next six months but at the end of it you then say, "Well, what did I actually get?"

MR WILLETT: Yes.

PROF WOODS: At the moment there's no sort of structured acquittal process at the back end so people will make estimates in good faith but there's nothing that follows that up. Now, your point about getting an accountant to prepare six-monthly figures, presumably - I mean if you're managing a business you wouldn't wait just for once a year to get your financials anyway, would you?

MR WILLETT: No, we usually get ours done about three or four months before end of financial year. I don't think getting them done in the middle of the year would - you wouldn't be through far enough to get like an overall view of just how you're going, is my opinion of that.

PROF WOODS: Yes. No, I mean it depends what your farm management system is. If you're an annual cropper then six months through makes no sense at all, because you've got outlays, you've put in your fertiliser and your fuel and your seed and put it all in - so your outlays are pretty easy, they've gone out the door - but your income is bugger-all because it's still growing.

MR WILLETT: Still waiting for it, yes.

PROF WOODS: But if you're a dairy farmer or a vegetable grower then six months is relevant because - particularly dairy, for instance, you would want to know month by month what your cash flow is. So we would need to have that - be sensible for the type of farm enterprise, is the answer to that. A wheat farmer there's doing 13,000 hectares in the Eyre Peninsula, you know, six months means nothing. It's a 12-month cycle.

MR WILLETT: No, I just found with filling out a lot of these reviews and that it's very hard to put down anywhere near accurate, with the way our climate has been. Sometimes, especially with Centrelink stuff, it can rule you out of some assistance if you overestimate. But I won't talk about Centrelink either at the moment because that's another thing too.

PROF WOODS: Yes, we won't go into your bracketed commentary on that. We note it.

MR WILLETT: Okay.

PROF WOODS: Pass on, I think, just to the last part. We'd have to say that the Centrelink people that we have dealt with are trying to be very helpful. Yes, so the actual financials, whether it's six months or 12 months, depends on - now, your next point, "Who gives bureaucrats the right to say that?" Well, nobody gives the

bureaucrats rights. Government will make the decision but bureaucrats can put forward policy ramifications.

MR WILLETT: Yes.

PROF WOODS: The central point behind that is to not get to a situation where farms are just struggling on getting minimum income from the farm enterprise, haven't been able to diversify, get an off-farm job or whatever, and are starting to build the welfare base into their family budget on an ongoing basis. I mean yes, sure, one year, two year, help them out, three years even. But if it doesn't have an end point then the danger is the - and not many, but some farm families would say, "Well, you know, part of my budget is the 17 grand welfare."

MR WILLETT: Yes, well I - - -

PROF WOODS: Once you get to that stage I think they really need to decide is this is a viable enterprise and what should they be doing instead.

MR WILLETT: Well, I did make a comment in my notes that if that methodology had been employed on the Southern Downs there would probably be a lot of us not getting assistance through no fault of our own - but yes, this experience we're going through, as I said 1990 it started but from 2000 till now, which is eight years - - -

PROF WOODS: Has every year in that eight years been negative income?

MR WILLETT: I think there was one year that we might have showed a surplus. It was mainly that - on my production too but it was just a terrific year for hay sales and everything clicked.

PROF WOODS: Would that be common throughout your district or with different farmers in different situations?

MR WILLETT: It would be. I spoke to one cattle breeder that - he works in town. He works in a stock and station agents and his wife is a nurse. He was real interested when I started this. He said, "We run the cattle business quite tidy. We don't skimp on money. If they need feed we buy feed and that." He said, "It has been five years since we have shown a profit."

PROF WOODS: Yes.

MR WILLETT: That is a bloke that has - he is working in town, his wife is working in town but their cattle enterprise - and he is in the stock and station business. He has been in it all his life. So he is not a fool.

PROF WOODS: No.

MR WILLETT: He is trying to do things right. He has got his finger on the pulse when it comes to buy - if anyone could buy cattle at the right time of the year he has got it. He just said, "If they want to see my figures," he said, "I've got nothing to hide." He said, "I'll show them that I" - that business. That's where it came into - proactive farmers or whatever it was put preparedness - put fodder away and that. Well, he said he spent probably 150 grand on fodder. He said about all that saved him doing was probably shifting his nucleus herd. That feed that went into those breeders in any one year they ate more than the cheque he got for their progeny.

So he said it wasn't - you know, you could look at that a couple of different ways. He said it was only that he had bred this line of cattle up and he wanted to keep them at no end, so his work in town was subsidising the fact that he wanted to keep those cows, putting \$100,000 worth of feed down and that wasn't keeping them there. So that's just my view on that too.

PROF WOODS: The question is why is he staying in the business? Why is he doing it?

MR WILLETT: He has got a love for it. He is retiring in the next - well, in six months' time. He just wanted to stay there until he could retire and that's it.

PROF WOODS: That's a perfectly good reason.

MR WILLETT: Yes.

PROF WOODS: The question is, is that something though that the taxpayer should support?

MR WILLETT: Well, I don't think he would be getting any support.

PROF WOODS: No.

MR WILLETT: He wouldn't be.

PROF WOODS: But that's our point.

MR WILLETT: Yes.

PROF WOODS: Is that nobody should force those people off - - -

MR WILLETT: The land.

PROF WOODS: - - - doing what they're doing.

MR WILLETT: Yes.

PROF WOODS: But if they're doing it and it's not generating an income but they still choose to keep doing it then for how long should there be taxpayer support? Now, in his case there isn't any, so that - he has diversified his income and he's doing it out of interest. Well, that's terrific. Go for it. Carry on.

MR WILLETT: Well then, just while we're talking about that taxpayer support, how much funding do like the arts get a year?

PROF WOODS: I haven't got the exact figure but yes, they do get income support.

MR WILLETT: Would that sector get anywhere near like the assistance of farmers?

PROF WOODS: They certainly wouldn't be getting the billion bucks that went in last year into EC.

MR WILLETT: They wouldn't be?

PROF WOODS: No, not on a per person basis relative to what those who have been getting support.

MR WILLETT: I'll make a note of that. But you're saying that - - -

MR GRANGER: Pick on the car industry.

PROF WOODS: Now, there's a different question. We're happy to admit - - -

MR WILLETT: I got some data out on - - -

PROF WOODS: The cost per worker on the car industry from taxpayer support is quite significant.

MR WILLETT: Yes. No, well, I'll leave that. I didn't even think of going into the car industry.

PROF WOODS: Oh yes, no, that's a good one.

MR WILLETT: The arts struck me a little bit because I saw a couple of comments in there and it had - and arts on the end. I thought, "Well, those bastards can talk, can't they," but anyway.

PROF WOODS: No, there are other targets you could choose.

MR WILLETT: Okay.

PROF WOODS: So that's why we've chosen the three out of seven. But if you've got sort of a response to that, and the obvious one is, "Well, that may put me out of business," if that's actually what would have been an outcome we need to take that into account.

MR WILLETT: Right.

PROF WOODS: In your view, would that have put you out business or would it have just upped your overdraft or what would it have done?

MR WILLETT: We would have maxed out the overdraft and it would have - my wife is working off-farm as well so it probably would have meant that I would have been the next one to go and have to look for more outside, if we wanted to stay there. The fact that I've still got three boys, and my oldest boy actually he did certificate III in agriculture starting at grade 10 as a trainee at school

PROF WOODS: Who was that through?

MR WILLETT: Warwick TAFE, Queensland TAFE.

PROF WOODS: Yes.

MR WILLETT: He loved it. Grade 10, loved it, grade 11 loved it. He got to about halfway through grade 12 and he said, "Dad, I don't want to be a farmer any more." I said, "Why?" He said, "I planted three crops of barley and we haven't got to bloody harvest one of them," and I said, "Well, the header can stay in the shed, it's not wearing out, is it?" So he chose to pull out of the farming profession. He's nearly finished his diesel mechanic's apprenticeship now. But he had his heart - all he wanted to do was be a farmer but it discouraged him that quickly and probably the bottom line was he saw his mates with the flash new ute driving up and down the street and the \$100 bill coming out when they got into the pub or club of a night and he's sitting on a stool thinking, "I can only have one more drink because dad only gave me 25 or 30 dollars."

PROF WOODS: We understand that situation.

MR WILLETT: We'll keep going then.

PROF WOODS: Terminating of EC - well, there are two things there. Certainly people have said that our transition pathway is too quick and we take that on board and are going to adjust that. Separately though you do raise a very good point about when there are new programs rolling out you really do need time to get them properly designed, to get all the people who are going to be administering them to be fully trained to do it, to get the farming community to understand what it is and how it works and what you're eligible for. I think your point is there. I have put a big asterisk next it. That makes a lot of sense.

MR WILLETT: That one has really come to the fore - I know about three farmers in our area that refuse to put in for the transitional support because they just didn't want to go through filling out forms again. What we were very disappointed with was the fact that we had to start from scratch. There was no Centrelink getting into our files, where we were eligible for EC, they started back right at the beginning, right through the kids' accounts, everything like that and went right through the whole brigade. Then we were informed by phone that we were successful, eligible for the transitional support, only to get a - actually the healthcare card come through but someone explained that to me - to get another folder of application forms in the mail about three or four weeks later saying that we had to engage a rural financial adviser and he would have to advise us on whether we're viable or not.

Have you people seen that form that Centrelink put out for - not the original application for transitional assistance, this is the one that comes out after they've accepted it and they've decided, "Yes, you are eligible," and they want to do a further study on you. That form, there are five or six questions in a row and when I got to them my wife wouldn't let me do it, it was wanting to know why we are in the position we're in and why we need assistance and I said, "Because it didn't bloody rain," and I wanted to put that down on every one of them, but she wouldn't let me. Anyway, I went into the financial adviser and he's going through and he had hell's own trouble finding anyone at Centrelink in Warwick that knew about it. Their reply was, "It's on the Net. It's a PDF file, get into it and have a look." That's what they told him. They couldn't explain one thing to him. He even went to the local DPI rural adviser. She was the same, she didn't have a clue. It was like if that application and program got drawn up after exceptional circumstances was pulled off us. I don't know whether it was going beforehand, but there seemed to be a lack of knowledge in Centrelink about it.

PROF WOODS: We're very focused on your point there.

MR WILLETT: When I got into this financial adviser, he's a pretty quiet and straight-laced bloke and he gets there and he said, "This, this, this," and he said question whatever it was - and I said just put, "If it bloody rains," because I said I wanted to put, "Because it didn't bloody rain on my corresponding question," but he wouldn't do it. He said, "I can see where you're coming from," because all these questions are virtually asking will we be viable, will we be this, in the short term, in the long term, what is our preparedness for the drought, and I said, "Well, we haven't been able to do anything because we've been in drought for that long we just can't get our noses in front to put anything away or get any structure in re-establishing anything on the farm because it means borrowing more money to go into another enterprise." There is a lot of people in that boat in that area. That's probably as much as I need to cover on that one.

PROF WOODS: It is a point well taken and we'll make sure we address it.

MR WILLETT: Yes, just on the main thing you did say there, my opinion on that was one on one or two on one; the producer, Centrelink and the rural financial adviser, sitting there doing those forms. Don't leave the poor old farmer there thinking, "What have I got to say here? What have I got to do here?"

PROF WOODS: Yes, just talk them through it.

MR WILLETT: Talk them through it, assist them in filling it out from Centrelink's perspective because the number of times we've sent applications away only to have them sent back because Centrelink said that wasn't what they wanted to know and yet the question was virtually there, we answered the question. It's the way they take terminologies and - - -

PROF WOODS: So if you sat down and you said, "This is the answer," and they'd say, "No, what we're actually asking is," and then you could do - - -

MR WILLETT: I think that needs to be looked at, you know, that there's more Centrelink - I know in Warwick you probably dare not go in there but there is a bit of an attitude in that place. It's not pro-farmer either.

PROF WOODS: Your next one, future policy framework. One specific question where you say the grain prices are below the cost of production, I guess that would depend on what your scale and method of operation is because we know a lot of - - -

MR WILLETT: I don't think it would matter what scale you had at the moment, when you're taking a feed barley price that we were getting 25 years ago. I don't think it would matter what scale you had.

PROF WOODS: There are a number of wheat and barley growers who are exceeding their cost of production, even in these current circumstances. But it's different scale, different style of production.

MR WILLETT: What sort of acreages would they - - -

PROF WOODS: 13,000 hectares.

MR WILLETT: Yes. What sort of capital investment are they looking at?

PROF WOODS: A couple of million.

MR WILLETT: A couple of million to grow 13,000 hectares?

PROF WOODS: For their machinery.

MR WILLETT: This is where us smaller blokes are being left behind.

PROF WOODS: Exactly.

MR WILLETT: I've actually made a comment that I think a young farmer would have to look at a minimum of 1.5 million to get into a viable farming production enterprise. I would like to see how, without a lot of help from their parents, that they could ever get a start in it.

PROF WOODS: It's interesting you were saying your dad started off as a share farmer and built up and we still see a lot of that, that they'll start as a share farmer, then they'll take a lease out in a few paddocks and they will get a couple of good crops in in good seasons and accumulate a financial base that way. The ones who have been particularly hard hit at the moment are those who in the late 90s were starting off and they might have either taken over the family farm but with a whole load of debt because some of the equity was taken out for retirement purposes or they had just gone from share farming to taking out their first property themselves and then been hit with eight years of very ordinary - - -

MR WILLETT: In my overview there we did extend into a bit of dry land, broadacre cropping country at Millmerran and we did all our figures and we reckoned we could make it pay without taxing the original enterprise because mum and dad were still in it and this was just us boys going out. No-one told us that interest rates could get to 18 and a half per cent and no-one told us that wheat could go from \$145 a tonne to an \$85 a tonne cash price depot. So we ended up doing contract harvesting and haymaking and that just to try and stay on the place because at that stage it wasn't caused by a drought.

PROF WOODS: Is that still in the family, that property?

MR WILLETT: One small portion of it.

PROF WOODS: I drove through Millmerran about five weeks ago and it was the best I've seen it looking for a long time.

MR WILLETT: It had been pretty tough out there. We actually own the property that Millmerran Coal Mine - the cattle yards are sitting where they put the first excavator in to start the coal mine. But that was one property, that was later on in the partnership. The main one we had was over on the eastern side called Yandilla but not on the black soil, on the scrub soil. That was pretty tough going and about all I can say is that I'm glad my wife was working in town because it would have been - I know that one of the other brothers found it very hard to justify to his wife that, "Lifestyles have to come down, you can't just keep living like you were before." Those sort of things have to be taken into account.

PROF WOODS: It would be a little harder to find a job at Millmerran than at Warwick.

MR WILLETT: I liked it out there.

PROF WOODS: It's nice country.

MR WILLETT: It gave us a good scope. For a few years there we ran it as growing cereal hay with 50 per cent wheat and then we went into the birdseed production, the millet and we got into the wholesaling of that, sending it down south, actually taking some of it down ourselves and that. Without spreading ourselves too thin, we've had a go at a few different enterprises.

PROF WOODS: Absolutely. The expert social panel point, I'm not quite sure where you wanted to head in that point.

MR WILLETT: If the money doesn't go out as a form of assistance to the farmers, well, then it doesn't - - -

PROF WOODS: Feed through to the rest of the community.

MR WILLETT: Yes, it doesn't just stop at the farmer. The farmer isn't the sole beneficiary of assistance. I find myself not getting in the car and going anywhere of a Sunday afternoon with the kids and that because of the simple fact that money is a bit too tight. I find that you tend not to frequent the local clubs but that's another

thing in your budget restraints you've got to look at. I thought there would have been some context - because I did a report one time on unemployment welfare. It's not all, "Just give it to them." They go and buy their packet of smokes, their carton of stubbies, the tax reflow gets a percentage of it back. I just thought this report, to cover the whole aspect of assistance, should have nearly - that's where my comment at the beginning of the one-sidedness, it just seemed to be all too much one way for my liking, but that's my opinion.

PROF WOODS: That's why you're here and we're happy to listen. On that we do have a view that if governments want to support regional development and country towns, then they're much better off not doing it through the occasional payment of drought relief through farmers, but actually investing directly in the regions and keeping them viable, if that's what governments want to do.

MR WILLETT: In what form would you - - -

PROF WOODS: You can do that through promoting industry development, putting in infrastructure, making sure communication systems are good, whatever approach they want to take, but don't do it through an intermittent payment through farmers during drought years, that if you want regional development, do it all the time, do it focused, do it seriously and you'll get a much better response than trying to do regional development. Helping farmers for their own sake is good and regional development, if governments want to do that, then that's a decision too but don't assume that the two can be achieved through the one system.

MR WILLETT: We'll look at that from a different direction. A few of the small businesses that I deal with, one's a bearing and filter service which sells just about everything, agricultural supply bloke you'd say, and the other fellow is younger than me and he has the outdoor and sporting shop in Warwick. I got to know these fellows pretty well and I just happened to say to them, you know, how's business going and they said, "Break even barely. Wives supplementing us, otherwise we wouldn't be here." I said, "Well, what do you think of the criteria of being eligible for assistance?" and one bloke said, "I got the application," and he said, "I read it and I just threw it away because I wouldn't have been in there because my income is not from 70 per cent of that." His point was, okay take any per cent out of my cash flow and I get to an unprofitable level. So is that fair that they have to derive 70 per cent of their income? You know, if they lose anything at all because of the drought, that business might become unprofitable. That was just his point of view on that one.

PROF WOODS: Yes, I understand that point of view. There are also an awful lot of businesses, not only in small towns but in places like Warwick or even in Brisbane who have a go and go bust, whether they're panel beaters or newsagents or the local deli and they don't get anything. It's a question of - - -

MR WILLETT: Sink or swim, you reckon.

PROF WOODS: That's what they do in those other situations.

MR WILLETT: Mainly the ag supply fellow he said he really, really noticed that it was the farmer content that had just dropped right away and he said that his was his bread and butter; that small percentage was his bread and butter.

DR BYRON: If you come back to risk management if I was running an ag supply business, I would know the next time there's a drought my sales are going to go through the floor and you couldn't run an ag supply business without thinking that. You can't think that business is just going to keep going up no matter what happens to the farmers' incomes. So, you know, it just seems a bit - - -

MR WILLETT: So how he's managed that risk when he's had no let up for five or six, seven years?

DR BYRON: The same way as every other businessman in Australia would deal with the same situation.

MR WILLETT: Put for sale signs up.

PROF WOODS: That's one or the other partner goes out and finds a stable job that's bringing some income, like your sports.

MR WILLETT: That's what he said, his wife was supporting everything.

PROF WOODS: That's a perfectly good strategy.

MR WILLETT: So you don't think there's any need to readdress any percentage of farm contribution to his income, his business needs could be looked at, that 70 per cent?

PROF WOODS: Personally I wouldn't change it.

MR WILLETT: There has been no comment on this so far with your - - -

PROF WOODS: There is some.

MR WILLETT: Not enough for you to even entertain - - -

PROF WOODS: I'd have to say no.

MR WILLETT: Has there been a good general coverage of small businesses in rural areas to get their feeling on this?

PROF WOODS: To the extent we've been able we've made people aware of it. But we have also addressed it in the draft and if there is a flaw in our logic I'm happy to - - -

MR WILLETT: How does the small business know about this?

PROF WOODS: As I say, we've been promoting our workshops and things. We've put out a brochure that we've tried to circulate as widely as we can.

MR WILLETT: Through what methods?

PROF WOODS: We've gone through not only the DPIs but the Pasture Protection Boards, as many outlets as we can think of.

DR BYRON: The CMAs, the QFFs et cetera. Apart from sending a copy to every man, woman and child in Australia, which would probably be a bit over the top or everybody with a postcode, we don't get the confidential information of whose a Centrelink customer or why.

MR WILLETT: I still think that needs addressing too on a lot of things because - - -

DR BYRON: We've been on ABC Country Hour on just about every station in Australia multiple times. We get the press clippings of every time this inquiry is reported in a country newspaper and it's about a dozen times every day of the week and it has been since June that this inquiry was on.

MR WILLETT: I read the last - - -

DR BYRON: But if people don't listen to the radio and they don't watch TV and they don't - - -

PROF WOODS: Don't read the local rag.

MR WILLETT: I read the last three Country Life and I don't think you got a mention once. A month ago you did.

PROF WOODS: That's good. I mean, we still have until 19 December for people to make comments so please show them the report. We're still open for comment.

MR WILLETT: While I think of it, are there any reports available today because I've got a lot of people wanting one?

PROF WOODS: We can send you more. Have you got a copy of our brochure? For a lot of people that would be enough for them but for some people the actual draft report we can do as well, plus whoever wants to can access it immediately online. You tell us what you need and we'll meet - and they can put in a response. We're quite open to listening, as you've found out today. Can we move through to measures to facilitate self-reliance preparedness. We've sort of discussed that in part. Clearly where are market failures, then our draft report argues that that's where government should put in money, R and D, extension, business planning, all those sorts of things.

MR WILLETT: As far as the pig meat industry goes, I think they did have an inquiry into its unviability and found that it was the high price of grain, nothing to do with pig meat imports.

PROF WOODS: Primarily.

MR WILLETT: Is that report available anywhere?

PROF WOODS: We can send you a copy of it, we're happy to.

MR WILLETT: I'd like to get that.

DR BYRON: The last four inquiries into the pig meat industry. Every time grain prices go up - - -

MR WILLETT: Okay, we will work on this one. That level of grain price that you're saying is too high for the viability of the pig industry, how far above the viability of the grain industry is it?

DR BYRON: I don't know off the top of my head. If you get hold of the pig industry report - - -

PROF WOODS: The answer is we'll send you the report.

DR BYRON: - - - you'll see that there is a ratio that the Pork Council of Australia and lots of other people use between the price of pig meat and the price of feed grain and that basically tells you 90 per cent of what you need to know about the profitability of raising pigs in Australia. When pig meat prices go down or when grain prices go really high, it's not a good time to be a pig producer. At the moment

it's been the other way around.

MR WILLETT: It's a very similar industry to the dairy industry. It's not one you can jump in and out of.

PROF WOODS: No.

DR BYRON: The profitability is incredibly volatile.

MR WILLETT: At the moment it's on a bit of a lift, but how many years has it been running along like that before it went up?

PROF WOODS: In terms of pig production or in terms of - - -

MR WILLETT: How many? Only two?

DR BYRON: Have a lot of the graph.

PROF WOODS: In terms of pig producers or pigs produced? The number of producers has been declining for decades because scale economy and everything. So all the small individual producers have been gradually moving out of the industry, but pig production itself hasn't been showing anywhere it's in decline.

DR BYRON: So the field produces with more output.

PROF WOODS: Read the report and then we'll have a discussion. We'll send it to you. FMDs, you've heard us have two goes at FMDs with two other participants.

MR WILLETT: I won't bash you again on that one. I'd love to be able to have the opportunity to use them but my cash flow just hasn't allowed it, so I'll let you off easy there.

PROF WOODS: Yes, that one's easy. First find some surplus money.

MR WILLETT: Yes.

PROF WOODS: I understand that one. Making the transition, again we've dealt with a couple of bits of that, getting people to understand the programs.

MR WILLETT: I have found, just in doing a bit of local research to try and convince my wife that I'm not obsessed with this and that there is more feeling than just mine out there, too many of the farmers around Warwick are happy to suffer in silence nearly. It would take a lot of prompting to get them out and be vocal about

just what they're going through. I've had a couple of situations and I did go out to that Tie up the Black Dog for them at Goondiwindi. Are you familiar with that? It was on depression and mental health.

PROF WOODS: We know the program.

MR WILLETT: It was quite well supported and I got quite a lot out of it. But the main reason I went was I had a mate down the road and he'd taken over his family farm plus borrowed to buy his parents out of it in a way, so he did have some debt. Then a neighbouring property came up, so he bought that. Then things went a bit tough, he was dairy farming and he probably - I'd say depression beat him and his efficiency just went out the door. But where it really come to the crunch was when the dam started drying up there in 2006. He used to go up every day and check and one day he went up and he checked and he had forgot to put the rifle in and here's a cow bogged in the dam. Every other time he said, "I only ever took one shell with me," because he's got kids and he's got grandkids. He said, "This day, for some reason, I grabbed two." He said, "I'm driving up to that bloody dam," and he said, "I said to myself, 'What the hell did you get two for?'" In his subconscious it come to him that that was it, he was not going to go to that dam any more and pull cows out of it.

He told me this and I thought, "Geez, I suffer from depression, but I hope I never let it get to that stage." So we got him and we took him out to that and on the way out - I can't drink, but he liked a beer and he said, "Mick, if we turned around and went home now," he said, "I think I've enjoyed the day," because he could open up.

PROF WOODS: Just needed to get out.

MR WILLETT: There was three of us in there. One of the fellows that was in with us said, "Well, I wonder what it's going to be like, three depressed farmers going out to a room full of them, what will that end up like?" We all enjoyed it, it was terrific and on the way home one of the things that really hit home to us was how can we help other fellows that are not going to go to these things? We could all mention - there were two or three other blokes out there that wouldn't leave the farms. One bloke's wife walked out and left him, left him with the kids. She just had enough of not having any money, so she's gone. I like to see him around town, I like to see him at the cattle sale or something because I know that he's pretty close to the edge.

In a moment of jest there we decided we would do something about it and we decided we would set up the Mad Farmers Society. So when Jarred rang and asked my wife what organisation, I told her to tell him, but she didn't. I got quite perturbed

when I saw that Australian Family Services and their comments that it was no more prevalent depression and family break-ups in drought-affected areas and I'm glad Kenny rebutted that in saying it was, in was a lot more and I think it is; in my personal experience it is. But the Mad Farmers Society, a prerequisite of being a member is you've got to have a repeat prescription for antidepressants. Just a one-off prescription is no good and you've got to have a Centrelink file this thick of letters saying why you're not eligible for things and wanting more information.

So we're trying to do things like that in the area to get out there and get those people. It wouldn't matter how many forums you run, how much advice was available - - -

MR GRANGER: How many members have you got in your society?

MR WILLETT: Actually I got a text from one bloke the other day with some more ground rules, but I think he's trying to narrow the guidelines too much and make it a bit of a closed sect really. I didn't like the way he was heading with it. If we get something up and going we probably won't call it that at all, but it will just be a gathering with a bit of community spirit in it and try and get some of these fellows out of the doldrums.

PROF WOODS: Totally agree. Just maintaining that contact and understanding that things are tough, but so is the bloke next door and all that sort of stuff is just so fundamental. You can get trapped in your own little mind-set, particularly farming. If you don't go off your property and all you do is keep looking around you - - -

MR WILLETT: What I don't think a lot of people understand is how debilitating it is in that I've had farmers tell me that they drive down the paddock, turn the ute off and sit there for three or four hours and do nothing. Probably should have had the harvester greased and got 10-tonne of grain off, but they just can't bring themselves to get out and do that. They drive past a fence that's fallen down, they don't get out and fix it because they just can't make themselves do that and that's the real sad thing about it. I'm not saying assistance is the answer to those sort of fellows there, born in the wrong generation probably comes to mind there, you know, what dad did and went ahead and had no trouble at all, that sense of failure sinks in then.

There were some old-school farmers around home and they made the kids do a fair bit of the farm of the work, but I think that was character building to a point, they probably went overboard a little bit in some places. Anyway, thanks for the opportunity to speak to you.

PROF WOODS: You bring a wealth of very direct paddock-level knowledge and commonsense. You've sat through the whole of the day, you've seen the variety of

evidence we get. It's been really helpful just having somebody who is sitting there mucking around in the dust - I was going to say mud, but we'll cross off that.

MR WILLETT: It's mud up there at the moment. We've had six inches of terrific rain. The thing that has made a lot of people hostile - I'll just touch on this while I've got you. I don't think there's anywhere near the amount of problems with the dryness of Australia that is portrayed in the assistance going out; I think some of those areas might be getting off fairly lightly. I've got that block up at Tenterfield and it's still in an exceptional circumstance area and it's 52 inches of rain last season and we're up to about 40 this season, and yet at Southern Downs where we're just running at that big a deficiency.

I've got maps there from NAMS and the accuracy of a them leaves a little bit to be desired. They've got us in on an average shading where we're running at well below average. One report I've got there on the local area - it could be mistakes but it's that far out of kilter, it's not funny. I've been onto Tony Burke's office to address some of these things but I'm running into a lot of walls down there, especially that report that went from NRA to Tony. I had one fellow tell me he was sending it up to me and about two weeks passed and then he ended up having to get on the phone and saying that he had given me the wrong information and that report is not available. I said, "I think I had better speak to Mr Burke now," and then I was told I couldn't speak to him unless I went through the federal member. I thought, "That's interesting because our federal member's in the opposition." So I rang Bruce Scott up and I told him exactly what I had been put through and he was very interested to hear.

So that's the way I'm heading with that but I'm not here to bore you people with that and take up any more time.

PROF WOODS: We much appreciate the time you have given us and, as I say, some very practical, farm-level commonsense.

MR WILLETT: I had to win an argument I bet with my wife. She said I wouldn't go through with it.

PROF WOODS: We're very happy with your evidence. Thank you for your time.

MR WILLETT: Thanks very much.

PROF WOODS: That being the case, we will adjourn now until tomorrow morning.

AT 1.59 PM THE INQUIRY WAS ADJOURNED UNTIL
TUESDAY, 2 DECEMBER 2008