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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 CANBERRA ON WEDNESDAY, 17 DECEMBER 2008, AT 9.30 AM

Continued from 15/12/08 in Sydney

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PROF WOODS: Welcome to the Canberra public hearings for the Productivity Commission Inquiry into Government Assistance for Drought Events. I'm Mike Woods. I'm 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, to metropolitan, provincial and rural areas, held 81 meetings with a wide cross-section of people and organisations. We received 109 submissions from interested parties prior to releasing our draft report. I would like to express our thanks and those of the staff for the courtesy extended to us in our travels and deliberations so far, and for the thoughtful contributions that so many have made already in the course of this inquiry.

These hearings represent the next stage of the inquiry with an opportunity to make any final submissions by 19 December. The final report will be completed by 27 February 09. I would like these hearings to be conducted in a reasonably informal manner and remind participants that a full transcript will be taken and made available to all interested parties. We have our first participants. Welcome. For the record, could you please give your names, positions you hold and organisation you may be representing.

DR BOTTERILL (ANU): Dr Linda Botterill. I'm a fellow in the political science program at the Research School of Social Sciences at the Australian National University.

PROF CHAPMAN (ANU): My name is Bruce Chapman and I'm a professor of public policy at the Crawford School of Economics and Government at the Australian National University.

PROF WOODS: Welcome. Thank you for your earlier contribution and for the opportunity to meet earlier during the process and for your most recent response to our draft. Do you have an opening statement that you wish to make?

DR BOTTERILL (ANU): Yes, we do, just a few comments. First of all, this drought review is very timely, I think as the Productivity Commission itself has noted. The national drought policy in its implementation has moved quite some considerable distance away from its original focus on developing self-reliance and

risk management in the management of drought in the rural sector. So the report is a good contribution to that debate. There's much in it that we agree with. We're hoping that these hearings are an opportunity to actually engage in a genuine exchange of views over the draft report and that there will be changes made to the draft in the light of the feedback that you receive from these hearings.

There's several areas in which we support the recommendations you have made. We argued in our submission, and we're glad to see that you have picked it up, that the need to end exceptional circumstances declarations and to look into the development of government support measures for farmers to manage climate variability based on individual farm circumstances and farm family need. We're glad to see that you've called for the end of interest rate subsidies. I hope that the government responds this time. They have been told that interest rate subsidies are a poor instrument in delivering support to farmers on a number of occasions by a number of prior inquiries.

We welcome the fact that you have argued for the retention of farm management deposits. These have been a particularly successful risk management tool for farmers during drought, and also pleased to see that you have again called for the end of transaction-based subsidies. Transaction-based subsidies were supposed to disappear following the signing of the 1992 Drought Policy by state governments but have persisted. We're also pleased to see funding for research and development being called for to assist farmers with preparation for management of and recovery from drought.

We do think that there's two areas where we would just like to reiterate some of the points that we made in our submission. First of all we think that the draft report has missed an important opportunity with respect to farm poverty. As we outlined in our submission, farm poverty in Australia hasn't been measured effectively since the 1970s and farm income support programs have been developed based on untested assumptions about the nature, causes and extent of low farm incomes. We called for in our submission, and we suggest that perhaps you could reconsider, calling for an inquiry into farm poverty to provide some detailed evidence on which to determine whether it's actually appropriate to link farm welfare payments to agriculture policy, and whether adjustments need to be made to eligibility criteria relating to assets tests and mutual obligation within the standards of welfare safety net to accommodate the needs of farm families.

We're very pleased, as I said, to see your support for the farm management deposits and recognise their role as an important income smoothing and risk management tool. So we were a little puzzled that you rejected our proposal to introduce income-contingent loans. As we've argued, income-contingent loans are essentially a mirror image of farm management deposits. They provide an income smoothing tool and a risk management tool for farmers, and they provide these

features which are common to farm management deposits and income-contingent loans to new entrants to farming or those who haven't accumulated sufficient farm management deposits when they encounter a downturn.

Perhaps we didn't explain clearly enough in our submission that there does actually remain a problem in our view with some financing during drought. Now, the Australian Bankers Association are probably right, that it is on the supply side banks are prepared to support viable farms with credit during drought. But on the demand side, because farmers value the farm very highly for a whole lot of socio-cultural and psychic income reasons, they are very risk averse when it comes to borrowing against the farm and therefore risking the loss of the farm. So there's a very strong probability that farmers are prepared to borrow less than the banks are prepared to make available. This is where the default protection element of income-contingent loans would make them particularly appealing to the farm sector. Bruce, do you have anything you want to add?

PROF CHAPMAN (ANU): Yes, thanks very much. I'd like to agree strongly with Linda about some of the positive aspects of the report. I think it's a very useful step forward to critically analyse and objectively look at the problems of exceptional circumstances. I don't think there would be much disagreement out there about that. There have been a lot of people concerned about exceptional circumstances provisions for a long time, both the way they operate and the selection process, and the fact that they're not necessarily very well targeted to the people who need them the most. The most contentious part of our suggestion apparently, although in my head it's not contentious, was this notion of income-contingent loans. I just want to spend a minute or two talking about the benefits. There are costs as well, I'm sure we can talk about those after.

The major benefits of income-contingent loans are two-fold, compared to normal kind of mortgage type loans. They're based on capacity to pay. That means that in periods where farm business incomes are relatively low, so too are the payments. When farm business incomes are relatively high, so too are the payments. It is not possible to default on an income-contingent loan through lack of income. That's the essential point about an income-contingent loan. It is not true with any other kind of loan. You can default for other reasons, through fraudulent behaviour, for example, but it's not about the incapacity to pay. Many loan systems around the world have defaulters of various kind; typically default comes from poor economic circumstances. So that's the first point. It offers insurance protection against default. Secondly, it offers income smoothing. That is, because you only pay according to capacity to pay, in periods where you have low capacity it's not a requirement. So both of these benefits are insurance benefits. They're unique to a capacity to pay a type of collection of an income contingent loan which is not true of other loans.

We spent a long time thinking about these types of schemes and it's absolutely

critical to understand that the design details are very, very important. We haven't set out in a lot of detail the way we think it might work. But it's completely important that schemes of this type deal with adverse selection. In other words, people who need the money the most, who feel that they are least likely to repay it, are the ones who like it the most. So adverse selection can be handled in various ways. One way in which we thought it could be handled would be by tying it to farm management deposits. In other words, farm businesses that haven't had farm management deposits we think probably should not be eligible for these kind of loans. There are other ways to think about dealing with the adverse selection problem.

We were surprised that the report endorsed the income smoothing benefits of farm management deposits without endorsing them on the other side of the coin. As Linda put it, this is essentially the mirror image of the farm management deposit. The farm management deposit essentially says if in the past you have collected enough revenue to help you in down times, then you can use that revenue for the down times, including in drought. An income-contingent loan does the same but for the future. It says, "How would you like the propensity, the capacity to tax your farm business when it's doing very well in the future and deliver to yourself financial resources when you need them at this point in time?" So we considered this to be a logical extension in a dynamic context from the past to the present, that is, farm management deposits, and from the future to the present, which is income-contingent loans.

The other point I'd make is that my training as an economist makes me, when I think about public policy, to try and find market failure. We do that in all sorts of other areas of public sector intervention. The one that I'm most familiar with is higher education funding. Banks will not lend to students because of the risks associated with it in combination with a lack of collateral. So that's a classic market failure. In the example of farms in drought, the market failure is much more sophisticated. I'm not even sure I'd call it a market failure of the conventional kind, that is a market failure that comes from the lack of provision of finance. But Linda put it like this; that there's a wedge between the value of the property to the farm - and most particularly to the farmer - than it is commercially. The loss of a property that's been in the family for several generations is a very significant loss.

I refer to data that's actually in your draft report from the Australian Institute of Family Studies. They surveyed farms in drought and asked the question, "Are you in financial hardship compared to farms not in drought?" While many farmers were in financial hardship with or without drought, the data was clearly much higher. 45 per cent of farmers in this survey said that they were in financial hardship in a period of drought. The numbers were quite high for periods that were not drought as well. What does that imply?

PROF WOODS: Interestingly 35 per cent of those who weren't in drought also

thought - - -

PROF CHAPMAN (ANU): That's right.

PROF WOODS: So the drought was only adding 10 percentage points.

PROF CHAPMAN (ANU): That's correct. So they're saying - I can make the point that drought adds to it. I'm not claiming that drought is the only condition; there are many factors that cause financial hardship. I would think the value of the exchange rate is probably more important than just about anything. But nevertheless you've got a lot of farmers saying we're in financial hardship. We think that the banks are quite happy to lend, and the Australian Bankers' Association's submissions this week, they're kind of okay about lending, so where is the wedge coming from? I think it's possible to interpret the data as implying that there is a reluctance to borrow because of the value of the farm property in terms of not purely commercial.

So we're very happy to have the opportunity. We trust and hope that this is a Productivity Commission hearing whereby the draft report can be changed. We're glad to have the opportunity to have this discussion to see those areas in which we might be able to progress things.

PROF WOODS: I'm interested that each of you have now made the point that you hope that this is a hearing based on a draft where there may be some change to the final. Is that because you consider that the commission has a track record of not responding to the hearings?

PROF CHAPMAN (ANU): No, it's just because we're really pleased that you might be able to change the draft report. The background - - -

PROF WOODS: Sorry, I was just detecting what I thought was a criticism somewhere there that I don't think is justified by the commission's record.

PROF CHAPMAN (ANU): I don't think it's justified in current terms. In the past there were reports which didn't change terribly much through public hearings. That might be because the public hearings offered not too much that was interesting. But it's just a recognition that we appreciate there's been ongoing conversation.

PROF WOODS: Right. I was misinterpreting your comments.

PROF CHAPMAN (ANU): We don't think you're crooks.

PROF WOODS: Thank you. It's very kind of you to put that on the record. If I can just reinforce for all present that the purpose of having hearings based on draft reports and exposing ourselves all around the country to opportunities to comment on

our draft report is to take advantage of that commentary and to reflect on our draft report and amend it as we then think fit.

You have raised a number of issues and obviously two things, one, the proposal for a survey about hardship and poverty in the farming community and the income-contingent loans are two that you would particularly pursue this morning. I'm happy to do so but if I can just deal with a couple of our other proposals first and see if you have any further reflections on them. One in particular is our hardship proposal, to move it out of an EC context, to have it generally available.

A couple of features in particular I wouldn't mind your commentary on. One is that we have proposed in our draft report an asset limit of two million tapering out at three million; whether you have any commentary on that. The second is that it be available for sort of a three year in seven cycle, some of the background to that being that on average putting aside the irrigation sector you would expect dryland farmers to be sufficiently prepared to cope for at least a one-year drought, whether it's an 82 or a 94 or whenever-type drought is just part of normal business of dryland farming in Australia. A second year might get tough if they're consecutive years and then this would be available.

So it would conceivably take most farms through a five-year type period of consecutive drought, which there haven't been too many on the historical record of the last 100 years. There have been three, so it's not unknown: the federation drought, the 40s drought and the current one. So they're not unknown events. But also the importance of having a conclusion time to that so that you can't just factor household support into your farm budget as a forever ongoing. So do you have any reaction to (a) the principle that we have proposed and those design features in particular?

MS BOTTERILL (ANU): I think it's a vast improvement on what we have got at the moment. I still have some concerns about linking farm welfare payments to events such as drought. One of my concerns and part of the reason I have been an advocate of having a more extensive inquiry into farm poverty is that the type of approach that you have proposed is assuming that farm poverty is related to drought events and - - -

PROF WOODS: No.

DR BYRON: Sorry, you've completely - - -

PROF WOODS: It's unrelated to that.

MS BOTTERILL (ANU): Okay, all right.

DR BYRON: It's totally unrelated to whatever reason the family is in hardship, so that's the sole - the primary purpose of that was explicitly to disconnect it from drought. Whether it's drought or diesel prices or exchange rates it doesn't matter. So the idea of a hardship payment for farm families that was on all the time everywhere and regardless of the reason why the family was in hardship, it seems to me that that has done exactly what you want us to do.

MS BOTTERILL (ANU): It has. But I am still concerned about the limit of the three years in seven because - I suppose there's a couple of elements to this. One, is bringing complexity into the management of the scheme. Secondly, I am still unconvinced that we can't look at the standard welfare safety net in a way that makes welfare for farmers more closely aligned with the way welfare support is delivered to non-farmers in the community. Non-farmers in the community who seek welfare support have mutual obligation on them.

PROF WOODS: Yes, which we have in our - - -

MS BOTTERILL (ANU): They are also able to get support when they need it. If they meet that mutual obligation, and it's not limited to three years in seven - - -

PROF WOODS: No.

MS BOTTERILL (ANU): - - - if they need it for an extended period. As long as they're meeting that mutual obligation they can access it. I mean really what is at the heart of this, of course, is the introduction of assets testing on welfare payments in the 1980s, because that's when farms - in the 1982 drought farm families had easy access to the unemployment benefit which they were - both the farmer's spouse and the farmer were able to access because there wasn't the assets test problem. So in a sense perhaps more broadly what I'm calling for is a revisiting of the question of assets testing across the welfare system.

PROF WOODS: That's a slightly separate issue. But if I can just clarify for you in our draft report we don't remove there then ultimate access to the basic welfare support system. In fact, that is on forever and doesn't have a time limit to it. The only time limit we give is to the period when the system will recognise the special features of farming that warrant a higher asset level. So that's why we've limited - the three years. But they can always then revert to the basic welfare system. That is always there. They are never excluded from that.

MS BOTTERILL (ANU): You mentioned the three big droughts. Of course the projections that have come from the BOM and the CSIRO is that these deeper more extended droughts are going to potentially become more frequent. So again, that may mean the three year in seven may need to be revisited.

PROF WOODS: Well, as I say, the three year in seven in practical terms for dryland farming is a sort of five year in seven type scenario because you would always expect them to reasonably plan for a single-year drought and possibly get through a two-year drought but it's when it becomes beyond that. So it's giving them a five-year, in effect, coverage, not the three of the particular plan; allowing for their own self-reliance. Any other commentary on that part of our proposal?

That then takes us into this broader question of poverty amongst the farming group. Yes, you did put a proposal forward in your submission for us to call on a more extended inquiry. We have looked at what data is available. As you also know the data is not strong. It is an issue that does warrant some consideration. We are reflecting on whether we would put a recommendation to that effect into our report. But where it sits in the priorities of our recommendations at this stage - it didn't make the cut in the draft. I don't hold out hopes that it would necessarily get into the final but we do understand the point you're making. Certainly as we go through this data the lack of strong data is something that we will be making a point about.

MS BOTTERILL (ANU): I think probably the really important thing is that by looking at welfare as a separate program in a sense you are taking a lot of the pressure off drought policy, aren't you? One of the reasons that drought policy is where it's at is because the welfare component of it has become so important and so dominant and people have been tending to respond to the drought in terms of what that has meant for farm families and have moved away from what was intended to be a farm business focus of the national drought policy. As you would know, the national drought policy didn't have a welfare component in it for the first nine or 10 months of its operation. So I think it's very important that those two things have been separated in the draft report.

PROF WOODS: Yes, and we think that that is an important breakthrough. You would have noticed the communique from the minister's forum which gave every indication that they would take that up as a proposal, which is heartening; obviously for governments to make final decisions but we did get comfort from that communique that they accept our point that hardship is an issue that should be dealt with in its own right and is not drought related.

MR GRANGER: Do you think that if you did look at rural poverty there would be an even stronger case to look at poverty in this country in general terms? I mean one of the tensions that we have through this inquiry is that why are farmers special? Cases have been put that they are special for a variety of reasons. It has been often - would have been nice to have at least get some hard measurements of just how below the farming community would be from other sectors, but I just sort of put that question on the table. You call for looking at poverty - - -

MS BOTTERILL (ANU): Well, I think that's part of the problem. We simply

don't know. I mean even when we had the Henderson inquiry in the 1970s into poverty the element on rural poverty was done on the basis of two smallish regional surveys. It wasn't as extensive as the balance. So it's not something that we have really measured and really got a handle on. So I can't say whether poverty amongst farmers is equivalent, worse or less than it is in the broader community because we simply don't have the data. I think from a public policy perspective that is less than ideal. If we are going to make policy to respond to farm poverty it seems to me that we need some solid empirical evidence of how many farmers are in poverty, why, and the extent, and then your point is exactly right, the comparison with the broader community to ensure that farmers experiencing poverty are being treated equitably to other members of the community.

PROF CHAPMAN (ANU): Can I just add something about data broadly here? We do have very good data sets but when you've got groups - particularly groups that are relatively difficult to survey, that is, because they are rural, there is no real strong comparative class. Some of the data sets that I'm aware of, the HILDA data set, the Household, Income and Labour Dynamics in Australia, has got 13,000 households but very few farms because the proportions are just too low. I would think in a survey context looking at the other data sets and us replicating those kinds of questions for groups that are special - I don't mind farmers are special in any other way except statistically - you can actually get a lot out of that kind of approach.

We know a lot about poverty from the HILDA data set but not with particular groups. The Bradley Review which is reporting today had a lot of trouble, in my view, trying to understand the true extent of higher education student poverty because the number of higher education students in that data set was kind of too small to gain a lot of insights into what is going on. So you take a group like farmers who are a very small percentage of the community anyway, they would be a very tiny of percentage of that kind of data set.

In that context often what happens for public policy is that there are specific studies on particular groups, for example, a longitudinal study of Australian immigrants kind of replicates that because it needed - for the same reasons you didn't have enough data the longitudinal study of indigenous Australians. Why are they picked out? They're picked out because they're too under-sampled in broadly based surveys.

PROF WOODS: Yes. No, we understand those points. Thank you. Now, before we get on to income-contingent loans, any other areas of our report, apart from your opening comments, that you want to elaborate on? Our focus on investment in RD and particularly the extension side, business management, keeping FMDs et cetera, anything there that you want to take the opportunity to expand on?

MS BOTTERILL (ANU): I think investing in research and development is a really

good place to be putting government funding. I have been doing some recent work with colleagues in the United States and the US in a sense has taken a different approach to drought policy. They still don't have a national drought policy but they have invested large amounts of money into research, into climate and providing risk-management tools to farmers. They have a big scheme called the National Integrated Drought Information System which is a Web-based system where you can actually get almost down to farm level to look at data about rainfall and soil moisture and so on. They have got a very good consultative process involving communities in the way they operate that system so that farmers themselves are giving input into the process, so it becomes an iterative process. They have been trying for 20-odd years to persuade the United States government to actually introduce a national drought policy. I am not convinced they actually need one - - -

PROF WOODS: No.

MS BOTTERILL (ANU): - - - because they have developed such a good research-based set of tools for risk management. They have had a risk management focus but it has been driven by a well-funded national Drought Mitigation Centre at the University of Lincoln, Nebraska. They have also set up this National Integrated Drought Information System. That seems to me to be something that could be looked at more closely in terms of the type of data that's available in Australia. Mike, the workshop we were at with BRS a week or so ago - - -

PROF WOODS: Exactly, yes.

MS BOTTERILL (ANU): - - - we had somebody from the Bureau of Met talking about having divided Australia into five regions to look at what was happening with climate. The people from Western Australia weren't overly impressed that they were lumped in with South Australia and part of the NT whereas in the United States they can actually go down to parish and county level within states. So it seems to me that investing in getting some really good data so that farmers have got up-to-the-minute information - the United States National Drought Monitor puts out weekly reports on rainfall but also reporting on reports of droughts. So farmers can actually feed into it, "Look, in my area you say it has rained this much but this is what is happening where I am." This is all building into a really good database of information for risk management.

MR GRANGER: Certainly NAMS platform provides a possibility to do a lot better things in regard to what you were talking about?

MS BOTTERILL (ANU): It does. It would need a lot more funding. I think too NAMS in a sense was developed to provide advice to a particular policy. Its job was to determine whether exceptional circumstance existed, to provide applicants with information to make the case that exceptional circumstances existed. So in a sense

the science followed the policy and was delivering for a particular policy framework. In the US it has been the other way around. It has been developing the data and then almost, "Well, you know, it's here, let's use it." I think NAMS has been very much focused on delivering data that has been required for a particular policy setting.

PROF WOODS: But given that we are proposing that EC, once we get through the current transition phase, no longer applies, would you keep NAMS, would you build it in a similar way to the US - and similarly to you I have had some exposure, not as much as yourself but some understanding of the US system. Picking up Bob's question then without EC does NAMS warrant some investment in its own right? Would you see the tool being useful at the farm level or at the pasture protection board, rural land board type level, catchment management authority et cetera or at government policy level? I mean where would you target it and what would you do with it, even if you just say, "Well, that was an interesting bit of data developed to allow you to determine whether you're in EC or not," and then just move along.

MS BOTTERILL (ANU): Well, there's a lot of expertise in BRS being built up around NAMS. So it would be silly in a way not to refocus them, if you get me, to EC and perhaps start looking at the NIDIS model or the National Drought Mitigation Centre model in terms of the type of data that they collect and make available. But I mean you have seen the NIDIS web site, obviously, and just how much useful information there is. It would seem to me that in a risk management type approach to drought policy that information would be extremely useful for farm managers, that they could get that data. I mean part of the problem with EC has been that declarations have been on the basis of administrative board, it's not biophysical realities. But if you had something where you could actually get down and find out what was happening in your rural land protection board area or smaller, what was happening in your property, I think it could become a very valuable risk management tool.

PROF WOODS: Yes, well, we do need to be more conclusive about NAMS in our final, so that input is helpful to us.

MR GRANGER: Can I raise an issue in respect to the whole RD and E thing. Do you see any - it's probably too broad a question - but do you see any obvious gaps under that heading RD and E that we should be thinking about in terms of this whole climate drought thing. Secondly, have you got any views about the current RD and E model in this country, and by model I mean - I suppose it's mainly focused around the rural development corporations and CRCs et cetera. But have you got any view of the current model, its shape and its ability to deliver well-focused outcomes? Are there too many silos, for example - I think I'm leading you here. Are there any - - -

PROF CHAPMAN (ANU): Yes, we can agree with that.

MR GRANGER: Sorry, I couldn't help myself, it popped out. But there are any obvious gaps? I keep on thinking of where is the catalyst to sort of create a better capacity in individuals. I think this is more an ideal, an aspirational thing for me than - - -

MS BOTTERILL (ANU): I'm not familiar enough with the extension end in terms of dealing with farmers. Most of my dealings with the RDCs is as a researcher seeking support for my own research. I am pleased to see that RIRDC is rethinking its program and actually articulating - and we are very pleased to be looking at some form of coordination at the ANU to bring together rural and regional research across the university, which we hope will provide a good interface with the RDCs, so that they know where to come to find out what research is actually being undertaken. I think there is a gap between research that is being undertaken in the universities and government's knowledge of what has been done, and that's as much our fault in the tertiary sector for perhaps not promoting what we do efficiently as it is for government not coming looking. So there's always scope I think for the RDCs to be creative. Land and Water is another one I think that has done really well in terms of broadening the types of projects that it's prepared to fund.

PROF WOODS: Income-contingent loans, and to some extent a related discussion about young farmers and getting into farming or expanding farming or moving from being a share farmer to a lessee to a farm owner, all of those issues; on the supply side, in your opening comments you noted the views of the banking association. Did I detect from your commentary that you acknowledged that the supply-side issues were not the strongest argument for income-contingent loans?

PROF CHAPMAN (ANU): I wish we had better data on this. I think that if there is to be a survey, one of the questions that might be asked is what inhibits your borrowing; what are your concerns about borrowing. So we don't know a lot about that. The Australian Bankers' Association allege - and I've got no reason to doubt it - that they're happy, their members are happy to provide loans. It just seemed to us that if there is a market failure going on here, it's that wedge that might be between the value of the property to the farmer rather than commercially. We have a lot of trouble trying to work our way through this in conventional economics.

PROF WOODS: Including understanding the price of farm land and the underlying returns that you get from it.

PROF CHAPMAN (ANU): Well, not explicitly that - - -

PROF WOODS: It's part of it.

PROF CHAPMAN (ANU): - - - but if you want to add another complexity to it - - -

PROF WOODS: Yes, it's part of the mix.

PROF CHAPMAN (ANU): Yes.

PROF WOODS: We had the ABA give evidence to us and on their transcript after some debate on the issues they concluded, "We can't find anything about that proposal that is attractive." That was their concluding statement. But perhaps if we focus on the demand side, might be where the more productive debate is.

PROF CHAPMAN (ANU): Yes.

PROF WOODS: You describe it in part as a mirror to FMDs. In your submission you make reference to how it could be complementary to them in the sense of, particularly for the younger farming group who haven't had good seasons to be able to build up FMDs let alone get their debt down a bit after taking it over from the previous generation or whatever is their process for acquisition. But also, Bruce, in your evidence you were suggesting that FMDs could in some way be used as an indicator to help with the adverse selection process. Did they have experience with FMDs or not; what was their track record? There seems to be some tension in there somewhere between saying well, maybe you can use income-contingent loans because they haven't had the chance to build up FMDs, but at the same time saying you're using their experience with FMDs as a way of avoiding adverse selection. Can you talk me through those issues?

PROF CHAPMAN (ANU): Adverse selection is a really critical point in all these kind of systems. Just let me make a comment about the ABA saying there was nothing actually beneficial about it.

PROF WOODS: From their perspective.

PROF CHAPMAN (ANU): From their perspective, yes. There's certainly going to be benefits to farm businesses in terms of income smoothing and default protection.

PROF WOODS: Yes. No, this was a statement about their perspective.

PROF CHAPMAN (ANU): Yes. The adverse selection problem is the following: imagine that the government offers, or banks even offer loans that are collected through the tax system depending on capacity to pay. This is a pretty generous kind of arrangement in the sense that this is a loan that has consumption smoothing and default protection. It also is a loan that will encourage the institutions or the individuals who have the least prospects in the future of repaying to want to do it. So if your government decided income-contingent loans for everybody; "Roll up now, here's your dough, we'll get it back in the future," that would be a very bad scheme.

It would be a very bad scheme for taxpayers because even if you covered the real cost of borrowing of the capital and you don't necessarily want to, but you've still got the problem of what I'd roughly call doubtful debt - that is people not paying because they never had the income, were dying quickly or whatever if it's tied to the individual. So in all the applications of income-contingent loans - and I've been involved in trying to think about these in different areas of economic policy - the two points, two issues of adverse selection and moral hazard are completely fundamental.

Now, when it came to thinking about drought relief with an income-contingent loan, we started by thinking about adverse selection in the way that might have been reduced by having a commercial interest involved as well, for example a bank. The bank therefore would do the vetting process in part. There would be much less risk here for the bank because imagine a partnership whereby the government provides \$50,000 contingent on the bank providing \$25,000. The bank has still got \$25,000 at risk, but the whole 75,000 would be repaid through the tax system and the government would have an arrangement with the bank to minimise their risk. What that implies for the bank is that they don't have that kind of risk. But it wouldn't be fully guaranteed. You want some risk in there for the supplier of the capital to reduce adverse selection; to make sure the asymmetric information that's implicit in the farm business are thinking, we don't think the prospects are very good. Someone has to work out if that's true; some objective institution that has something to lose. That's why we thought about that kind of arrangement which could still easily be part of this kind of policy development.

The other kind of way of thinking about adverse selection, make sure you've got a real interest rate on the debt. The trouble with a real interest rate on a debt like this is in the optics. What I mean is that if you go through long periods where you don't actually pay much of the debt because you're in adverse economic circumstances and that accumulates in a cumulative way with a real rate of interest of say three, plus inflation of three, those debts get very, very big. So you might want a different kind of arrangement on interest rates. The way HECS works, for example, is implicitly it's a surcharge for people who chose to pay later because there's a discount for an upfront payment. That's the form of the interest rate. When you do the discounted present value of that stream for the government for taxpayers, it kind of washes out. So you could have that kind of arrangement also with a loan to farm business where you put a surcharge on it. It has a benefit of not hugely growing and scaring people with poor optics. It has the advantages of on average returning to the taxpayer roughly very low subsidies if at all. But again that part of the discussion was driven by adverse selection propensities.

One way in which Linda and I thought you might link it - and by the way, because we're kind of not a government department and don't have the resources to develop the schemes we're here kind of to offer conceptual input - is that if you've had farm management deposits, you've already established a kind of track record;

you've already established an interest in goods, in sound financial management of the property. That's kind of doing the adverse selection bit for you as well. But there will be some periods where some farm businesses won't have enough farm management deposits, the obvious case being the new entrants that you've talked about, where we thought that this would be a supplement to, an addition to cover those kind of circumstances, but I think in ways that you can cover the adverse selection either through having a banking business involved to some extent or through the signalling about having accumulated some farm management deposits in the past as being interested in the management. We always wanted this to be, by the way, a debt of the property. Again - - -

PROF WOODS: You've tied it to the ABN.

PROF CHAPMAN (ANU): We tie it to the ABN and there's a reason for that, and that's moral hazard. The moral hazard is, you give me a loan as a farmer; farm measured taxable incomes are extremely low. You'll never get the money back. So we had to make it not only in a way that you could get the resources back - so we tied it to farm revenue, but at very low levels - but in ways that stop the moral hazard of transferring the property to a trust partner or to a child or to a friend or to a husband or a wife or whatever to avoid the repayment.

We spent a lot of time with a rural accounting firm and basically said, if you were instituting a scheme like this, tell us every trick of the trade to try and address the moral hazard. He came up with 12, 13, and asked all his mates; said, "Look, you've got this scheme, how would you get out of it?"

PROF WOODS: Yes.

PROF CHAPMAN (ANU): So it became a bit of a competition; who was the cleverest about getting out of an income-contingent loan on moral hazard? Basically it's designed with all those contingencies there. We've got all that information. But this is a very long-winded way of coming back to your question. Adverse selection is fundamental. You've got to have sensible and workable ways of dealing with it. We think they're there. If there's caution about this, the right thing to do in a public policy context is either a pilot or to cap these in the short run so you don't run the risk of the government outlaying a lot of resources that haven't fully been tested. These haven't been tested. We think we've tested in our brains, but what happens out there is critical, and so you could limit the application to relatively small outlays to begin.

DR BYRON: Can I just follow up, Bruce. I think in your opening comments you said that the income-contingent loan being based on capacity to pay, therefore an inherent attribute is that it's not possible to default on the loan due to lack of income.

PROF CHAPMAN (ANU): Yes.

DR BYRON: It seems to me that that would be a magnificent design feature when we're talking about investment of human capital such as HECS where there are no asset markets, in the absence of slavery, but the question is, is that a desirable attribute to have in the rural sector where there are active markets for assets. What would it mean if most farmers in Australia were in a position where it was not possible to default because of lack of income, given the great deal of structural adjustment that occurs in Australian agriculture, or has occurred over the last few years has occurred at times when people get into financial difficulties and sell the farm to a neighbour?

PROF CHAPMAN (ANU): Well, you've got to cap these. This is about emergency circumstances. This is not saying, "Hey, have we got a deal for you, and don't ever worry, this is complete default protection and complete income smoothing." It is a supplement to farm management deposits. It's not a radical idea about everybody having complete access to whatever they like.

DR BYRON: So what's the limit?

PROF CHAPMAN (ANU): Well, the limit would have to be defined as some proportion of the assessed value of the farm property. It would be a crazy thing to have farm businesses in loans that are far in excess of the value of the property because you can't get it back. I mean, the essential problem here is the taxpayer subsidy problem. So while I understand that you need default risk out there because there's got to be kind of some consequence about poor management, what is the consequence here? The consequence here is that if it's designed poorly the taxpayer subsidies are too high. So you must cap it. You must cap it in ways that sensibly reflect the value of that property. It's a debt of the property. In minimising the risk, it doesn't mean that there are no risks at all in farming. Certainly once you've got a cap on an income-contingent loan component, they've still got those other issues about finance.

DR BYRON: So where would the income-contingent loan rank compared to other - like a primary and secondary mortgage, unsecured credit card debt et cetera? Would that be the final borrowings to be repaid in the event of somebody deciding to divide the property and pay off their accumulated debt?

PROF CHAPMAN (ANU): It's a matter of government policy. Government could decide that this has greater priority than others. I would think it's very unlikely that you're not going to get it back if you cap it at a sensible level of the value of the property anyway. So if the farm is in default and the farm gets sold, you might have an income-contingent loan there. We haven't thought about the detail, but you just make sure that the total debt there is not so there's a cost to taxpayers.

DR BYRON: Thanks.

PROF CHAPMAN (ANU): Again the details are really important. We modelled this. We modelled it in a way to work out how long it would take to get the money back. If you had an interest rate subsidy, that is it was just adjusted for the CPI, what that might cost taxpayers under different regimes. So unlike in other areas of this, we had pretty good data on farm incomes.

DR BYRON: Yes.

PROF CHAPMAN (ANU): So we modelled 50,000 and up to 100,000 for farm properties. We had quintiles of the farm incomes and worked out what the median length of time would be to repay when the repayment basis was 2 or 5 per cent of farm revenue. The median amount of time was about eight years; the interest rate subsidies implicit in that were quite low. We got a bit fancy because - I don't mean fancy in a kind of showy or smartarse way - but we wanted to know what would happen if in a world where farm incomes are highly variable, clearly. So we started properties off in the bottom 20 per cent of revenue and switched them through the quintiles so that you went from the bottom 20 to the next 40 to the 60 and up to a hundred. Then we brought them down and we called that up-down, then we had down-up which did the opposite, because we wanted to be sure that if we were using the median data that we weren't missing a lot of the action at the tails. The median data were pretty good predictors. But just to give you a sense of the numbers we were working with, it was about 50,000, no more than a hundred thousand, certainly capped. I think you'd have to cap it on the basis of the value of the property.

PROF WOODS: Would you be making this generally available to the farming community or would you be trying to tie it to the new entrants? Where does it fit?

DR BOTTERILL (ANU): I think if you were to link it to farm management deposits it would be available to the broader farming community.

PROF CHAPMAN (ANU): Indeed, yes.

DR BOTTERILL (ANU): You might have slightly different eligibility criteria for your new entrants because you haven't got that track record of risk management. But if farmers have had farm management deposits - and you would make it a requirement of these income-contingent loans that those farm management deposits were reduced to a particular level before the income-contingent loan was available. This has been one of the problems with the interest rate subsidies, that farm management deposits were exempted from the assets test for drought relief which seemed to me to defeat the whole purpose in having farm management deposits for risk management.

PROF CHAPMAN (ANU): We do too.

DR BOTTERILL (ANU): So that's why we would say well, you wouldn't make an income-contingent loan available to a farmer that had substantial farm management deposits. You would want them to use those resources first before these income-contingent loan provisions became available.

PROF WOODS: But it could be a part of their general capital structuring strategies, good times and bad?

PROF CHAPMAN (ANU): Yes. It's a way of complementing farm management deposits, as we call it the mirror image. But I would think you would have in the longer-term kind of dynamic situation farmers with both because they didn't want to draw down all the farm management deposits because they need the liquidity, but they might want an extra instrument as long as it was designed properly; would see it as kind of a way of managing farm finances just in a more flexible way than we've currently got.

MR GRANGER: In the absence of the EC system and all that goes with it, what sort of event or how would you trigger the availability of these loans?

DR BOTTERILL (ANU): I think again that would be - I mean, it's obviously an element of policy design, but it would be linked to the farm circumstance. So it would be based on individual farm business needs. You wouldn't have to declare a particular area now be eligible for income-contingent loans. If I lose my job, I don't only get the unemployment benefit if everybody in my suburb is also unemployed. So you would link it to the farm business needs and you could do it on the basis of record of cash flow; you could do it on the basis of commodity prices in a particular industry. There's a variety of ways you could construct it to indicate that eligibility was appropriate, or if a farmer had been drawing down their farm management deposits because of circumstances they were favouring, that could trigger well, this might be a case where income-contingent loans are required.

PROF CHAPMAN (ANU): If you want to keep it extremely simple, you may not necessarily need eligibility criteria. You might just say that's there because we don't want 28 rules here.

PROF WOODS: Yes.

PROF CHAPMAN (ANU): You might want some, but you might not. Probably the great contributor to the variation in farming comes the exchange rate. So I don't think it's wise to have levels of acceptability and availability of an income-contingent - - -

PROF WOODS: Triggers and criteria and those in, those out, all those problems.

MS BOTTERILL (ANU): That was always the problem with EC, because EC was not only supposed to be about drought. I mean the first ones, you probably are aware, was for excessive rain.

PROF WOODS: Indeed.

MS BOTTERILL (ANU): Then we had the wool downturn.

PROF CHAPMAN (ANU): So long as the government, with a policy like this, was sufficiently sensible about the cap you could have it - and the subsidies were under control and modelled and designed probably, this could be ongoing relatively low levels where you wouldn't necessarily need contingencies.

PROF WOODS: I guess the issue then is does it become available to profitable farmers who have got strong balance sheets who access the capital market quite readily at the moment? They do get a taxpayer benefit in the sense of using FMDs because it gives them tax deferral and that's 75, 76 million a year that the taxpayer supports farmers of all different capital quality. So it would be available to them as well to just bring into their mix?

PROF CHAPMAN (ANU): Well, if they are doing so well they may not need it.

PROF WOODS: Separate question though as to whether they might take it up because it provides some advantages to them.

PROF CHAPMAN (ANU): Well perhaps you could do that. I don't see why that would be a problem if it's capped and so long as you've got the interest rate subsidies under control. You can't separate interest rate subsidies from that question, in my view, because if I - a farm business is doing extremely well, it has got this income-contingent capacity instrument over here, say, "Well, that's pretty neat, isn't it, the full protection, consumption smoothing, and they've given us an interest rate subsidy." Of course you'd take it. So it's critical - - -

DR BYRON: You'd be crazy not to.

PROF CHAPMAN (ANU): Yes. Then you've got the issue for taxpayer subsidy. So it's the interest rate arrangements and the adverse selection that are important on the top side too because if these things are, "You beaut," and, "Let's take 'em," then they will take them. Then the question for public policy is what are taxpayers paying for this privilege and is it fair?

PROF WOODS: Yes.

PROF CHAPMAN (ANU): I'll give you a great example, in my view, of poor policy design in this kind of arrangement. In New Zealand they've got an income-contingent loan for students. The nominal interest rate is zero. The means testing is small. Many young New Zealand students can take quite large loans. If they don't need the money they can invest it in the capital market.

PROF WOODS: Bit of arbitrage happening.

PROF CHAPMAN (ANU): The arbitrage is clear even on the consumption, "So I can arbitrage myself into a nice little holiday here." That's just poor design and it can be traced fundamentally to the interest rate arrangements.

PROF WOODS: Completely agree, and why wouldn't they, if it was available?

MR GRANGER: Can I ask you an obvious one? Do you see this as having any more costly monitoring costs and expenses than say the existing one for the education?

PROF CHAPMAN (ANU): Well, the thing about this application of income-contingent loan is the adverse selection problem is more significant than it is for like HECS. Universities in general only take students that they think - we hope will get through the course and we hope will become graduates and do fine in the labour market. So there is no real adverse selection here. It is also compulsory. You either pay it up front or your pay it later.

So because it's mandatory and there's no real selection problem I think that the administration issues with the collection and the adoption design of HECS are quite small. It costs the Australian Tax Office about 30 to 40 million dollars a year to collect 1.4 billion, which is 2 to 4 per cent, I haven't done the sums, it's about 3 per cent-ish, something like that, maybe 4 per cent. This is tiny. The collection of this would be - costs would be really small. It's all coming back through the BAS, they've got to declare their revenue, you've got a very simple rule, it's 2 per cent of revenue. You've got a debt recorded in the Tax Office, the same as HECS. But there would be more complications in terms of the disbursement and in terms of the design, in terms of the avoidance of the adverse selection. I have no idea what they are.

We had other schemes in Australia which Linda might like to add about. I think there was a rural bank, wasn't there? What was that called? Rural adjustment kind of - - -

DR BYRON: The Primary Industry Bank, Commonwealth Development Bank?

PROF CHAPMAN (ANU): Yes, a few quite awhile ago now. Well, I think if we want to explore this further we go and find out what happened with them, because they were distributing financial resources in a kind of vetted way. So they needed to go through the process more or less for adverse selection. But the answer is, I don't know. It will be more expensive than HECS, certainly.

MS BOTTERILL (ANU): It would be cheaper than interest rate subsidies.

MR GRANGER: We need some other hoary dog to beat up.

DR BYRON: But isn't the most fundamental question where is the defect in financial markets at the moment that requires new sorts of capital? The corollaries are: and why should that source of capital be subsidised compared to the market rate, and thirdly, why it has to be a contingent.

PROF CHAPMAN (ANU): I don't know why, I'll pick the middle one first. There's no subsidy here necessarily. That's a design feature. You could cover the implicit costs of the capital with the nature of the size of the surcharge or by having a real interest rate on it. Secondly, why does it have to be contingent on income? Because it offers the insurance benefits against default and income smoothing. On your first question, "Why is it a problem, why do we want an instrument with smooth income," why are you supporting farm management deposits? That's exactly what they do.

DR BYRON: The question, I guess, goes back to Linda's opening comment about the 1992 policy of encouraging self-reliance and governments only becoming involved in the most exceptional of circumstances, not two-thirds of the countries for 13 out of 16 years; that's another story. But if Linda's argument is that the flaw with the 1992 national drought policy has been with its implementation, that suggests to us the remedy is to improve the implementation of that policy. The question in my mind is whether improve the implementation using existing devices, mechanisms, is so fraught that we have to go for a new mechanism which, if introduced, would have a life of decades at least if not much longer. It's sort of a threshold question of is it so difficult to get the 1992 policy back on track through implementing it the way it was intended to be implemented that we have to go for something that was sort of right out of the box, such as income-contingent loans?

MS BOTTERILL (ANU): My comment on the implementation, I suppose when I talk about implementation I'm talking about implementing the principles, not the actual program components. I think the interest rate subsidies are flawed and I don't think we can improve their implementation. They're a poor instrument. The welfare component - you know our views on that. So when I said the problem with the national drought policy was with its implementation, basically what I'm doing is endorsing its principles, its principles of: that drought is a normal part of the farmer's

operating environment, it is a risk to be managed like any other business risk facing the farm manager and that government may have a role in providing some risk management tools that are accessible for farmers.

So what we are suggesting is that income-contingent loan is such a tool. It's a - we'll use the term again - a mirror image of farm management deposits and it is consistent with those principles that we have endorsed of risk management and self-reliance.

PROF WOODS: If we were to look at the question of the young farmers, income-contingent loans, as you say, is one way of dealing with that. Part of our problem - because there is an issue partly exacerbated by the fact that a number of younger farmers who came on during the late 90s and then get struck with these climatic circumstances and are in dire straits - but there is such a diversity of circumstances in which people come into farming, whether they start off as share farmers and move up through the ranks, whether they inherit the farm, whether they inherit it with a heap of debt or whether there was some proper process of developing a retirement income source separate to the farm, you know, all of those issues.

Do you have any additional suggestions as to how to deal with this situation? We know that the average age of farmers is quite high. We know that the younger farmers who are coming on are quite often exceedingly well educated and have good risk management plans. We have explored as thought experiments giving grants to the 30 best proposals each year or having scholarships or having - there are all sorts of situations. But every time you then try and implement that in detail you get the complexity of the different ways in which young people come into farming and the questions of equity et cetera. But help us out. Where to?

MS BOTTERILL (ANU): This isn't an area that we thought about in a great deal of detail. We have referred to new entrants as being a group who are disadvantaged in terms of not having farm management deposits. I think the whole question is succession planning and farm transfer and so you are getting into another extremely fraught area of rural policy.

PROF WOODS: Absolutely.

MS BOTTERILL (ANU): - - - which has a whole lot of social and cultural elements associated with it as well. I might take the opportunity here again to reiterate my opposition to re-establishment grants as a mechanism for removing people from agriculture because again, they don't take into account a lot of the social realities of agriculture. But we haven't actually looked at, as a policy issue, the question of young farmers, encouraging young farmers into agriculture.

PROF CHAPMAN (ANU): It does seem to me - I mean good public policy is

generally easy to understand. I think it's wise not to go down a route which says, "Here are the eligibility criteria, they're very strict and you've got to prove all of these things." So I think so long as the cap is sensible and the interest rate regimes are sensible it doesn't matter too much if the people accessing them are young farmers. But that was brought up because that is a particular example not necessarily of the way you want policy to be designed but of a particular problem with farm management deposits.

PROF WOODS: Yes. No, I was just hoping that your exploration of these issues you may have struck some other idea that could also help us in that broader question of the young farmers and the accession - - -

PROF CHAPMAN (ANU): Yes, I reckon we will in about 38 minutes when we're out of here.

PROF WOODS: You have mentioned some various modelling. Is there any way in which our team can talk through with you what modelling you've done and what it looks like?

PROF CHAPMAN (ANU): Of course. It's all available. It's all published in several - - -

PROF WOODS: Okay, in which case - yes, we have had access to your published material.

PROF CHAPMAN (ANU): Yes.

PROF WOODS: Sorry, I was thinking that maybe you had some data files and that that lie behind it.

PROF CHAPMAN (ANU): We did it with NATSEM at the University of Canberra. They have got all the data. But if you are interested in exploring other variants of course we can help.

PROF WOODS: Okay.

MS BOTTERILL (ANU): The data we used was from ABARE.

PROF WOODS: Yes. No, we have explored your published material. I was just seeing what might lie behind it that we could also benefit from. Anything else? Issues that we have not raised that you expect to raise or want to reinforce?

PROF CHAPMAN (ANU): No.

MS BOTTERILL (ANU): I don't think so, no.

PROF CHAPMAN (ANU): No, thank you very much for the opportunity; very grateful.

PROF WOODS: We have been having discussions with - particularly Linda throughout this process and we have had the benefit of your submission and today's contribution. So we will take up the offer of chasing up some of the data.

PROF CHAPMAN (ANU): Okay.

MS BOTTERILL (ANU): Sure.

PROF WOODS: Thanks very much.

MS BOTTERILL (ANU): Thank you.

PROF WOODS: If I can call forward our next participant, North East Riverina Rural Counselling Service. Our next participant from North East Riverina Rural Counselling Service, welcome. Could you please, for the record, give your name, position you hold and organisation you are representing?

MS HITCHENOR (NERRCS): Yvonne Hitchenor, project manager for Riverina Communities - building a future together, based in the Riverina.

PROF WOODS: Thank you very much. Do you have an opening statement you wish to make?

MS HITCHENOR (NERRCS): Basically I have come to talk today about the model that we have been using in the Riverina which has been seen as being quite successful. Given the clear observation that many people are making - the changes required are inevitable - we just wanted to make representation about the sorts of things that we are doing. Essentially we're a community-based organisation that is working with the entire rural community in the eastern half of the Riverina electorate. We work with farmers as well as community members as well as business.

Basically our model has a belief that the future belongs to the people who plan and prepare for the future. Back in 2006 when we sent our submission to the Local Answers, federal government funding through Local Answers, our underlying assumption was that communities are full of assets and capabilities and resources that can be located, firmed, leveraged and encouraged. It's a much more positive model. This was quite different to the approach that was happening before this time. It was more of a model of - I would call it a deficit model, looking at the problems and trying to solve them. It was powerful in the emergency sense that we were facing at that time but in our opinion we felt that it undermined communities, it undermined the fact that they had a heap of assets. It was creating a lot of defensiveness and disabling government agencies from getting in. So we fundamentally - whilst there is an emergency response component that is needed, we fundamentally believe now, and did so back when we submitted this, that in the future we need to fundamentally re-look at how we deliver drought support in terms of human support to communities.

Just a bit of background of what we have done. Basically we worked with the communities in the Riverina, in the eastern half of the Riverina electorate. We focused on communities. We go into communities and informally meet them, actually identify what the issues are pertaining to their communities in response to drought, and then actually get them to actively work on the sorts of things that they need to do to actually get through this period using the resources that they have available. That's the key component to make them self-reliant. The other side of it,

we created a network of over 30 government, non-government community organisations, a regional network called the Riverina Communities Rural Network, to actually sort of come together so that when we went into communities we had an idea of some of the agencies that could actually work with individual farming families or communities or business or whatever it was.

It's typically a bit of a case management model, I suppose, but what has been astounding - and I was encouraged to come to this report today because people from outside our region have identified the type of work that we're doing and realised that if - and it is inevitable there will be change happening, that we need to respond much more appropriately. The community has recognised and is recognising, particularly over the last probably six months, that they need to fundamentally change how they look at drought and what they need to do to get through it to become more self-reliant.

One of the major, major things that we consider is there needs to be much more - the balance tends to be now more on social support. We need that social support at all levels of the community, because it is really tough out there. I am a farmer and a small business owner as well as working in drought. It is tough, and there is no undermining that.

PROF WOODS: Sorry, can I just - to help us get a picture what - when you say you're a farmer, what sort of enterprise do you run?

MS HITCHENOR (NERRCS): We bought a farm in 2001. We have got - it's a wheat, sheep - it's only a small property. But we were younger farmers but didn't actually fit any of the criteria for younger - you know, we were over that age threshold. So we made the determination - - -

PROF WOODS: So they start on the lowest level eligible.

MS HITCHENOR (NERRCS): Yes. So we made the determination that as a risk management tool - we'd been managers of many big corporate farming enterprises prior to this - that we had to have a risk management strategy which meant that we both had to work. Both my husband and I work. He lost his job in 2006. He was working in the agriculture sector. Then we've actually subsequently bought a business, a small business that's directly related to farming. It's a contract with a major wool buyer in the Riverina to deliver and collect wool.

But in essence I guess we receive no assistance whatsoever, so I'm probably the wrong person to ask about - I'm not in a position to comment. I can give you comments about what people that I've talked to - and I've spoken to many, many people, many, many farmers, many, many small businesses about their feelings about it. But we went into the business knowing that if we were going to do it, we had to

do it ourselves.

PROF WOODS: Okay. So you've dealt with the social side. Where are you heading - sorry, if I interrupted you.

MS HITCHENOR (NERRCS): It's heading more towards the transition. We realise there needs to be transition. The focus needs to be to bring the community along with you, with some of the changes that are in this drought report, that we need to skill them up to be able to make that transition and invest in them to help them move along with you.

PROF WOODS: Invest in them. So is this looking at the agrinomic side or at the business management side or at the household management side, and your views on the old FarmBiz-type programs, flesh that out for me.

MS HITCHENOR (NERRCS): When I say invest, I mean as part of the network that we've set up, we've actually run a series of bankers' - professional breakfasts, we've called them. We've invited some of the key players that deal with farmers every day to try and sort of bring them into our network. What they are saying and what business is saying, that they want more training in terms of that transitional sort of approach to the change that's going to need to happen.

PROF WOODS: But we're talking business management training rather than the agrinomic extension-type training?

MS HITCHENOR (NERRCS): Look, I'm sure there's an element of that. I think what we have attempted to do and what we're rolling out at the moment in conjunction with the Murray Darling Basin Unit is, we're actually - the name is going to be made more appropriate to who we're going to be delivering it to, but it's a financial literacy package.

PROF WOODS: Okay.

MS HITCHENOR (NERRCS): Which means that farmers are interested in looking into succession and looking into the real options they have for change or to get out or whatever in terms of their business approach.

PROF WOODS: Don't banks already require them to sort of do cash flows and that when they're putting up loan proposals?

MS HITCHENOR (NERRCS): They do. But many, many times - I've worked fairly closely with the Rural Financial Counselling Service.

PROF WOODS: Yes, sorry, I missed allocated the name earlier, I referred to that

service rather than your network.

MS HITCHENOR (NERRCS): Yes. No, we work really quite closely to that. In many cases in the experience we have, many people do rely on their accountancy firms to do that for them.

PROF WOODS: Yes, so they get it done but they don't know what it means.

MS HITCHENOR (NERRCS): Yes, or they come into the rural financial counsellor to actually have assistance with that, or even the RSOs.

PROF WOODS: That's our concern, is that you can see a lot of plans because they have to do the cash flows for the banks; you've got to put in an application form to get the interest rate subsidy et cetera. So there's lots of figures and lots of plans, but how many of them are developed by, understood by and used by the farmers themselves?

MS HITCHENOR (NERRCS): Look, I don't like to generalise at all.

PROF WOODS: No.

MS HITCHENOR (NERRCS): But - - -

PROF WOODS: You have come across instances.

MS HITCHENOR (NERRCS): I have come across instances where - - -

PROF WOODS: Yes.

MS HITCHENOR (NERRCS): We've run courses on that sort of thing specifically for small farm groups in small communities so that they can understand. The professional branch advisory grant funding that's out there, a lot of people get that document and it's not utilised properly. It's just a piece of paper, we've gone through the process and that's what we've done. They really don't understand. I guess that's hence the name, financial literacy package, that's where it's come from.

PROF WOODS: Yes.

MS HITCHENOR (NERRCS): But in saying that, there is quite a large element in that, but there are also some very, very switched on farmers so I don't really like to generalise.

PROF WOODS: No.

MS HITCHENOR (NERRCS): There is an element of that clearly.

PROF WOODS: Is this a package that you've created from scratch or that you've adapted from something else? What worries me is that this need is evident through many farming communities, but I'd also be concerned if everyone thought that they had to think it up themselves and develop it.

MS HITCHENOR (NERRCS): No. Part of our policy was - we're a very grassroots agency. We go out and talk and deal with the issues at a grassroots level. Part of the initiative to actually seek funding was to stop recreating the wheel. That's really evident. I will be presenting; emailing off a copy of the submission by the closing date. That's one of the things we need to stop recreating the wheel. There's a lot of people coming up with great ideas, but quite often there is something out there that you might be able to adapt and modify. Sue Riley, the RSO from Wagga, she has actually adapted this financial literacy package and we've worked on it together. So it's not been created from nothing, it's been adapted from models that are out there.

PROF WOODS: That's good.

MR GRANGER: I was just going to quickly ask, how many people in the network?

MS HITCHENOR (NERRCS): We've got 30 agencies represented on that. One glaring - and I do have to say this: one glaring omission is health. We've got plenty of mental health providers, but health doesn't seem to have the resources to be able to really actively participate.

MR GRANGER: Are we talking New South Wales health rather than fed health?

MS HITCHENOR (NERRCS): Yes. Sorry, I should clarify that. The Riverina division of general practice which is federally funded provides some community support workers and a couple of primary health care nurses in very specific areas. It's not everywhere. So if we go into an area where that's not funded, there's no health component.

MR GRANGER: How many people do you reach out to - I don't know whether that's the right question.

MS HITCHENOR (NERRCS): Okay. Like when we hold events?

MR GRANGER: How many farmers - - -

MS HITCHENOR (NERRCS): When we hold an event?

MR GRANGER: Mm.

MS HITCHENOR (NERRCS): Average, when we hold an event in the community, we get a - and these are smaller communities. Initially we went into some of the bigger communities like Cootamundra and Temora and they're fairly well serviced and resilient themselves. It was just a bit of a trial-and-error process. We did some work in there and they were happy with that, but we tended to go to the smaller communities. In the smaller communities where you've got a pub and a school and whatever, you can get 20 to 30 people to that. Then what we'll tend to do is we'll go back again after that once the word of mouth has happened and we'll go back again so more people tend to come. We've run events on - like last year, funding your crop, your auctions, we called an event. It was about providing people with information to actually get plans, go and get people to help them make decisions. It wasn't just about putting a crop in at all costs; it was giving you options of whether you go that way or whether you don't, or whether you want to get out. So it was across the board. We had 200 people at that.

MR GRANGER: Where was that one based?

MS HITCHENOR (NERRCS): That was based in Ganmain. We ran some professional breakfasts for these accountants, solicitors. They're now partners in our team. So there's probably 230 people in, and they're now working really collaboratively with us in this financial literacy package. We have over 200 people it turns out over four areas. So it's been quite successful, and that's why I was encouraged to come because we've looked at things a bit more laterally than the drought emergency model and actually back in 2007 started to become a lot more proactive. We still do have to respond to the emergency situation, but we're actually looking more laterally about.

MR GRANGER: This is probably leading you a bit, but do you see yourself moving into the more regional development phase of your existence?

MS HITCHENOR (NERRCS): I think so. To be perfectly honest, I wrote the submission for the funding because I'm a passionate country person and believed that we fundamentally needed to change the way we were looking at things. There was a real crisis happening and we needed to address that, but we needed to move forward. I would like to see it continue. At a recent meeting, there is real concern that with the current drought funding that this could just fall over because we are - when I say "fall over", I am funded in the position to actually pull this network together and facilitate the activities we do to actually enable the community to become more self-reliant and change.

PROF WOODS: So who funds the network and therefore your - - -

MS HITCHENOR (NERRCS): That's through the local Answers Program. I should say when we did enter into the agreement we knew that local Answers funding was not going to continue, so we're going around trying look for funding opportunities now. That's not what I'm here about - - -

PROF WOODS: No.

MS HITCHENOR (NERRCS): - - - but it is such a successful model and I have people calling me from Victoria, outside the state, you know, "What are you doing? Tell us how you're doing it?" It was very structured, it's a very evidence based model. In the network we have got groups of people that - a diverse range. I'll give you examples of people that are in the network: we've got the drought support workers, Murray-Darling Basin Unit; we've got state regional development. I won't go through the whole 30 but there's a real cross-section. There's welfare agencies, there's community organisations like TWA, Premier and Cabinet, Wagga is involved, there's community representatives et cetera. The list goes on.

The power that it has created in our region is such that people have wanted to come on board and we're really very committed to providing evidence based best practice model. Some of the community members that we've got in there, we need to make sure that they're doing no more harm, so we have professional development. The CSU is coming in to run professional development with all the players at no cost to ensure that we do no more harm and that we're looking after ourselves. It's quite a unique sort of approach.

MR GRANGER: Local government are in there?

MS HITCHENOR (NERRCS): Local government have been invited along. The response by local government has been a bit indifferent actually. Some local governments are very supportive, some are just dismissive, some want to micro-manage the whole thing. In saying that local government is involved - is always invited to be involved. But whether or not they choose to do that is - - -

MR GRANGER: I may have crossed the line here but I get the message. Thanks.

MS HITCHENOR (NERRCS): Yes.

PROF WOODS: Do you find that when you're putting on courses that they overlap with initiatives of other bodies, or by having this communities network here overcoming that problem?

MS HITCHENOR (NERRCS): We're overcoming that. There's a lot of talk about people crossing and, you know, doubling-up, but I think the strength of what we're

doing for the people out there - and this is what this network is about, it's about farming communities, it's about farmers, it's about business - is that we might work together but we work together collaboratively but we're not overloading people. It works really well. Because we're talking together and we're planning together we know what each other is doing.

PROF WOODS: It's just that coordination at agency level is very important but also from the perspective of a farmer sitting there in the paddock or at the farm gate or at the kitchen table, they tend to get all of these agencies all desperately interested in their wellbeing and wanting them to become better risk managers; more financially literate; to understand what's happening in genetics; to know what the commodity price is doing. There's all this disparate information hitting them, and to try and work your way through it is a very complex issue.

MS HITCHENOR (NERRCS): I think certainly how we work is because we've got the network, and the network is structured in such a collaborative way that we support one another, I think we tend to go in, like, I'll go in, in my capacity to work with the community and then we'll say, "Look, this is what some of the other communities are doing." They like to know who's out there to help them, so we have this information breakfast, and it just opens the door. So then the community can come back and tell them what exactly they want, rather than you actually going in and saying, "Here I am. I think you need to know this," you're going in and taking the providers in that they want the information from.

PROF WOODS: What role do you have that's different from the rural financial counsellors who are also there as sort of the gateways to support services?

MS HITCHENOR (NERRCS): In terms of drought, it has been very controversial in rural communities, there's no denying that. In the community work that I've done - and the way that we do it is inclusive, it's not just about the farmers and farm gate et cetera, it is quite divisive I'd have to say, there's some real issues. But the rural financial counsellors and the drought support workers focus mainly on the farm gate. I'm much more of a community response person, entire community response person. I don't get into people's financials. I'm a facilitator more than anything in the work that I do, finding out information, finding out what resources are there, finding out if there are gaps and trying to help the community plug those things.

PROF WOODS: Okay. You did mention that you're going to supplement today with some extensive written information.

MS HITCHENOR (NERRCS): Yes.

PROF WOODS: It's a fascinating network. In fact we had a doctor from the division of GPs, if I remember correctly, from Cootamundra coming to our Dubbo

roundtable. We have had parts of that coverage area before.

MS HITCHENOR (NERRCS): I think he's in charge of the Riverina division of GPs and they're the only health representatives we have on our network. We can generally drag health in, but health is the major issue. In terms of if you're hoping to get people to actually respond to the sorts of things that they need to respond to, they need to be healthy and have good wellbeing.

PROF WOODS: Absolutely. I'm sure you'll give them parts of this transcript after the event. Neil?

DR BYRON: I'm just intrigued - while you were talking about the differences between communities that are resilient and robust and people work their way through things, and others that are much more vulnerable and they don't even know the number of the bus that hit them, sort of thing.

MS HITCHENOR (NERRCS): There's a couple of communities that I'll refer to - and I have asked if I can refer to them - and they're quite close to one another. Barellan is a community that is about 50 K's from Griffith, 60 K's from Griffith, and Weethalle is a community about 50 K's from Barellan which is also about 60, 70 K's from Griffith; one is bigger, one is a bit smaller. Barellan was in dire straits when we first went out there. I was contacted by a community member and it was their call to action. They knew that they needed to do something. They needed to get information. They needed to do something for the community; without the community, nothing will happen. So they have really just gone, flown, really done some amazing stuff, and they're continuing to do so amazing stuff, despite facing some real challenges.

Weethalle is a community, it's a remote community. They just didn't believe that there was anyone out there. Firstly, when I went into the community we held this community meeting, for want of a better word, and it was fairly poorly attended by the community so we used the children at the school and gradually, gradually - involving Barellan, which was a neighbouring community, to get into Weethalle - we now have got an amazing response happening in that community. It comes back to what you're saying, a bit about the drought response, about people knocking your community, thinking that you don't know how to do what you're doing. It comes back to that.

PROF WOODS: Excellent. Anything else that you'd like to raise this morning?

MS HITCHENOR (NERRCS): No, it's just really about the people response.

PROF WOODS: That's quite inspiring evidence, so thank you for making the time to come across, and we also look forward to your written contribution.

MS HITCHENOR (NERRCS): Thank you for the opportunity.

PROF WOODS: We'll have a five-minute break, because we're running a little behind time, before our next participant.

PROF WOODS: Thank you. We will resume these hearings. Our next participant is Mr Gary Grady. For the record would you please give your name and then I would invite you to make an opening statement.

MR GRADY: My name is Gary Grady. I'm presently a retired farmer and we have farming country within 50 miles of Canberra and then further country outside of Cowra. I don't know whether you have read my initial submission?

PROF WOODS: Yes, and your subsequent submission. We have the benefit of your submission in August and your comments on our draft report. Thank you very much.

MR GRADY: Yes. So how I've come to be involved - as I said, I am now retired and because I know a lot of farming and farming friends locally - well, I call locally, within the Canberra area - and then where we lived along the Lachlan in the Cowra area. I have other friends through the Riverina and the like. So as the drought started to bite, and bite pretty heavily, many of my friends that I spoke to said - in a very nice way I say, "Do you know anybody that's getting any drought relief?" They say, "No, well, we are not." I was - wasn't interested personally in their details.

PROF WOODS: No.

MR GRADY: So I then thought, "Well, why?" That was the question. I asked why. So I went in and done quite a lot of work in sort of inquiring why certain people were missing out. Then it was the criteria in a lot of cases that people missed out simply - also that the thing that I did find quite a lot was that farmers who had little debt who were travelling reasonably well but still finding the going very, very difficult under the present drought conditions. Some of those even to this day say they haven't got any assistance right along. So that doesn't make them too happy simply because the drought is just as severe on one side of the fence as it is on the other side of the fence.

People that have run a very tight ship probably carrying no debt, which is pretty unusual in the farming community, have completely missed out. Other people who have considerable debt for whatever reason - and I think one of the big reasons why the debt - the farming debt is now around about 57 million. I think why that has risen so much is simply because people - with low prices associated with the drought, and the drought has just gone on too long on this occasion. Most times farmers can handle that one or two years within their own resources.

PROF WOODS: Yes.

MR GRADY: But when it goes further beyond what this - the longevity that this

drought has continued, it's beyond - a lot of people, just to cope - so you've got one - and people have been borrowing against their equity because incomes have been so low, for whatever reason. That's why some people have been fortunate enough to get the interest rate subsidy but other people that have no debt are not getting the relevant assistance. They have still got all their expenses. They have got things like rates and taxes which has to be paid regardless of their income, especially things like local government rates and the like. So that's how I came to be involved and then have sort of worked on from that.

As I said, with the general farm debt at the end of the drought - I heard mentioned earlier and I've included the farm deposits - people have to get themselves out of the woodwork before they have got any spare money to place into deposits. I mean originally I mentioned - there used to be drought bonds. This is going back - but our family has been associated with farming around the area since the 1880s. I've got an elderly cousin, I think I might have mentioned there, he's as bright as a button and he can tell when it rains - when the drought years were and the like.

But just getting back to the interest rate subsidy, the government has spent over this drought period some 1553 million dollars in drought subsidies. Now, the majority has gone to the banks because it goes through, through to the banks. I think that means that there's probably not a lot of non-performing loans. There are probably loans that have been rolled over. They've been able to meet their interest in a lot of cases. With that sort of government injection into the banking system, it means that our banks at the present moment is one of the reasons why they're in such a strong position, because of the government funding that - some of these other loans, had the interest rate subsidy not been there, a lot of the loans would have been non-performing, I'm sure, at this late stage.

Then you get to the household support which many people have missed out simply because of the criteria, such things as the off-farm assets. I know people that have a house in town, simply because there's no close school; they've got to get children to school. So they have a house in town. It's not, strictly speaking, their principal house of residence but it's not an income-producing asset and, subsequently, they - the early days, the value was 228,500, is now increased to - 200, I mean - 243,500. But for the farming community and to keep families virtually together, seeing it's not an income-producing family, I think that exemption should rise and I've quoted a figure of 500,000, simply because you can't buy any house anywhere now for that 243,500. If it's not income producing - and there's a very simple criteria as to ascertain whether it's - there's one income but, secondly, whether land tax has to be paid on it.

That's probably one of the criteria that would make it - in those cases I believe that that asset should be increased. But many people have just fallen through the cracks and we've got one - one dealing is the farming community, like the farming

side of the situation, and then we've got the other side which is the personal, family situations. Families are in very dire needs. I was out west only the other day speaking - and I think I've got a copy of an article there from the local priest in Cootamundra and he highlighted - I've been familiar with Cootamundra and know people, but if anybody had just said, "Here's a map on the table today. Here's a pen. Where do you think the less people would be least affected," I would have nearly went to Cootamundra, Wallendbeen, Cowra, Young.

According to the good father, the charities, the churches and the charities are being called on in a big way. The article mentions the \$10,000 that the church has contributed towards fuel, apart from other living - with the locust plague and - this is all slightly off the drought but we're still in the drought hardship.

PROF WOODS: It's all about hardship.

MR GRADY: It's about hardship in the drought. I had quite a lengthy discussion with Father Barry Cotter; he used to be here locally. But he was indicating people have missed out on the household support and they can't pay their electricity bill, their telephone bill or the what, simply because the criteria has been set at a manner that they've failed to access it.

PROF WOODS: All right. If I can pick up from there. Several times during your presentation - and by the way, thank you for your two written contributions to date. You've referred to missing out on government or taxpayer support.

MR GRADY: Yes.

PROF WOODS: We hear other evidence from other groups who seem to take a slightly different approach of thank goodness that there is a large body of farmers who are able to, even in this drought which is one of the three worst in the last hundred years for dryland farming, able to get through on their own reserves and on their own capacities. They're not taking quite the same approach as you of, how can we get into government support, but thank goodness we've had the financial capacity, the skills, the approach to farming that's allowed us to get through this without needing to get taxpayer help. There seems to be a slight tension in those two different approaches.

MR GRADY: I'm sure, as I travel around, there's a bit of resentment to a degree with some people being able to access it - - -

PROF WOODS: Absolutely.

MR GRADY: - - - and then for whatever reason - I'm not always privy to the reason why some people are getting it and some people are not, but it's often believed

that there's a bit of resentment there because some people are fortunate enough to get it. I'm sure that the taxpayers have spent over \$2.5 billion in drought relief and most of the farming community is very appreciative of the help of the taxpayer and the government, but others sort of feel - it's not that they feel, "They're getting it and I'm not," it's just that they don't - they need it but they just don't quite fit the mould to access it.

PROF WOODS: Okay. What do you think of - you've obviously been through our draft report, and thank you for doing that.

MR GRADY: I've read every submission that you've got, and every submission that's gone to the panel.

PROF WOODS: Very good. Excellent. So if I can just move on.

MR GRADY: It's just as well I'm retired.

PROF WOODS: If I can pick up on our draft proposal then that hardship support should not be tied only to drought and tied to EC areas, but be available to farm communities and farm households specifically that are in hardship no matter what the circumstances, is that therefore a proposal that you would support?

MR GRADY: I feel that up until this drought, with very few exceptions, everybody has been in a position to cope under their own steam.

PROF WOODS: That's that 84 or the 92, the one-off - - -

MR GRADY: Yes, the 84, 90, 2000.

PROF WOODS: Yes.

MR GRADY: 57, 64. Even if they've had borrowings, they've had the capacity to borrow because farm debt wasn't as high at that stage. The other prospect was that with the farm commodities prices at this stage, which is probably the lowest - sheep numbers are the lowest since the 1920s; wool prices are worse now than they were in the 1960s. I think I might have mentioned, the old saying was, if you had some sheep you shorn them; as long as you kept them alive you got a wool cheque; put a bit of food on the table, kept the wolf away from the door. Well, see, with the lack of profitability in the wool industry these days, sheep numbers have deteriorated.

PROF WOODS: Isn't that an appropriate response to the market that's happening?

MR GRADY: It certainly is, sir.

PROF WOODS: Yes.

MR GRADY: But it doesn't give people the cash flow, as small as it may be.

PROF WOODS: Yes.

MR GRADY: Then at the end of the 82 drought or the 90 drought, there hasn't been the capacity for them to build up cash reserves. Some people are still in debt from the 82, 90 drought, and not always bad managers.

PROF WOODS: No. No, for all sorts of reasons.

MR GRADY: Yes, I understand.

PROF WOODS: Which is why on the hardship proposal we're not sort of trying to discriminate whether it was drought that caused it or commodity prices or whatever. If they're in hardship, they should have access subject to certain criteria, obviously.

MR GRADY: Yes. But I mean, I was sort of narrowing it pretty much to stick within the drought situation that we're talking of rather than broaden the field too much.

PROF WOODS: Yes, sure. Can I raise a slightly different question: again drawing on this idea of a number of farm households missing out on government support, but the approach that we're taking in our draft report is in fact to try and improve their skill base - whether it's their agronomic base or their risk management, whether it's their financial skills - so that they have the capacity to not get in to situations where they need cash hand-outs as such. Is that an approach that similarly you would support, that to try and improve the skill levels of those who need that to help them through the seasonal variabilities?

MR GRADY: As I would see it, sir, we're talking about some of the best farmers within the country.

PROF WOODS: Yes, there are some.

MR GRADY: Some who have been on the land for many, many years. So trying to educate - - -

PROF WOODS: No, we're not directed at the top end. They're doing very well.

MR GRADY: No, but still, they're still suffering the drought situation - - -

PROF WOODS: Are they?

MR GRADY: - - - as is everybody else. So the point I was trying to make, that there's only a certain amount in the bowl to be spent. I saw that, broadly speaking, is to say well, now - well, I think in Victoria they get 50 per cent of the local government rates paid. Now, that's really equity. Everybody is getting treated equally. I believe, as I've read it, that in the exceptional circumstances one of the conditions is that everybody be treated fairly, to get a fair bite of the cherry in preference to - and not have the criteria knock too many people out.

DR BYRON: Just to clarify on that one, I thought in Victoria you've only got the rates subsidy.

MR GRADY: 50 per cent.

DR BYRON: Yes, if you were in an EC area.

MR GRADY: Yes, that's correct.

DR BYRON: Your neighbour across the road or the down the street who is not in an EC area is paying the same price for diesel and fertiliser; he's selling his products in exactly the same market and nobody is paying half of his rates.

MR GRADY: No.

DR BYRON: So is that fair?

MR GRADY: Well, maybe it's not; not fair that one is - this is the very point I'm trying to make: one person on one side of the road is getting the assistance; the fellow on the other side of the road is not getting the assistance. If you can tell me that the rain stops on the road, if you can tell me that, I will wholeheartedly agree with what you're asking.

PROF WOODS: And we don't claim that to be the case at all.

MR GRADY: No. But the question was, if one person is getting - he's paying the same price for diesel, he's paying the same price and he's paying his full amount of local government rates and he's just across the road, well, I said, "Did the rain stop, and did the rain stop there?" Some people are fortunate enough to get a storm in cases. This has been the thing that - not this harvest, last harvest I was heading towards Temora and there was a couple of canola crops there, only about a mile, and there must have been several storms went through because they were crops that people would have been happy to have in the best of seasons. Then you go another couple of mile and it's completely a wipe-out. So what I'm trying to get is that I would like to see everybody gets an equal - well, I don't say an equal share because

big farmers - - -

PROF WOODS: An equitable share rather than an equal share.

MR GRADY: An equitable share is what needs to be - - -

PROF WOODS: So in that sense our proposal, the EC process and lines on maps creates inequities, that's something that you'd support?

MR GRADY: It certainly does. I know you're getting away from that, but that's what presently in place. I would think when people go in or out of drought - the economy is gauged on two quarters of negative growth and the country is in recession. If people living on the land go through two seasons in a local government area below their average rain they're heading into drought and should be eligible for assistance along those lines. I say local government areas because across the country you will find that you get on the eastern side, the coastal, compared to the mid-western farmers, run their farms differently because they run it to the country that they're farming.

PROF WOODS: One would hope so.

MR GRADY: So you can't put an arbitrary figure of X-amount of inches of rain simply because in the Tablelands, in the high rainfall areas because they're high stocking and that's the nature of the country if they go nine months without rain they're in dire straits. In the very west of the state of New South Wales they get very little at the best of times. Then you get into South Australia, and once you go above that Goyder line you're in different country altogether. So it's got to be flexible in a way but acceptable to everybody.

MR GRANGER: Just putting on your farmer's hat, if you were advising government about what the farmer can do best to be prepared for drought what would you be saying to them?

MR GRADY: As I've indicated earlier, most farmers have some preparation with fodder reserves or whatever, but mostly for not much longer than the 12-month period. It has been mentioned in the draft that farmers need to be prepared, well, they need to have some incentive and I think you rejected the incentive. I suggested 150 per cent tax deductibility for building storage, haysheds, silos. Then people on the Tablelands, they have to normally import fodder, so they get a tax break for buying fodder.

PROF WOODS: Can I just pick up on a couple of those? Isn't it in the farmer's own interest to put in infrastructure, whether fodder storage or extending their dams or whatever?

MR GRADY: Yes.

PROF WOODS: Why does it require taxpayer support for them to decide to do something that's in their own interests?

MR GRADY: For the very reason that I slightly mentioned earlier, funds after drought is very tight. Profitability in the farming industry is very low at the moment, and it's not going to cost government hard cash to give people a tax break compared to offering subsidies, and that has been happening in this present drought. So, yes, a little bit of encouragement never hurts anybody, does it?

MR BYRON: Just one point you mentioned in your submission about the increasing average age of farmers. That's something that has come up a lot and that seems to raise a whole raft of issues, one of which is succession planning. We've heard from Centrelink that there are people in their 80s - - -

MR GRADY: Yes, there are.

DR BYRON: One guy who's 92 who's still getting the EC relief payment. You'd have to think, well, maybe he should be thinking about doing something else.

MR GRADY: I know two very active farmers, been farming all their lives - one is 78 and the other is 80 - getting no relief and working harder than they ever worked. Now, you mentioned succession. You take back in the early 80s when the reserve price was in the wool. The amount of young people that came home to the properties was immense because there was some profit there. They were in a position that they could live a lifestyle that their mates that they went to school with had been enjoying. After the reserve price things got very tough on the land and ever since the next generation, shall we say, they're conspicuous by their absence. They're just not there. They've got no incentive to stay. So that's why the elderly gentlemen that we're talking of have stayed on farming.

Now, what's the next - it was mentioned that farmers, not only should they look after themselves a bit better and even in times of drought get off farm work, I mean, that's pretty ridiculous when you've got fellows, the average age of 64, they're working 60 hours a week or plus. They can't afford to employ the farm labour that they normally have and it's the extra workload that they have during that time with feeding stock, carting water and whatever.

DR BYRON: I assume that there must be some good reason why they decided to stay there and hang on. I mean, I can think of lots of examples of people that I know who are in that situation and are working harder, bad backs and all those sorts of things, and you have to just say, well - at what point do you say, "I should be

reconsidering my options."

PROF WOODS: The farmer next door who has been eyeing off your paddocks for quite a number of years.

MR GRADY: Shall we answer that by saying the farmer is always the optimistic person, that as bad as it is today, it will be better next year. That's why he wants to stay.

DR BYRON: We do hear that a lot.

MR GRADY: That's why he wants to stay. For an elderly farmer to leave the farm and shift to the coast or shift to town or whatever, just like fish out of water.

DR BYRON: But there possibilities to stay in the community, even to stay in the same house, but to lease or share crop the farm so that the farmer could actually retire from farming without having to leave the house, the community and the friends and family and move to a strange place. Now, is that an option that some people might be - - -

MR GRADY: Well, it's very good that you have mentioned that because the new state planning laws in New South Wales make it very difficult for - if there's one house on a property it makes it very difficult now to build a second house. Anybody who's renting or leasing or whatever needs somewhere to stay. So it's very restrictive. One government is making it very difficult for the other government to carry out what they may wish would happen. I think for that farmer to get any assistance with the likes of a pension, the house has to be on an area of less, two and a half acres or two hectares or something of that nature.

The other thing that I must bring up while we're talking about houses, that in future the family home was going to be classed as an asset, in your draft report. Now, what I'd like to bring to your attention, just as an example in that field - I'll make it quick but very precise - a 4000-acre property; one has got a very old established homestead, worth 10 million dollars if it was in Vaucluse, and two sons. The property is split down the middle. They've got an identical amount of stock, identical property, they share the woolshed, but you've got a very expensive old-type homestead and the other son is down the road on his block with a modest house. Now, how do you value the old established homestead.

PROF WOODS: Somebody is getting a whole lot of benefit.

MR GRADY: Sorry?

PROF WOODS: Somebody is getting benefit by occupying that homestead

compared to the other farmer who's in a more modest home.

MR GRADY: I think that you may possibly find that a very old homestead these days are almost a liability with the amount of - - -

DR BYRON: Maintenance.

MR GRADY: - - - maintenance that's required.

PROF WOODS: It depends what condition it has been kept in.

MR GRADY: I fully understand. But the point I'm trying to make is that you've got one homestead that could be worth three times the amount of money. So it means that one son on one block of land could be completely excluded while the other one gets some assistance. They're the inequities that I found in a lot of things as I went around the countryside.

PROF WOODS: You've clearly been doing your research and you've been following our inquiry closely, and thank you for doing that. We've had the benefit of your submission today but also your written documents. Are there other matters that you wish to raise this morning?

MR GRADY: No. I would like to just elaborate on what I've - - -

PROF WOODS: Yes, that has been very helpful.

MR GRADY: The thing that worries me is that the corporate sector - as you say, the aged farmer is going to move off, but who's going to buy or take over? The corporate sector, they're not going to move into rural land these days simply because there's not the profitability in it, and even if they do - there's a very large station just on the Queensland border that's in great financial difficulties at the moment. So you'll find that even if the corporate section buys the properties, there's going to be no expertise or nobody to work them.

PROF WOODS: Well, hopefully the farm family model is still the predominant model in Australia.

MR GRADY: I think if we keep going down the track that's going. As I've said in no uncertain terms, the family farm will be killed off.

PROF WOODS: I'm not quite that pessimistic.

MR GRADY: I'm not pessimistic at all. I tell it as it is always, and I'm very realistic as towards I see the approach. If there are vast areas that are not producing,

with the amount of people that I've mentioned - 3 billion people to our north, 100 million people only get a meal every second day. If we don't produce food in this country it will become a security risk to us. People move in here, you know. So we need to keep - and I ask you, sir, that you make every effort to make sure that the farming community gets a good deal and keeps it to be vibrant and prosperous. Thank you for your time.

PROF WOODS: We appreciate your contribution, thanks.

PROF WOODS: Our next participants are the National Farmers' Federation. Could you please for the record state your names, the position that you hold in the organisation you are representing.

MR FARGHER (NFF): Good morning. Ben Fargher, CI, National Farmers' Federation.

MR WILSMORE (NFF): Andrew Wilsmore, Manager for Rural Affairs, National Farmers' Federation.

PROF WOODS: Thank you very much. Thank you for your earlier submission and discussions that we've had and the assistance that you've given to the commission during this inquiry. We have the benefit of pre-reading the executive summary of views but they're not on the record yet until you sign off and send them in, but they may help us in today's discussion. Do you have an opening comment you wish to make?

MR FARGHER (NFF): Yes, certainly. I must admit, for all my sins over the years I've never actually appeared in front of an inquiry like this. So I'm just wondering, just for my understanding, so this is - it's transcript.

PROF WOODS: Yes, full public transcript, an open inquiry. People are able - - -

MR FARGHER (NFF): And the media are welcome to come as they see fit.

PROF WOODS: Yes.

MR FARGHER (NFF): All right.

PROF WOODS: And it will go on our web site. So everything you say, every pearl of wisdom, will be captured - - -

MR FARGHER (NFF): Fantastic. Well, that about sums it up.

PROF WOODS: And your president will read it.

MR FARGHER (NFF): That's very good. Well, we'll make a few comments. I'm not exactly sure about your line of questioning. So we don't want to say too much; we would rather answer questions where we can and we're under some time constraints ourselves today. So just in terms of your report, we thank the PC, obviously, for their interest in the area. Some of the things in the report we agree with. Some of the things in the report we disagree with and we're happy to explain why. Really today we'd like to break up the session if we could, obviously depending on your line of questioning, really about the current arrangements, the

welfare component in terms of relief payments, the business support component and any changes that may occur there, and then the overall safety net that may or may not be provided in the future under any new arrangement.

We also would like to wrap that up in terms of the fact that we don't see this policy response in isolation from other governments or industry investment. So what we're doing in regard to R and D or training, as you said before, I heard, or regional infrastructure or transport or health services or risk management tools can't be disaggregated from a drought policy response if we want to be responsible and get it right in the future.

I would also just like to point out that this is - well, people say it's the worst drought in history or the second-worst drought in history. All we know is it's a damn bad drought and there's a lot of people doing it extremely tough at the moment, and we are not interested in any way, shape or form pulling the rug out from under farm families and regional Australians facing the worst drought in history, because people have done a lot to adapt to a change in climate for many years. So where we say today we need to try and support farmers to manage and prepare and adapt to drought and climatic risk, we're not saying that there's people out there now not trying to do that every day of the week. It's very important that we make that clear, because as we've travelled around people certainly are just trying to do the best in an extremely difficult situation, under a huge amount of duress.

The point I would like to make - because it is a theme that you sometimes hear in the media, about handouts to farmers or support to farmers. I just would like to make the point again - I know it's well understood to you three gentlemen - and that is that we are looking at the second least supported agricultural sector in the OECD. Our competitors hugely subsidise their food producers in the world. Agriculture is the most globally distorted sector of world trade and unfortunately there isn't going to be a WTO result before Christmas, much to our disappointment. So we do need to keep that in context. We think it's right that the government and the community give targeted assistance to food producers in this country when they're under duress. We think that's right. How they do it and whether we can do it better, we're happy to talk about, but we do think we should be supporting our farm sector and regional Australians. So I'm happy to answer questions, and Andrew as well.

PROF WOODS: Okay. You've set out a bit of an agenda and we'll sort of roughly follow that as we go. Just on the transition issue, if we can dispose of that one so we don't get caught up in unnecessary conversations. We put in our draft report, a two-season transition. Since then Minister Burke and other state ministers have stated very clearly that those who are in EC areas, while ever those areas remain EC, and that they have been receiving support and continue to be eligible for support, will continue to get that support. So having come out with that statement then, what we had in our draft report gets overtaken. So we don't need to debate the yes's or no's of

mid-2010. The government has stated a very clear intention and we acknowledge that and we'll work within that new paradigm. In response to that, however, we will still look to whether there should be some case management and support process in those measures. But putting that aside, the transition time frame that was in our draft has been overtaken by events, so we can put that one slightly to one side.

Perhaps if we look at the hardship issues. The proposal, as you know, is that we take drought out of being the precondition to deal with farm families in hardship, whatever their case wherever they are, that there should be some mechanism. I know that you support mutual obligation as part of that process and we've built that into the proposal. But is that heading in the direction that you yourselves would basically favour?

MR FARGHER (NFF): In general terms. There's still detail that we're to even work through internally, I might add, because it is a very complex matter. I'll say a couple of things about that hardship provision. (1) it's unquestionably the case that that should continue, that welfare component or the hardship or the relief payment component, and that we do disaggregate that somewhat from the business support component we're going to talk about, no doubt. It is unquestionably the case that that support to help put food on the table should continue.

In terms of who gets it, that's obviously difficult because we do have a problem with lines on the map, as you quite rightly say and some of the questioning today has been in regard to. That does cause difficulties. Then once you've got the line on the map, you have to be eligible within that line on the map, and wherever you have a line anywhere there's people just above or just below and that causes difficulties, as we've known for over a decade of negotiating with governments about those lines. I have been involved in many of those so that's been challenging.

Thirdly the current trigger to get into that region obviously is a one to 20 to 25 year event, and with the current climatic risk projections, that one to 20, 25 event may no longer be relevant. So that does need modifications. So you look at the trigger, you look at the assessment process, you look at the lines on the maps once you're in the assessment process and try and get household support to farm families under considerable duress. If we can get away from lines on a map and find a more appropriate trigger, we support that. If we can look at trying to individually assess producers rather than regions, we support that.

But it's not that straightforward as you know, because if you've currently got access under drought duress in a region and people are getting the support as they should and you remove that line and make that eligible for everyone, then you are potentially catching people that may not just be in drought duress, as you've said before, for a range of other reasons, which is fine, but there may be then an alignment of people that do need it that cannot get it because of the quantum of funds

and others that may not be as needy. So even if you do break it open, there's still got to be criteria. That's what I'm getting at.

PROF WOODS: Yes.

MR FARGHER (NFF): Where there's criteria, there's still a challenge and we're still working through what that criteria may or may not be. I'll come back to the principal: if you can get away from lines on maps, you should, and if you must continue the welfare component of relief.

PROF WOODS: Yes. We agree on the principles that we do away with the lines on maps; we have a set of criteria that are clear and easily understood and that drought is but one of the reasons why farm families fall into hardship. To the extent you then want to follow up with any commentary on the particular characteristics of the criteria that we've put forward, then we're happy to receive that.

MR FARGHER (NFF): Yes, that is complex.

PROF WOODS: In the near future, without putting too fine a point on the timing. So I don't think we need to go any further in that are.

MR FARGHER (NFF): If I could just interrupt.

PROF WOODS: Yes, sure.

MR FARGHER (NFF): There is a debate we will be having, no doubt, here and elsewhere about that relief payment support because there is a debate that farmers are no different from anyone else in the community and therefore other people in the community can get welfare support through Newstart Allowance and other things like that. But there is the nature of the farm business with the asset. If you take that to the nth degree, then obviously you'll be in a situation where you would have to sell down all your assets to get the welfare support.

PROF WOODS: We've proposed this scheme that recognises the farm asset base for a number of years. Before then the just general basic community system cuts in.

MR FARGHER (NFF): Yes. What I'm saying I guess is, exactly as you say, you say for a number of years.

PROF WOODS: Yes.

MR FARGHER (NFF): I think the number of years - - -

PROF WOODS: Yes, and that's something we're happy to have your views on.

MR FARGHER (NFF): - - - is an issue that we'll have to look at. Yes.

PROF WOODS: We've said three years in seven, but if you, particularly in dry land, accept that farm businesses should be prepared for at least a one-year drought because that's just part of normal business and might struggle through a second year, that if there was a third year then this would be available and the fourth year and the fifth year. So in effect, most farm families would be covered in a five-year context because they wouldn't need it in the first year and they may not need it in the second, but they may need it if the third year is just as bad or even worse. So the coverage is fairly extensive in a temporal sense. But we do look forward to your response to that.

MR GRANGER: Do you have a quick view on what timeline? If it's not three in seven, have you got a feeling about whether - - -

MR FARGHER (NFF): Look, we don't have a definitive landing on that as yet, to be honest.

PROF WOODS: Okay.

MR FARGHER (NFF): We're still working on it. We just know of course that if you accept the principle that welfare should continue and be available to the farm family business and the business does have a different asset level, then if you then say well, it's only right though that it phases down over time, what is that phase-down and what's appropriate to families? If you're going to individually assess anyway or look at some viability testing anyway, perhaps within that phase-down then you can look again at some tests within there to make sure that people that need help continue to get it. But that's complex.

PROF WOODS: Okay. We haven't looked at the viability side of that, we're just purely looking at the situation facing the farm family who draws or, in this case, isn't being able to draw in come from the farm or from other sources. So we look forward to your contribution there.

The proposals that we recommend to government that there be more active support in R and D, and particularly E. I know that you have particular strong views about the seasonal and inter-annual forecasts and those sorts of issues. There needs to be much more work done there. But are you generally supportive of the principle - and if we can take the R and D as one bit, that the extension as well, we feel that on the extension side some more work needs to be done on what are the good models of extension; some work, some don't work as well; what lies behind that and if the NFF had views on particularly helping us flesh out the extension story that would be particularly useful.

MR FARGHER (NFF): Sure. I might ask Andrew, because it's his particular area of expertise.

PROF WOODS: Yes.

MR FARGHER (NFF): But we applauded you privately and publicly for your comments on R and D and E. If we're going into climate variability and everyone says we need to do more with less, well, what are the tools to do more with less and how are we going to develop those tools without R and D? Our R and D spend is going down and our international competitors R and D spend is going up, and our rate of yield growth is going down at a time when the world needs food. The maths just doesn't add up. So at the same time we've got state government shutting down research facilities around the country; the maths doesn't add up, and you rightly point to the importance of it and I couldn't agree more.

MR WILSMORE (NFF): Just to comment on the extension side of it, yes, it is vitally important that the work that's done in research and development is out there being implemented and used on the farm. A lot of it is about improving our yield, but it's also about preparedness and risk management. So there's a lot of work that needs to go into that extension area. Some of our research and development corporations do it quite well; they've got a very good model set up. They interact quite closely through the entire chain, so you're working with the state departments of primary industries, and consolidate the efforts within that industry. Some certainly need a bit more I guess development in that area, without a doubt. I'm not levelling criticisms at them, but there is always room for improvement. The RDCs themselves have recognised this, they are moving forward with a much stronger strategic focus across all of the RDCs that exist, and one of the areas that they will be focusing on is the improvement in the extension services.

That's not just limited to the RDCs, it is important that you work with the CSIROs, with the DPIs, with some of even the private agri-businesses out there, because often, you know, whether it's a new tractor or a new type of grain or something, it's the supplier of that product who is delivering the extension showing the farm how it should be used or best utilised. So it's not easy to just cherry-pick a particular area of extension and say that's where the focus needs to be, it is a much wider area of focus that's required.

PROF WOODS: And certainly we'd welcome any sort of further elaboration of your thoughts on the E side especially. I mean, we are also obviously interested in the R and D, but I think there's an untapped set of understandings out in the community that we'd like to draw on, and to the extent you can help us or even point us to models that we can explore ourselves.

MR WILSMORE (NFF): Sure. You've correctly identified in there the successful farm business model, FarmBis.

PROF WOODS: Yes.

MR WILSMORE (NFF): We are obviously hoping that FarmReady in many ways mirrors the work of FarmBis. We have come some way in changing the culture of farmers to actually go out there and look for education and training. We believe that there's still some way to go in actually making it a real solid part of the farm business, as important as securing water is or securing seed for your property. It's important to have a very educated and trained not just farmer but the farm workforce as well. So encouraging programs like the FarmReady, FarmBis programs at the business level; and also assistance through, whether it might be the state level, for some of those technical skills that actually adapt on-farm practices is also an important component.

PROF WOODS: Can I at this point take that conversation a bit further. There are several legislative requirements on farmers and whether it's, you know, compliance with animal welfare, whether it's your occ health and safety laws, whether it's using chemicals and having done a ChemSafe course, etcetera - so there's a legislative layer - or natural vegetation. Then there's an industry layer, so if you're in cotton or dairy then those industries say, "All right, if you're participating in this industry and you want to sell your product through this process, then these are the skills and capacities that you've got to have."

So they're not legislative, but they're getting close to mandatory within industry, industry self-regulation. Then there's the layer of optional extras, the FarmBis, FarmReady, "Here's a range of skills that will help you be better farmers." Can you see a progressive migration to a stage where, if farmers want to be able to sell their product to particular markets or to take advantage of government programs, etcetera, they have got to demonstrate that they either have or are actively acquiring a level of competency across not just agronomy but across, you know, farm management as a whole; and, if you cast out 10 years or so into the future, where does the NFF see all that heading?

MR FARGHER (NFF): Well, I might just make some comments.

PROF WOODS: Yes.

MR FARGHER (NFF): You rightly say it's across all ways and we have never said that one lawyer is more important than another. You know, we have got programs involved right down at the school level and trying to get people, rural Australians, equitable access to schooling, encouraging them to get equitable access to higher education, that's currently not the case, but saying that's not the be all or

end all, into vocational and a range of apprenticeship options, and then you've got the farm production work you talked about, the industry initiatives, the quality assurance codes, and then you've now got the human resource management issues on a farm as well, and it all wraps up into that human capital that all industries into this country, not just the farm sector, recognises as so important to our long-term competitiveness, and we want the government to invest in those areas.

That's the work that Andrew has been doing for us internally around that area. So it cuts across all those levels. But as you rightly say, I mean, if you go and visit farms now, even my own friends, to be frank, I just cannot hold a conversation with them, it's so technical now, there is so much exciting agronomy-type technology out there - nutrition, genetics, crop sites, satellite farming, water reticulation, breeding - it's actually quite exciting and it's very high-skilled levels required. We're wanting to try and promote that wherever we can, because that's going to help people adapt. You can see the charts of the education level and then the uptake of technology; you know, you can actually quantify that out.

PROF WOODS: Please comment, but can you envisage a stage where you almost need to have a competency certificate to be able to access certain markets or certain government support programs or something to demonstrate that you are a bona fide farmer who has invested - and, you, know, you don't have to have done it through the school room, because there's the school of hard knocks, as long as you can demonstrate the competencies. I'm not saying necessarily go back to school, but, "Do you have these skills, however acquired?" and to progressively sort of up the ante in that area.

MR WILSMORE (NFF): Certainly, if you look at the statistics, as you've sort of touched on in our report, farmers are not exactly out there in big numbers with formal qualifications.

PROF WOODS: No.

MR WILSMORE (NFF): What they have got is a lifetime of skills that they have developed through either short-course work or accessing education training as it's appropriate to them. So they have gone out and done the work to assess whatever it is that their business requires, and Ben sort of gave some examples of where that's headed. So a lot of that doesn't meet any of the formal qualification frameworks that presently exists.

PROF WOODS: No, I'm talking competency levels, not having necessarily gone through the classroom level.

MR WILSMORE (NFF): Well, there's a whole argument in our industry about the recognition of prior learning. A lot of our learning is done in and out, in and out of

the training system and we're certainly trying to move the training system to better recognise farmers, so that we can actually go in and say to a training provider or in the case of a university, "Here is what we have done. Give us the formal qualification to go with it." The training system by and large has pushed back on enabling that process to occur in a very smooth or familiar way that farmers will actually want to go out and do it. So there hasn't been that push, we are individually pushed along the way, whether it's quality assurance for our product, whether it's signing up to the horticultural code or whatever it might be, yes, we comply where we need to, but there has never been that overarching requirement to show, you know, a qualification, if you like.

PROF WOODS: So where is the NFF heading in that? I mean, what is your vision over the next 10 years or so?

MR WILSMORE (NFF): A more highly-skilled workforce, and you can be skilled with a formal qualification or without one. There's a lot of challenges that farming is going to have to face, a lot of that will be met through their highly-skilled and educated workforce; whether that's required to have a formal qualification or not is immaterial, it's about meeting the goals and the challenges.

MR FARGHER (NFF): Our vision - sorry to interrupt - is exactly as Andrew says, that we will focus on the human capital component of agriculture as much as the commodity price or any other marketing component of agriculture, and we will try and encourage the community and the government to invest to support farmers as it meets their needs, not necessarily some seat in a university, as important as that is for some. That's what we're trying to do inasmuch the cultural area, in education and training, we have put it back in our strategic plan front and centre, and it's an extremely important area for us, as it is for so many other people.

MR GRANGER: Are there any good vehicles to deliver this sort of outcome that come to mind? I'm thinking of the farm management system model, if I can call it that, which some industries have picked up, the cotton industry for example has really embraced this across many fronts and often these provide a good platform for many further fronts, you know, picking up financial risk management type stuff. But the question to you is does anything come to mind as a reasonable vehicle which government could take an interest then in perhaps funding or funding awareness of it, funding the application of it.

MR FARGHER (NFF): Andrew would know better than I, but it's not as if we are saying this is one vehicle, what we're saying is if it's in regard to higher education we need regional people involved. If it's with regard to apprenticeships, it has got to be relevant for agriculture. If it's with regard to FarmReady, this is how it has got to be delivered in terms of HR skills, not just the production skills on a farm. So across all the different layers of the education and training system, as complex and as many

acronyms as there are in that space, we want to make sure that agriculture has got a place, and that has been our approach rather than saying this is the one vehicle. But I know what you mean in terms of some of the BMPs and other things that are happening within industry, they are very effective and we are very supportive of that.

MR GRANGER: Some of those models are good. Where I'm coming from is, because they have got a pretty large injection of the "I word" in it; the industry.

MR FARGHER (NFF): Yes.

MR GRANGER: But I've just got this thing about government delivering some sort of silver bullet in regard to this matter. I've probably got more faith in industry partnership working with government to deliver this, but I see this as a responsibility that cuts across all fronts. I've probably lost a bit of faith in thinking the government has got the answer.

MR FARGHER (NFF): There's some very good examples out there, if we can just talk in the vocational space just for a second. I think the cotton industry, for example, has taken the training language of Certificate III and "da, da, da, cotton production" et cetera and turned it into just words that industry understands, so it's Cotton Basics, Cotton Intermediate, Cotton Advanced. It's a basic level qualification, medium level qualification and high level qualification. So industry certainly has got itself involved. It is certainly in most respects along commodity lines, but also broadly with some of the work that we're doing. So we're certainly in that space and we're pushing and agitating to get some of those best practice models up, showcasing them and let industry take a bit of ownership as well. But you've got to work within government because government manages the education and training system by and large.

DR BYRON: Can I extend that in a slightly different area. In a lot of the other hearings and round tables we've had we've talked a lot about environmental stewardship payments for primary producers. One of the suggestions that came up is that before a Commonwealth or state government would actually make a payment, they would like to see some sort of evidence that the farmer had a coherent, professional kind of approach to the land management, that he wasn't some sort of cowboy. So this idea of being able to demonstrate that you signed on to an industry best practice management scheme, or in Queensland you've got to have a property management plan to get your pastoral lease extended, that sort of thing. These are ways where the producers themselves can demonstrate the competencies that Mike was talking of. I was wondering if, first of all, any thoughts on environment management and stewardship payments, but whether that might be something else that was hooked on to this larger framework of recognition and accreditation for being not only a good manager in a technical sense but having business management skills and so on.

MR FARGHER (NFF): Yes.

DR BYRON: Being a professional farmer, in general.

MR FARGHER (NFF): Yes. I think I understand the question well now and it's helped clarify something Mike said that I forgot to mention. I'll come back to stewardship later if I could because we're very, very supportive. We've advocated that and we want to talk about that a bit further in terms of NRM and stewardship on farm. Look, in terms of mutual responsibility or people having demonstrated that they've gone out to develop their skills before they may well access some other areas of support, if that's where the line of questioning was going, we certainly support the idea of mutual responsibility. As I think we've just demonstrated we're very involved in the education and training, R and D, E space and trying to encourage that in our sector. But I wouldn't go as far as to say that we're interested in starting to mandate particular courses or competency levels, and you can only move there unless you've done that.

We just need to be careful because while we are encouraging cultural change, we're encouraging human capital, we're encouraging all that work we've just talked about. As you will well be aware, there are many producers, and with the demographic older producers, in regional Australia that can look at which way the wind is blowing through a tree and tell you it will rain in the next 24 hours, and I cannot do that and I've got a lot more qualification on paper than those people will ever have, but I can't do that. So let's just make sure that we're not moving towards some form of mandation where we lose that skill base we have with people that work with the land and with animals, and that needs to be recognised as a particular case while we try and drive that human capital through our sector.

DR BYRON: We're talking about recognition and accreditation of skills - - -

MR FARGHER (NFF): Exactly.

DR BYRON: - - - rather than some sort of licensing or certificate - - -

MR FARGHER (NFF): No. Yes, and I understand, Neil.

PROF WOODS: Yes. No, that's very helpful. Now, do you want to move on to stewardship?

MR FARGHER (NFF): Look, I'll be very brief. We've written papers on it. We advocated it to the last government.

PROF WOODS: CSIRO has just come out with a report about it.

MR FARGHER (NFF): They agreed to an environment stewardship program; the current government has supported it. We've currently got a pilot happening in New South Wales around box gum woodland. It's being heavily subscribed. Farmers are very supportive. The concept is, as you know, you recognise and reward farmers for providing environmental outcomes on behalf of the community; recognise and reward, not compensate. You're providing the target for the outcome as distinct from a production subsidy in Europe.

PROF WOODS: Yes.

MR FARGHER (NFF): The green groups are supporting it. The farm sector is supporting it. The government supported it. It should be expanded. This is another example of public benefit on farm and why we need to provide targeted assistance to our farmers during crisis. I can't say enough about how excited we are, supportive of the stewardship concept. It's not going to be appropriate for everyone.

PROF WOODS: That's true.

MR FARGHER (NFF): But the idea of delivering an outcome where you support and recognise ongoing management, so it's not just about putting a tree in the ground, but it's then about weeding and about feral pest control over time with the people that actually live there and understand, as I say, which way the tree is going. That's how you get a good environmental outcome.

MR GRANGER: The concept has often been looked, and requested, through the prism of drought during our process.

MR FARGHER (NFF): Yes.

MR GRANGER: Now, what are your views about that? Is it worthy of just standing on its own as an issue for industry or should it be - and I'm probably answering my own question, but how do you view it as an issue associated with relief during drought or extreme climate stress?

MR FARGHER (NFF): It is a program that should be standing on its own, we believe. But there is a link in a drought situation to people providing those services still and getting recognised and rewarded for doing so. So there's a link, but we don't see it just in the drought context. The pilots that have been run, not just in the drought context, they're about people that where the community says, "We have identified as a community that we want that threatened species protected. It's on my private land and I can manage that over time for X-number of years and I'll get recognised and rewarded, not compensated," it's different, "for doing that." I think it's a very good model.

DR BYRON: But I guess our interest in it is twofold: one is the argument that properties that are managed to, for example, a high level of NRM management are likely to be more robust and resilient during periods of extended low rainfall.

MR FARGHER (NFF): Yes.

DR BYRON: Secondly, it gives the farm household access to an income stream that's not so rainfall dependent.

PROF WOODS: As well as the same intrinsic merits.

DR BYRON: Yes. But I mean, as you say, it's not specifically drought related, it just has those two particular benefits if you look at it in the drought context.

MR FARGHER (NFF): Yes, Neil, I think you've summed up perfectly. I think that we don't see it in the context of we want to use drought as some way to try and get the support, and we can't do it in some form so we use stewardship. No, the concept is too strong to stand on its own two feet, but it can be used in that context very easily. So I think what you're saying is right.

DR BYRON: Okay. FMDs: you support them, we support them. I suspect looking at some notes that you might want an improved FMD system. What do you mean by that?

MR FARGHER (NFF): Look, we've for many years talked about thresholds, FMDs and in terms of really trying to support this risk-management approach of putting away good years for bad. So we've made some recommendations around that area. We have been for some time - and again with all of this EC area, we've been negotiating about thresholds and limits, whether it's off farm income or whether it's asset limits. It is a complex debate and there's someone always just above a line or someone always below it. The concept for us is, we support FMDs; they're a risk-management tool. The criticism that people have built them up and built them up and we haven't seen a draw down yet and we say, "Hang on, let's look at the recovery phase." Unfortunately many parts of the country haven't seen that yet. We're very much hoping that the central agencies in this town, including our colleagues at treasury, still see the merit in this risk-management tool.

PROF WOODS: Presumably you'd be happier with our analysis which shows that if you're a cropper and you're in South Australia, in fact the FMDs are being progressively drawn down because they've had failed crop after failed crop, whereas the pastoralists as they've been destocking have been adding to their FMDs and will draw them down when they restock when pasture recovers et cetera. So yes, we've gone behind the headline figures.

MR FARGHER (NFF): Which most people don't do, and I think Andrew wants to comment which is good. But I think you're exactly right: you have to disaggregate our figures. If you look at the aggregate numbers you say you're not drawing down; if you look within regions and commodities, you'll see the movement and that's what you've done and that's proved.

MR WILSMORE (NFF): The other issue with FMDs, which is always sort of a bit of a bone of contention with farmers, is they are not all structured, their business structure is not such that they can access it readily.

PROF WOODS: For their own reasons.

MR WILSMORE (NFF): Yes. You know, issues such as family trusts or just the way that small and medium enterprises establish themselves and structure themselves is one of the areas that sort of limit access to them, so we'd certainly appreciate a bit more of a more level playing field. I mean, you're a farmer, you're a small business, regardless of how you're structured, and FMD is of assistance to you and should be more readily available across the structures that exist in farming.

PROF WOODS: But you do tend to adopt the structure that you think will give you net benefits for one reason or another. If your accountant has talked you into going in one particular way because they're the benefits but that they happen to exclude access to FMDs, well, presumably that was a cost that they took into account when they were choosing to go in the particular way they did.

MR WILSMORE (NFF): A lot of farming structures are inherited. They're set up that way, it's an inherited structure. So it's not something that you've actually gone and sat down with your accountant and said, "Okay, I want to change how I'm structured so that I can access a range of government support programs," it's something that usually inherited, a structure that's existing there, and it's not an easy process to change that or even re-look at it.

PROF WOODS: The other argument about FMDs if the 400,000, the point we make is that it doesn't prevent you from putting aside even more financial liquids in good years, it's just the amount that is tax-protected or tax-advantaged by being able to defer tax payments. So it's not a constraint on how much money you've put into cash management trusts or whatever, it's just a constraint on the outlays to the taxpayer of how much of it gets the benefit of tax deferral.

MR WILSMORE (NFF): Our view on that would be that the FMD is a very useful risk-management tool, it's acknowledged in your report and by those who utilise it. If it's recognised as such a useful tool then it doesn't really require a cap. If you are as a farm enterprise looking to risk-manage, the necessity of a cap shouldn't dictate

which program you've decided to put the cash into.

PROF WOODS: Two questions there then. One is a reaction to why the average FMD level is only 70,000, so the numbers maxing out at 400,000 is not that great; and what is the taxpayer general reaction to having this untapped?

MR WILSMORE (NFF): To the first question, well, obviously for most parts of Australia we have been in a drought.

PROF WOODS: Yes, but no, that 70,000 is sort of a longer-term sort of average not just - - -

MR WILSMORE (NFF): But for most of the life of when FMDs first came in, it has been during depressed times for the farms, so that you're not going to see some of those really big deposits you probably could be pushing the upper end on, and he corrects some of the averages there. With respect to the taxpayer, as you have rightly analysed in your report, FMDs are a very good risk-management tool, they support farmers in supporting themselves; therefore, there is the community-good aspect of that support, looking after themselves rather than relying on the government's assistance.

PROF WOODS: Okay, it's a judgment issue. You probably won't find that we'll move too far from where we're at in our final on that one, much as in a lot of other area where we're sort of questioning and prodding and poking, but I don't think we have found the king hit that persuades us to take a different approach yet on FMDs. Yes, I don't think we need to explore FMDs further. I mean, we both furiously agree as to their benefit, it's just these other fringe issues of limits and access, and I think we understand the arguments. Preparedness grant; what do you want to do with the preparedness grant?

MR FARGHER (NFF): Look, a lot of the challenge, I guess, when you've been in a drought for so long and you have been doing what you can to manage it, is just trying to get ahead of the curve on it. It's quite an interesting thing, just the name itself; we'd prefer to talk about a management and preparedness grant rather than just a preparedness grant itself - - -

PROF WOODS: Yes.

MR FARGHER (NFF): - - - because it gives a connotation that people aren't trying at all to prepare when obviously they are. The idea of the national drought policy response originally was not only to provide that relief but also to try and get ahead of the curve where we can, in the volatile environment that is farming. So we're saying, wherever possible, if we can provide incentives for farmers to manage and prepare, whether that be through natural resource management or looking at their

resilience because of stewardship areas on farm or on farm infrastructure or regional infrastructure or any other number of productivity and management decisions people take to try and manage for climatic risk, then we should try and do so. It seems prudent to do that, from our point of view.

We think that if we can push that way and push it in the form of a grant and give flexibility to different production systems around the country to do those things on farms and regionally, working with their neighbours in an innovative way, that we haven't even thought of yet, because, as you know, you travel around the farms and they'll be thinking about things they can do for when a drought comes that you just wouldn't even think about, particularly if you get a group of them together, not just on farms, we're talking about the amalgamation perhaps of the grant regionally, that might be infrastructure, it might be other stock and routes, it might be some feedlot arrangement, it might be the fodder storage issue regionally, not just on farms, so you can leverage up that capital, and we'd like to propose that, we have proposed it and we hope it gets some support in the future.

Now, if people are doing that in good years, the question arises that that needs to help you in a bad year, otherwise it's not being effective. But if you have one bad year, two bad years, three bad years, 10 bad years, the wipe-out of an entire region, even the best preparedness in the world is extremely challenged, and that's the debate we're going to have to have about the appropriateness of that safety net in conjunction with trying to do everything we can to manage and prepare.

PROF WOODS: In your submission you were talking about once a year and co-funded by the farmer, would - - -

MR FARGHER (NFF): Well, we talk about co-funding and mutual obligation, but we don't necessarily - or, we'd like to advocate that that does not necessarily mean matching cash, but it's a mutual obligation component and just how you structure that in terms of labour and other things you might be able to do, we want to be able to consider, because of course people that are in a drought or have just come out of the worst drought in history don't have a lot of spare capital to start putting in, in terms of matching cash contributions, but they do of course want to try and better prepare for the next event.

PROF WOODS: You might want to expand then in your rejoinder submission, because the words here are sort of fairly blunt and summary.

MR FARGHER (NFF): It is, and that's quite short, and our response, which Andrew has drafted, is more like a thesis.

PROF WOODS: Just attach it.

MR FARGHER (NFF): So you will look forward to going into the detail on that issue.

PROF WOODS: Okay, well, we're probably better off waiting to get that rather than try and debate that today.

MR FARGHER (NFF): Sure. Yes, we have gone into detail.

MR GRANGER: Just a general question, probably an observation, but I keep on hearing the word "preparedness", and in some areas that has been challenged, which wouldn't come as a surprise, but there have been a lot of people over the last so many years, seven, 10, whatever, that have got nowhere near the EC support on all fronts.

MR FARGHER (NFF): Yes.

MR GRANGER: Yet they have got through, obviously, you know, it has been tough, etcetera. But have you got any view, sort of a profile, of why have they been able to do it and what essential characteristics have they have that stand out and make what they have done, be what they are, and what lessons could be applied to the people that are probably at the other end of the spectrum, tail, whatever you want to call it? Do you know what I mean.

PROF WOODS: So if you're designing these preparedness grants, you know, where would you focus? What would you do to help that lot?

MR GRANGER: And what could you pick up that's there that's not there and therefore give a bit of focus and direction.

MR FARGHER (NFF): Yes, it's a very good question. It's hard to answer in a short, concise manner, because each farm business is different, as you know, and I'm not trying to sidestep the question, I'm simply saying that, you know, you may have inherited a structure that means you have been able to manage, or you have been eligible or not; you may have inherited farm assets or some shares, which means you have been clicked out; you may have been in a situation where you just needed one more rain event and you got it, whereas other people did not, or you got frost when other people did not, or you just had some other course of events which has put you under considerable duress compared to some other people in your commodity; and you may have just been starting out in farming, you may have borrowed a lot of money to start out.

MR GRANGER: I think it's an impossible question, quite frankly. Is big beautiful, for example? It keeps on sitting behind me, I mean, you know, in an uncomfortable way.

MR FARGHER (NFF): You may have diversified into an area, the commodity may have changed. There's obviously a lot of resilience in our farmers round the country, some people have been luckier than others because of weather and the fact that we have little control over that, but some people have obviously been more resilient in their business sense than others, and that's why we keep talking about human capital and giving farmers tools and climatic forecasting and R and D and education and training and access to GM and access to water-use efficiencies and trying to get them access to management preparedness grants, not just a relief arrangement, and FMDs, to try and move that sector forward, given the harshness of our climate. But why some and why others? Well, you know, people smarter than me will have to answer that, Bob.

DR BYRON: I guess the thing that intrigues us as we travel around the country, I mean, everywhere you go you can find a case where there's one property where it has still got partial - the stock are in reasonable condition, and the adjoining place looks like the black side of the moon and it's all sand dunes or something; or you go to one place where the crop is poor but still commercial, but his neighbours on both sides have got nothing. Now, it's the same sort of rainfall, etcetera; it probably comes down to management.

MR FARGHER (NFF): Yes.

DR BYRON: So there are some people who have got management expertise or the resources, the buffers or whatever it is, that enables them to be okay, while their neighbours are basket cases. The question is, you know, well, how do you spread that around. What is it that differentiates the ones who have been able to cope, admittedly with lower incomes, and the ones who haven't been able to cope, and I think that's probably what Bob was also getting at.

MR FARGHER (NFF): I understand the analysis and the question, but there are so many factors. It's the same with all industries, is it not, that some people would be able to manage better than others and some people might have just had a strip of rainfall through that area, that you talked about, or some people might have just had a management philosophy that they didn't want to stock that at that time, or they might have got into self-raising and it just happened to work that year. People do look over the fence at their neighbours and say, "By gee, they have done a good job with that technology, and we might pick that up too," and there's the early adopters and the tail.

What we try to do is push the earlier adopter philosopher through the industry wherever we can and get the right incentives, not disincentives in a government policy or legislative sense but the right incentives to do so. But the only problem I have got with your line of advocacy is that the person whose crop looks okay and next door's is a basket case, it may be the case that they're not as good a manager. It

may be the case that the person's crop had a drought plan and it was a bloody good drought plan and they have done a good job.

But it also just may be the case that that person made a production decision that went against them that year and they can still be a good producer, producing food and fibre, but it went against them that year. I wouldn't go as far as to say a good producer/basket case, I'd say leader and another farm business where obviously we want to try and help them do more with less. It's about the way you set up your policy response as government to try and help that, and, if we don't have a right, we should change it.

DR BYRON: Yes, proactively, I think.

MR FARGHER (NFF): Exactly.

DR BYRON: But one of the suggestions that has been put to us - I think it was in the Adelaide hearings - was that a lot of Australian farmers are, in a sense, undercapitalised, and so with the guy who perhaps knowingly overstocks the property basically it's because he thinks that's the only way that he can maintain the interest payments on the property, or whatever. First, I'd like your reaction to that proposition that a lot of Australian farms simply don't have the reserves, the buffers, you know, the back-up, because they're a bit undercapitalised.

The response to that that we heard about in Western Australia was these sorts of joint ventures. If you've got a farm which is a bit undercapitalised and wants to lay off some of the risk and you've got wealthy people in Perth who are willing to invest in agriculture and are willing to take a risk, you get these sort of joint ventures, and whether NFF has any sort of view for or against that arrangement is a possible way of - not universally, but for some farmers to delay off some of the drought risk.

MR FARGHER (NFF): Look, potentially it's not something to which I have given a lot of thought. Andrew might have a comment. I haven't seen good studies - well, I have seen studies in terms of financial studies in the farm sector of course through different demography and farm debt and everything like that, to make a highly-informed view on capitalisation, but Andrew might, again, know better than I do on that. But in terms of different models to offset risk, we support different models to offset risk. We have a position, we are not opposed to investment agriculture, whether it be through the cities or through, you know, overseas.

We support investment agriculture and new capital and new skills and new technology and new employment opportunities. The problem we have, if it's done through a distortionary measure, and there's a big debate in our sector at the moment about management investment schemes, but, if it's investment on a level playing field in regional Australian agriculture and even if that does cause structural change over

time, that's the nature of the industry, we're not somehow opposed to that. If there are good models that can bring young people or can offset risk for young people, or young people who could generate capital, or they might be leasing, shareholding, contracting, and that will change the nature of the business, then, you know, that should be looked at.

PROF WOODS: I am conscious of the time and that you've got other commitments. Income contingent loans is something that you had on your agenda. We had Linda Botterill and Bruce Chapman here this morning and gave them sort of an open opportunity to make sure that we are fully informed on the merits of that. Is there anything that you want to add to their advocacy on that?

MR FARGHER (NFF): Well, again, Andrew might like to add. But we want that looked at seriously as part of the mix of tools. You know, if we're going to look at a better way of providing support through management preparedness - and we have advocated a grant, as you know - what other tools are available to producers? Like FMDs, yes, we have talked about. Like a range of other tools that are currently in the drought box, that we have talked about - you know, the climatic forecasting and the R and D and all that other thing, but what other tools are available, and we think loans, and we are going to talk about in our new submission to you and - stay on your chair, Mike - about the issue of also again making sure that someone has done a good analysis of insurance in this country.

PROF WOODS: Yes, that's my next one to conquer.

MR FARGHER (NFF): You know, what tools are in place that farmers can access to manage risk, to do more with less, given the nature of our climate and the global nature of agriculture. As I travel around on these loans, people seem to be very quick to get stuck into, for want of a better word, loans. But a lot of our people raise it with us when we travel around, that the loans are important to them and they want to look at loans and what can be done in regard to loans. We're just actually working on - which I don't want to say too much about now, because this is a public forum - a way that we could perhaps be able to target that loan provision to certain segments of our community in regard to a safety-net provision, but we have just got a little bit of work to do on that.

PROF WOODS: If you are able to provide us with some information in the near future, that would be helpful. But I take it you're sort of looking at a basket of things, so there's low interest loans, income contingent loans, insurance, as a range of tools that can be added to what is currently available.

MR FARGHER (NFF): Yes. If the focus is on relief, disaggregate the current arrangements and then the welfare support, then look at business support. You have currently got the IRS that has helped many, but does have weakness, we

acknowledge. If you're moving from that, if you are, over a period of transition, what other tools do farmers have, and is it just a grant and will that be enough or does there need to be a range of tools? We think there has to be a range of tools and we want to hear all the reasons why not, in counter to our - let's do it and have a look at those.

PROF WOODS: Well, you present your arguments. We'll analyse them. We may even surprise you and come out in favour of the odd one.

MR FARGHER (NFF): Excellent. Look forward to it, Mike.

PROF WOODS: Until we've read your argument it's a bit hard to respond.

DR BYRON: Just on the subject of insurance markets I was wondering if you'd venture an off-the-cuff comment on the proposition that it's precisely because governments over the past have been willing to step in with drought relief that insurance markets haven't appeared, the crowding out argument; why would anybody pay a large premium to by insurance if the government is going to bail you out anyway?

MR FARGHER (NFF): Look, Neil, I just wouldn't have enough data in my head to counter that argument, except to say that I have been involved in the past at looking at multi-peril crop insurance and trying to make it work in this country, and making it work without ongoing levels of government support to some level is very difficult. You see a range of insurance options, not just hail and flood, et cetera, a range of insurance options in overseas countries, like Canada - - -

DR BYRON: The Canadian one - - -

MR FARGHER (NFF): - - - like the United States, but they do have government underwriting.

DR BYRON: They do.

MR FARGHER (NFF): The position has been in this country, "We're not going to have the government underwriting it. So make it work without it." It is difficult. Now, whether it would work without the support, I just don't have enough good analysis to make a very informed comment, but I would make the case also that in other countries they've got the government underwriting insurance and they've also got other huge subsidy arrangements. We don't have those subsidy arrangements and we don't have the insurance either and we've got the most volatile climate in the world and we're good at producing food. So we can cut it up in an extremely dry economic sense or we can just see what responsibly be done in regard to looking at insurance again. That's what we're saying; let's just look at it again.

PROF WOODS: Okay. Please be assured that our own staff have put a lot of effort into understanding that and we'll be developing our position in the final - - -

MR FARGHER (NFF): That's great.

PROF WOODS: If you can give us your thinking on that as early as possible because we're running out of time. Now, the topics - I think we've wandered through the list. Are there things that you haven't raised that you want to?

MR FARGHER (NFF): No, I don't think so. It's quite comprehensive, our response to the draft, and so there's a lot of other things in there and it does relate to the way you've outlined your chapters. So we go into a huge amount of other things that we won't have time for now, but I just would like to say - and this is obviously, at the end of the day, a discussion between us and the government in regard to the arrangements but I would like to say that I think that we are trying to demonstrate that we are looking at better ways of doing things and are willing to take a leadership position in that, but taking the rug out from people under significant duress under current arrangements is just not on for us. You made that point, Mike, at the beginning, but given we're in a public forum I'll be frank and make it again.

PROF WOODS: Yes, I understand that. It's on the transcript.

MR FARGHER (NFF): That's good. It's on there twice. We do appreciate your interest in the area and the work you're doing.

PROF WOODS: Very good. Thank you very much. That being the case, we will adjourn until 2 o'clock.

(Luncheon adjournment)

PROF WOODS: Before us at the moment, Australian Beef Association. If you could please for the record state your name, any position you hold and the organisation you are representing.

MR CARTER (ABA): John Carter, director with the Australian Beef Association.

PROF WOODS: Thank you very much and thank you for earlier providing us with an input to our inquiry, which we've been through. Do you have an opening statement you wish to make?

MR CARTER (ABA): Well, basically, the Australian Beef Association welcomes the inquiry because we don't feel the current system addresses the real problems. We congratulate the commission on the volume of work that they've got in the draft.

PROF WOODS: I can feel a "but" coming on.

MR CARTER (ABA): It's a monumental task and I congratulate the three of you taking it on. I'm old enough to have appeared before the Industries Assistance Commission with David Trebeck and others in this town a long, long while ago, but this is huge. My other qualification for being here is that I hold the oldest registered cattle brand in Australia. My family have survived the four great tableland droughts since 1839 and so we've got quite a lot of practical experience in drought. You might say, how did we survive?

The first one was taking control of terra nullius, in other words unoccupied land. The second and the third, we downsized. And the fourth one, we've downsized a bit, and the other factor that we have used, as I have outlined in the report, is using agistment, which of course was the Aboriginals' way of surviving in this land, continuing to move to areas that did have feed. I've actually had cattle on 87 different properties, from Longreach through to Mount Gambier. Some have been more successful operations than others. So I feel pretty strongly on agistment. I feel very strongly on the need for assistance. I was pleased that the NFF this morning strengthened that and you made it quite clear that that was well and truly still on the radar.

The Richmond report into mental health in New South Wales in the early 90s recommended closing all the mental hospitals. It was half-implemented and put tens of thousands of mentally ill on the streets. If assistance to agriculture was to go, we'd have a similar situation. We'd have land unoccupied and people with no means of support. But you're covering that. We believe that the interim report illustrates a fast-ageing farming population, an alarming debt level. I feel that debt level has been greatly underplayed by various people, including the banks. Australian agriculture we see as being very badly undercapitalised and we're very concerned

that the property valuations which are in the various bank reports are at least 20 per cent above reality, and I'd be concerned that they may finish up 40 per cent above reality and the implications of that are horrendous, but that has sort of been a tsunami that has come on since you began this work.

I highlight the reliance on all farm income and I query whether professors, doctors should have to do bar work at the weekends to remain viable. This transcends drought. This is a general comment on agriculture in Australia as opposed to agriculture in Europe and in the United States. Preparedness for drought, I think that is a sort of dream that is a long way from reality. People can't really prepare for drought. You can do it on a European basis and conserve a lot of fodder. We've seen some very wealthy families go broke doing that in the 1940s. The forecasting is to suggest that we're going into much hotter, drier times. I think it flies in the face of reality; it actually flies in the face of the wonderful sentence on page 71:

For most regions the available science leaves open the possibility that the next 30 years or so could either be very dry or very wet, by historic standards.

If I was to prepare, should I be building a camel stable or an ark? We just don't know. What we do know in Australia is that drought does continue to recur and it's been doing that since all the tree rings and the soil samples have been done.

So we see good prices as being vital, and we feel that government can do a lot more in that. We'd feel very strongly on the environmental stewardship idea. I've got a caveat on it, though, and that is who decides what the environment should be like. I've got, through no fault of my own, just fortune of inheritance some of the best basal soil on the Tablelands. We've put it all under *phalaris tuberosa* over a long period. It's also a wildlife refuge. I showed some ladies across from the wildlife refuge and they did a report and said that the place had been very seriously degraded; in other words the eucalypts had been taken off it and the apparent environment begins to look more like Lindsay Prior's Canberra with beautiful European trees which are very well adapted to this area.

So we believe strongly that payments should be made for people to keep the land in a good shape for the community. Currently we're seeing, I believe, the third great rabbit plague. There was one after the 02 drought; there was one after the 40-45 drought, and I believe one is coming now. We just haven't got the resources to handle it if myxomatosis doesn't cut in. So those are general comments on top of what I originally put in, which was the main role in drought mitigation from government should be provision of water infrastructure; provision of money; provision of roads, rail and port facilities and provision of regulation to ensure that markets give farmers a fair price. I believe the government has been fairly remiss in

that, but that's greatly expanding your terms of reference. But I agree with the NFF this morning that farmer welfare and drought relief do tend to get very blurred. So I would be very happy to - - -

PROF WOODS: Thank you very much. Can you just remind me, the membership base and area that the Australian Beef Association draws on?

MR CARTER (ABA): We've got about 1,000 members of extraordinary variation from one person with 120,000 cattle in north and central Queensland right round to West Australia. We reflect the beef industry really in that - I'm quite happy that there are well over 200,000 people producing cattle. They vary from people with five or six cattle up to 120,000. So to put any formula on preparedness or assistance that fits all is extraordinarily difficult task.

PROF WOODS: Yes. So you've got quite a wide geographic spread and farm types from pastoralists to mixed farming.

MR CARTER (ABA): Yes, to hobby farming.

PROF WOODS: That's helpful. In your commentary you drew on the question of property valuations and the significant rise. It's certainly true that when you look at property valuations at the moment and look at the underlying returns on the land, there seems to be some separation, to put it mildly. What in your view are the reasons for that, because it has all sorts of effects. It makes the balance sheet look very strong and it allows for the borrowings, but there's a question about the servicing of the debt if the underlying productivity of the land can't support the valuation. So what's happening there?

MR CARTER (ABA): Well, if we go to the top, we look at the AA company, they increase the valuation on their land in November 2007 by 30 per cent. That gave them about a 53 per cent equity. When I read the annual report, I thought this is sort of rather serious stuff. Clearly there's all sorts of problems going on there with Futuris. Now, that's the top. But that goes right down. We've got 16 properties within 10 kilometres of us for sale. The pressures are really mounting now. Your question is, why did this happen? I think there was a euphoria sort of set in in Queensland particularly that perhaps seasons were going to be right, the beef market was right forever, and I think the Standbroke sale triggered this off, the entry of Rabobank. NAB and Suncorp were competing to lend money. I just think everyone lost their head; I did tell them so at the time but that didn't go down very well.

PROF WOODS: You were probably fairly blunt about it.

MR CARTER (ABA): Well, try and be clear.

PROF WOODS: You said that you've got 16 properties nearby that are on the market. Are they selling or are they at a price that reflects what the owners would like to get for but the market is not prepared to pay? What's happening at the moment in the market?

MR CARTER (ABA): There's a stand-off. The people are not prepared to pay the money and the sellers are not prepared to come down yet. The one next to us came down again the other day, but I believe he's under pressure from the bank. There's another one under pressure from the bank. I think this will go right across the country.

PROF WOODS: So that will have a downward pressure again.

MR CARTER (ABA): A very severe one, yes.

PROF WOODS: You were talking about a 20 per cent sort of increment on pricing, but will it over-correct beyond that 20 per cent or is that about the target you think it will come back by?

MR CARTER (ABA): It's crystal ball gazing. Our property in the Great Depression dropped in value by 33 per cent, and that's the good land. The poorer land was unsaleable or could have dropped 50 per cent or more. When you compare it with prices in Europe and compare its productivity, the prices you get as opposed to Europe and the proximity to great population, it hasn't made any sense to me for at least 10 years, land value.

PROF WOODS: From a European perspective, in fact could it look like cheap good agricultural land and therefore worth buying and that might help prop up the market?

MR CARTER (ABA): It could look cheap, but I guess the Simpson Desert would look extremely cheap if it came on the market but it hasn't got the productivity.

PROF WOODS: Indeed.

MR CARTER (ABA): It's not there. As I've said in this report, this submission, as far as we know, we never were able to support more than 400,000 indigenous people over all that time and there was a reason for it.

PROF WOODS: While we're on the prices theme, you made the point and various farmers have made a similar point to us that the price they're getting for their product doesn't reflect the cost of inputs and return on capital. To some extent if you're a price taker in the global market, well, that's the situation and you have to decide on what you do in those circumstances. But you did make the point that government

should do something about that. What's the role for government in there?

MR CARTER (ABA): Well, I appeared before the ACCC on the supermarket issue where we've got the jobs - - -

PROF WOODS: Yes.

MR CARTER (ABA): We believe very strongly we're not finished with that one. We believe that the two supermarkets in Australia are depriving both producers and consumers of a fair share of the market; they've got the dollar.

PROF WOODS: But what does government do?

MR CARTER (ABA): Well, the government can always regulate. I mean, J.K. Galbraith under Kennedy brought in price controls and things like that. These things can be done. I know it's a long way from the philosophy that we've been all running along with for the last 20 or 30 years.

PROF WOODS: I just worry also whether government officials are very good at understanding the actual cost of production and getting a price right in any way.

MR CARTER (ABA): I think you'd be right in saying that because the variation in the costs of production are enormous.

PROF WOODS: It's enormous, absolutely.

MR CARTER (ABA): Yes. But the fact is - - -

PROF WOODS: It may replacing one flawed system with another flawed system, is my concern.

MR CARTER (ABA): That may well be so. We have got a real problem in that in America, for argument's sake, with the cattle industry they have got a packers and stockyard act which insists that everyone pays on the day of sale, whereas here we haven't got anything like that. We haven't got anything like the supervision that the American cattle industry has got. We're actually seeing an industry decline. It's not only drought, it's alternate land use, and we're following the wool industry down. Now, whether this is a good or a bad thing for the community as a whole, I don't know, but that's happening.

PROF WOODS: Well, the wool industry in part is in response to the marketplace putting a price on how much and what demand it will have for wool.

MR CARTER (ABA): Yes, that's certainly one factor. We could discuss the floor

price, but we won't go down that track.

PROF WOODS: Okay. You mentioned a scenario of agricultural land sort of ending up being unoccupied, and by that I assume you mean sort of abandoned in some sense. What is the real prospect of that, or would it at the right be taken up by the neighbour who has been covered in that paddock for quite some time and looking forward to being able to expand their operations. I mean, are we actually talking about abandonment of land or are we talking about some adjustment process whereby others absorb it into their holdings?

MR CARTER (ABA): I think we will be looking at abandonment of land. Probably the western division and particularly the lighter country in the Tablelands where serrated tussock, the high cost of fertiliser and the possibility of getting good young labour is certainly putting enormous pressure - I mean, I can see places out on the Abercrombie - well, we know one place that dropped in value to half in two years, and the person who bought it had to sell it and he only got half for it. It's going under serrated tussock at speed, and the economics of trying to deal with that just doesn't stand up at all.

PROF WOODS: The sort of country you're familiar with, Dr Byron.

DR BYRON: It is actually.

PROF WOODS: Now, you have given us your views on various proposals, farm management deposits, you talk about your strong support for their attention, and you'll notice in our draft report that we have suggested there continuity. Is that something that you - - -

MR CARTER (ABA): Yes, certainly would support that. That makes a lot of sense. Money is terribly important in a drought, doing counter-cyclical work.

PROF WOODS: Rural counselling service, again you give a tick to. One, interestingly, is FarmBis, apart from that fact that you talk about it as a feed trough for consultants. But I assume there's sort of something more structural underlying that comment. Is there some better model by which those in the farming community, who could benefit from an upgrade of their farm management skills, and that's not all, but I mean there is a quality class of farmers who understand that it's not just agronomy or livestock handling, it's all about managing a business, but there are some who could benefit from an upgrade of skills, and yet you are fairly clear in your views on FarmBis.

MR CARTER (ABA): Yes, well, I feel that a person who is serious has presumably got a reasonable accountant and he ought to be handling that side. When we're talking about preparedness for drought and actual teaching of producers or

educating producers, I will just give one example. I took a man to meet with the New South Wales minister with his son and his daughter-in-law, and when we were down the bottom to go into the building he put a cross against his name and the people were all smiling and thought, you know, "Silly old man."

I went back later and said, "You know, the man that you were laughing at is worth 80,000,000. He didn't have anything when he started. He is one of the most brilliant cattle men with one of the most retentive memories I've ever run into. He knows where the grass is. He knows what cattle he bought at what price. It's all in his head." He is right at the top, but there are a lot of people in between there and the hopeless managers who quickly go out of business. One cap just can't possibly fit all, and I just think the concept of educating producers, it depends who is educating them, and so often we find advisers who really are reasonably competent; I mean, they're quite competent at relaying a message, but they're not really adding value.

PROF WOODS: So what are the models that do work? Because there is a need amongst a number of farmers to improve their business management skills. I think you'd agree that some could do so with some improvement. But what models work? How would you go about it?

MR CARTER (ABA): I'd like to sort of see agriculture coming back into country high schools, and I just am very sad when I see places like Yanco and other agricultural colleges sort of withering on the vine, and the level of people that are coming there would worry me too. So I think the schools interesting people in agriculture. The use of computers clearly has been addressed, so that anyone coming out of school would be proficient with a computer, and in the modern area that's terribly important, because in a series of meetings we have about five years ago across Queensland and we had about three and a half thousand people attend, only 15 per cent were computer-literate, and I think that's an intergenerational thing, presumably that is going to be corrected.

There was one other thing I'd like to support the farmers federation in, and that is the boundaries, drawing the lines. I think that's an impossibility, and I think that you people are recognising that. Oddly enough, my daughter-in-law is a rural counsellor, and she was very concerned that the lines might be, you know, getting back to even the smaller areas, but, quite frankly, lines on a map really don't make any sense. Then we get to when you come out of draft you're still in the same predicament, "When did you come out of draft?" "Well, where was the line?" I mean, I've got to put claims in for agistment transport, and I was just outside the line, my area was in declared drought about two months afterwards, so I couldn't claim. That's fine. But it just illustrates the incredible difficulty for the people involved.

PROF WOODS: So our proposal in our draft that you have a household hardship scheme that doesn't require EC and doesn't require lines on maps but it treats each

farm family according to the individual circumstances, that's something you'd support?

MR CARTER (ABA): Very much so, yes.

PROF WOODS: Okay. We probably disagree on some areas. Freight subsidies. You'll have seen our comments in our draft report.

MR CARTER (ABA): Yes, I did, and I can go along with you on drought bringing grain in to concentrate livestock being fed in a paddock, that can do damage. If you're feeding them in yards, in a feedlot situation, you're not damaging your drought view, you're protecting it. If you're moving them to agistment, you're clearly resting your country and you're doing the environment a lot of good. Where I can put myself in your position, I'm talking about going from a 20,000 ceiling up to 50,000, and then I think of my friend who three months ago had to move 50,000 cattle off one property in the Barclay Downs, costing two and a half million dollars; clearly the \$50,000 ceiling would not be of any use at all. So it's a difficult one.

PROF WOODS: On that issue you talked about feedlots or drought lots, call them what you will. How widespread is the utilisation and - I mean, they have been around as a concept for however long, but they're not always picked up. Why is it that some producers still don't use them? Is it because their circumstances are such that they don't need them or that they destock early anyway, or that the benefits aren't evident?

MR CARTER (ABA): I think of late the price of grain has been prohibitive, but up until then there was really an ignorance of really utilising intensive feeding in drought and a lot of people just didn't have the facilities, didn't have the yards or the watering. If you put a lot of stock in a small area you've clearly got to have very good water and you've got to have good troughing for them. I don't think a lot of people have got around to that, it was more of it in the grain belt because they were utilising surplus grain, but in the Tablelands and in Queensland there wasn't much of it.

PROF WOODS: With the November rains we've had I think feed grain prices will be coming down.

MR CARTER (ABA): I've got grave concerns for the feedlot industry going forward to be honest in the world, not just here. I just feel that the cattle industry is fairly low down on the conversion chain and you've got humans and then you've got chickens and then you've got pigs. So I can see a lot of pressure, both in America and here on the feedlot industry and I think you will see Brazil and the Argentine and South America generally who do use grass mostly and our North Queensland operations, to me that's where the future lies.

MR GRANGER: Have you got a view on research and development and extension making a difference?

MR CARTER (ABA): It's a terrible thing to say, but we haven't actually put into practice any research and development that has been done here in Australia on our place. We've put into practice stuff that's been done in America and Europe but we haven't found anything that's really been applicable to what we were doing. I suppose I should exempt myxomatosis from that; that was a huge breakthrough. R and D is a very good thing, everyone agrees on that but what actually happens is another matter and we believe - ABA is pretty solid on this - a lot of money has been wasted by Meat and Livestock Australia on R and D. There are a lot of projects that have been going on and on, the world over, and other projects we don't think are really worth investing in.

So your earlier comment on sharing between industry, even if industry doesn't agree with what industry is doing, and government makes a lot of sense to us. I would like to see government pouring money into R and D because I just don't think the quality control is good enough.

PROF WOODS: We see your views on MLA scattered through the - - -

MR CARTER (ABA): Yes, it's been publicised a bit over the years, but it's not just confined to them. AMLC has a similar sort of angle from my point of view.

DR BYRON: I was interested in, and would like to follow up, your comments about off-farm work. You're probably aware that the last drought review in 2004 chaired by Beth Woods from Queensland pushed very strongly the line that, given climatic variability in Australia, to have some household income that was steady and not rainfall-dependent seemed like a very, very smart strategy and that if, for example, hypothetically mum works in town as a nurse or a teacher or whatever, that part of the household income is stable year in, year out and the farm income is up and down. She spoke about - and not wanting to put words in her mouth - but what seemed like a 1950s idea of the farm family of mum and dad and four kids and the bloke on the tractor and the white picket fence and that the farm family would supply all the income needed for that household and it was seen as a sign of absolute failure that either the farmer or her husband had to go out to work.

We had this, what she called a European concept or perhaps a 19th, early 20th century concept of the farm should provide 100 per cent of the income for that family and talking about a different sort of model where the farm would supply a lot of income sometimes in the good years, but you wouldn't rely on it for a hundred per cent all the time. So it is a bit akin to your comment before about the Aboriginals using the country depending on the season and time of place and it

suggests a more opportunistic type of farming where you don't expect to supply 100 per cent of the family income year in, year out, but you have some other income as your base and then you're into and out of farming depending on the season.

I am not advocating that, but I'm just wondering what your reaction would be. Is that an alternative view of how a family living on the land would rely on it intermittently rather than continuously?

MR CARTER (ABA): It certainly happens in a lot of places. All the best cattle producers up there on the north coast have wives working at the hospital. Certainly my own situation has got that. But when you get away from Crookwell, Canberra and you're getting further away from centres where you can get employment, you start to get into difficulties there, people driving huge distances to work and back are very tired, not very economic very often.

DR BYRON: It becomes even worse when the governments start closing down the schools and the hospitals and the little centres.

MR CARTER (ABA): That's right. I'm red hot on this environmental stewardship, a payment to really look after the country, and I am very conscious that a farmer is a very privileged person in that you've got a lifestyle, you've got a freedom, you haven't got the hassle of traffic jams and all those things and I can certainly see members of parliament who come from the city, the majority of them, having very little sympathy for this concept. But if we look at the spread of weeds, we look at the potential spread of rabbits and we see an environment falling apart, I think we can put a fair case for it.

I certainly wouldn't have an extraordinarily high figure, this is more a sustenance-type of minimum figure. Who actually guards the guards and comes out and ensures that the job is being done, well, you've got political problems there too.

DR BYRON: Perhaps the role of the CMAs.

MR CARTER (ABA): I don't know who would be equipped. They would have to be extremely well versed and trained. In another life I had a heap of meat inspectors underneath and to get uniformity of application was an extraordinarily difficult thing to do and that was on a fairly narrow front. On this front you would have to have people who were very aware of the district and what the problems were and what the weeds were that we used to have; or we still do have weeds inspectors but there aren't enough of them and they don't get around. The rabbit inspectors don't get around. They would be the sort of people who had local knowledge which would do it. But it's a huge step, I'm fully aware of that. But if you don't put it forward, it's never considered. I was very heartened to hear that it has been considered with various people to you.

MR GRANGER: I was going to ask you a very general question. That is, what - I hear your family history that reaches back and obviously survived many droughts et cetera. What do you think the essence of profitable and sustainable farming is; the essence?

MR CARTER (ABA): Flexibility. You - my grandfather made good money, won the Australian butter fat content. Dad topped the wool prices when we switched to sheep, unfortunately, because I had to work with him in 1950-51. Then we moved to cattle. We had cattle all along but the others predominated. We moved. The best thing of all was my great-grandfather following the surveyor-general and taking up the best land that there was. That helps a hell of a lot.

PROF WOODS: Yes.

MR GRANGER: But not easy for others to replicate now.

MR CARTER (ABA): No. I just worked out the other day, it saved me a million dollars not putting any superphosphate on for the last 30 years. So compare that with somebody who is only just across the fence who has got granite - - -

PROF WOODS: And got basalt.

MR CARTER (ABA): - - - and he's got to either see his pastures deteriorate or spend a fortune on superphosphate. So there's no one answer.

PROF WOODS: And EC lines on maps don't capture that fine granularity.

MR CARTER (ABA): No.

PROF WOODS: No. Are there matters that you want to raise with us that we haven't covered? I mean, we do have the benefit of your submission.

MR CARTER (ABA): I don't think so. No, they're only specifics. I was very impressed with this and the variability index that Prof Stewart Franks has done. We are very sceptical with regard to climate predictions. I don't think any of us have got any doubt that there will be climate that goes on forever, but in which direction it's going to change over the next 10, 20 years, I don't think anyone knows. My members reflect that.

DR BYRON: Would you agree with the proposition that to be a successful farmer has always required dealing with uncertainty, complexity, challenges and those challenges are, if anything, likely to get worse or increase over time?

MR CARTER (ABA): I think the greatest challenge we're going to have is people, just population. To me that's the greatest threat. Here I can walk out into my garden, look and not see a house for 1300 acres. If I was in Mumbai, I would walk out and there would be a million people in that 1300 acres. I think that's the greatest single challenge that we've got coming. If you fly over Denver now, you could go right up to Colorado Springs or down to Colorado Springs or up to the north and it's all houses. The population growth is basically - well, we're coming to a very, very interesting phase, I'm afraid. It's just very fortunate we live in Australia.

MR GRANGER: From a cattle perspective, what do the words "food security" mean to you from your view?

MR CARTER (ABA): I think it's they're an interesting couple of words that really don't relate to anything practical. Well, unless you mean - if you mean food safety, I've got a lot of problems with what's being implemented here at present. The danger - there are more people killed by cattle than are killed by eating beef. Food security, ensuring that there's enough food, to me that really is another issue. But were you meaning really food safety, or?

MR GRANGER: No, food security. It's often a catch-cry for investing in rural industry to make sure that everyone gets feed and protecting our markets from competition - that might be a harsh view, but from a cattle perspective I was trying to draw you out on if or why you see the - - -

MR CARTER (ABA): Well, as my colleagues keep saying to me, "Gee, if we don't produce enough beef they're going to starve," I said, "They will not starve, they will eat chicken or they will eat rice and we'll go into the same paddock as the dinosaurs." We do tend to get locked in our own little industries. Food security I would have thought would be number one would be rice, and from there on you go up the scale.

PROF WOODS: I think at that point we might conclude this section. Thank you very much for the time you've given and for providing the submission that you have provided to us.

MR CARTER (ABA): I'd like to thank the three of you for the enormous task you're undertaking. It's hard to see you getting applause whatever you do in the end.

DR BYRON: We're not in it for the applause.

PROF WOODS: Could you for the record, please, state your names and any organisation that you represent or belong to.

MR BYRNES (TPL): It's Catherine and Dennis Byrnes.

PROF WOODS: Could each of you speak separately for the record.

MR BYRNES (TPL): Dennis Byrnes. We trade as Trua Pty Ltd. We're a merino wool growing enterprise about 70 K's north of Canberra.

MRS BYRNES (TPL): And Catherine Byrnes also of Trua Pty Ltd.

PROF WOODS: Thank you very much. As I say, we have had the benefit of an earlier submission and a recent supplement to that. Have you got an opening statement you wish to make?

MRS BYRNES (TPL): Well, first of all I'd like to thank you for the opportunity to talk to you today. Really, the submission I've given to you today is much the same as the one I gave to you previously, it's just that you scheduled these hearings for the Canberra region.

PROF WOODS: We did.

MRS BYRNES (TPL): Maybe the round table at Dubbo, four and a half hours away, would have been less daunting, but we just felt that you had offered us the opportunity; we thought we'd come along, it's an hour's drive and it's all part of the drought process. That's really I suppose what we - and we can only speak to you of the situation as we know it around Gunning which is only 90 K's from Canberra.

PROF WOODS: Yes, we know the area well.

MRS BYRNES (TPL): This drought has had a huge impact on our community. It's brought out a lot of interesting things within the community. Many of us have been able to access drought support; some of us haven't. We know about lines on the maps and things like that. We had NRAC actually visit us last Thursday to review the drought situation there. In the time that they've been coming to Gunning, since I think 2003, we've probably been involved and spoken to them several times over that time. When the area was first refused EC in early 2003, we really I suppose couldn't understand why, and several of us started asking questions, and it was only through that that we really began to understand the whole process. So I suppose knowledge is good. I was saying to Dennis earlier - that a sign, when that NRAC first visited Gunning, I looked around the room when we were talking to them and I thought, you know, years ago if somebody like that had come to a small town like that, the school

principal, the bank manager, the doctor, the local church people would have gone and spoken to a committee like that, and looked around the room and instead it was the farmers and that. So I thought, well, our community has become more self-reliant about that. We've had to step up and take that position, and learn about how to do things like that.

MR BYRNES (TPL): Those people are no longer in our community; we don't have a doctor, we don't have a banker, and that's why the community has to step up, or someone in the community has to step up and fill that gap one way or another, whether it's being involved in the local health care committee or a church committee or something like that. So it has put a strain on farmers who are really involved in something else. They've had to give some of their time to help the community out this way.

PROF WOODS: Your submissions to us are quite an inspiring story of change and adaptation and constantly trying to make the best of what it sometimes is a bit of a poor receipt, to say the least. Where does that drive for innovation come from and to what extent - you talked about you contribute to industry R and D and market involvement, et cetera. But when we're preparing our final report, we'd like to expand a bit on the R and D and extension story. What lessons can you help us with in terms of getting that innovation that you have, that drive to improve, the productivity story? What lessons - - -

MS BYRNES (TPL): I just jotted down a note a moment ago about extension and education. I suppose I've always lived by the philosophy that education is liberation. But especially over these last few years, I've seen that education in its broader sense enables people to see themselves and the value of themselves and develops their self-confidence and their self-reliance, and to see that they can do what they set out to do. This whole process, as I say, in so many ways, just by talking to people and saying to people, "Look, if you tackle it this way," or, "All right, you might need help here. How about you go and seek that help through this person? They mightn't be able to help you, but they will direct you to the right person," and just trying to bring out or ourselves and others around us that potential, that human potential.

PROF WOODS: Is there something that government should be doing in that space or is this best left to the innovative farmers in the district who can provide that leadership and have field days and trial plots and all of those things that happen spontaneously in a community that's running well?

MR BYRNES (TPL): I think the field days and those are great, but our biggest problem is labour. While we're at all these conferences and field days and seminars and things like that, someone has to run the farm at home, and we don't have it. That's why my wife does this submission and does our book work at home because I'm the manager, but I'm also the labourer, and that's what families have to do now.

Family farms have to do that, and possibly why Cath hasn't gone out to work is that there's enough book work, especially now during the drought situation, to keep her busy, and with computers and Internets and things like that, the information is endless. But it just leads you on and on and on.

PROF WOODS: Is there some role to either package it or present it or have extension offices deliver it or bring people together that would help you in this process, because as you said, it's endless and it can lead you on and on. You can on the net, chase any particular topic down whatever rabbit warren you want to chase it, let alone the next topic, the next topic, the next topic. There's just so much you can - - -

MS BYRNES (TPL): Well, the drought support officers and people like Centrelink coming into the community, and our farm - or rural counsellors - - -

PROF WOODS: Rural financial counsellor.

MS BYRNES (TPL): - - - and we now have a YWCA drought worker working in that Goulburn area. They've all been a wonderful help and they've all been very approachable. But I think that their great skill has been drawing out of people and saying, "Look, you organise this or you can" - you know, they're behind us, but they're drawing out of the people and as I say, I think that that's instilling that sort of confidence in people that they can - you know, that they can do what they want to do, that they can achieve things.

I mean, yes, I use the computer and the Internet a little bit, but 30 years ago, Dennis enrolled in a farm management course, and sometimes when he was out in the paddock, I'd be looking up a bit of the research. I found that the best way to do it - of course that was long before the Internet - was just to pick up the phone and ask a question of the public servants in Canberra here in the Department of Primary Industry. I've always found them so approachable. They'll say to you, "Look, I can't help you, but Fred Jones is doing a thesis on farm forestry," or, you know, somebody else is doing something. It's only by asking that question - very rarely have we ever been knocked back by asking the question. There again, I suppose, just getting that message through to people.

MR GRANGER: Who delivers most R and D stuff to you now?

MS BYRNES (TPL): Probably the Department of Primary Industry and - - -

MR BYRNES (TPL): AWI.

MS BYRNES (TPL): - - - AWI.

MR BYRNES (TPL): The part of that is to bring it back so it's tailored to our industry. A lot of research is done out there and it doesn't apply to our section of the industry. So we need our Department or Agriculture officer to come back and say, "In the Goulburn area, this part of the research" - whether it be in pasture seed or pasture improvement or fertiliser use or something - "would apply to this area."

MR GRANGER: This might sound a bit operational. Do they ever ask you your opinion about research priorities?

MR BYRNES (TPL): We mainly want them to concentrate on marketing at the moment.

MR GRANGER: If you've got a view, that's good.

MR BYRNES (TPL): Yes. Not specifically we want this wash-and-wear suit or something like that, but it is the end product from our wool, and if we can produce the kind of wool that they want for that garment or process or whatever, well, we'll certainly try it.

DR BYRON: There's all sorts of ways that might increase your profitability and your resilience to droughts and other external factors, and I guess there are people coming to try and tell you a story about soils and pasture management and animal nutrition and animal genetics and diseases of stock and all those sorts of things, as well as all the marketing options. Where do you think the big pay-offs for you are likely to be?

MR BYRNES (TPL): When the drought finishes. We'll be able to put all this information we've gained into practice, and at the moment no-one can tell us when it's going to end. Each year, like, our farmers have increased their cropping area because this looks like the season that might have been the one that paid off. It did for some and it didn't for others.

PROF WOODS: I notice that you do sometimes put in a - - -

MRS BYRNES (TPL): Well, yes, we have always put in crops. But even in the last two or three years we have started sowing brassica, which seems to have done better in this - - -

MR BYRNES (TPL): Because we have tended to have rain in December, like we have just had recently, you adjust your cycle, find a pasture or crop that will suit you into the autumn because we haven't had the autumns and winters.

PROF WOODS: Now, how many in your district would have made that change though?

MR BYRNES (TPL): I think there's a group going, I think the local produce merchant said there was a group, 38 farmers, that meet and compare enterprises and soil tests and worm tests and all that, and several of those made that change. Sometimes it has been successful, other times it hasn't, for various reasons.

PROF WOODS: Dennis, how many in a group? How many farmers in the group?

MR BYRNES (TPL): There was 38 and that, we're not part of the group, but it was actually - - -

MRS BYRNES (TPL): We're not part of that.

PROF WOODS: That's a separate group.

MRS BYRNES (TPL): Yes.

MR BYRNES (TPL): - - - just a group of farmers around there, I think he said there were 38 farmers produced 70 per cent of the produce in that district. So they're a major group and that, and they vary from all shapes and sizes down to small enterprises; lucern growing, or something like that, you know.

MRS BYRNES (TPL): But with the brassica, I mean, the first crop of it that we had was right on the Hume Highway, so all the locals from everywhere could see it, and it's surprising how many people said to us, "Hey, what is that you've got in there? It's doing well," and yes, we know of several who have taken it up, and then you go further down the Hume Highway, and when you say where you come from, "Oh, there used to be a green crop up there," you know, but, look, that's just one.

PROF WOODS: Where did that idea come from?

MRS BYRNES (TPL): Well, you went to a field day, a seed field day I think.

MR BYRNES (TPL): Yes, put on by the local produce merchant, and there's always people there willing to sell you ideas and products and things like that. So we said we'd do a small amount, and, you know, it was successful. It rained at the right time, we sowed at the right time, you know, could afford to set it up till it was at its right potential to graze it and that, whereas, you know, probably the neighbour next door started a little bit late or too early or it didn't germinate. That's why farms are next door to one another, sometimes you say he's overstocked or understocked or vice versa and that's how farming is, and we know that. We know it's not a guaranteed income.

DR BYRON: And there's a lot of experimentation going on all the time.

MR BYRNES (TPL): But if you can cut that down, the risk, less and less, and that. Like this is the longest drought that we know of, and we're getting to understand it now, understand this drought, and we know what changes we will have to do when it does finish, or, you know, it lightens off; or maybe it's just climate change and that's the way it's going to be. But we'll know what we'll have to do if you want to stay in the farming industry.

MR GRANGER: In essence, what will you have to do?

MR BYRNES (TPL): Well, we'll have to invest in probably a lot of capital machinery and change our pasture mix, look at maybe different breeds of sheep or cattle or cropping, go into that, and, if you can tell us how long the next drought is going to be, we'll put the silos up and the haysheds to carry that. Most people in the area have got 150, 200 tonne of grain on hand or a hayshed with so many bails of hay which will do them that 12 months' drought or the 18 months' drought. But no-one can put enough water away for a five or six year drought.

MR GRANGER: That's right.

MR BYRNES (TPL): This is where income support has really helped the farms. If they had to pay that additional interest, not a great number of people around our area would be still in the farming game without having to be out working elsewhere, not farming.

PROF WOODS: And keeping their farm or moving off-farm and getting other income or some mix of both?

MR BYRNES (TPL): I think a lot of us are realistic. If the farm can't support the family and both of you have to go off-farm to earn an income to run the farm and it becomes a hobby farm, you know, you've got to make a decision sooner or later. But land values in our area are governed by real estate price and not by farming.

PROF WOODS: Especially with highway access.

MR BYRNES (TPL): But it's the general move from Sydney now. Mossvale, Bowral, Goulburn, Canberra, all that area. You talk about lifestyle, that few acres and that, and they don't earn any money from farming, so therefore they can pay above farming prices for the land, and that's what the valuer-general looks at, and that puts pressure on the full-time farmers whose land is very overvalued for what he can produce off it, but his rates are governed by that value.

MRS BYRNES (TPL): If you then use those valuations to go to the bank, that's when you get a false equity in it, and I suppose it's something that we have always

been very aware of, that we are still primary producers on that land, we're not trying to run it as a real estate operation. So when we go to the bank we're always careful and we want to maintain that equity - - -

MR BYRNES (TPL): As a primary production property, not as - - -

PROF WOODS: Yes. Is there any risk of land prices in your area going down by any significant degree or has the real estate pressure's just propping them up?

MR BYRNES (TPL): I honestly think it's the real estate pressure. It has stabilised at the moment due to the credit crisis and things like that, and the cost of fuel has certainly slowed the real estate value of the land a bit.

DR BYRON: I was just reading in what you've given us here, that, even though the banks would be willing to lend you more, you've chosen not to borrow, and that's because you've got your own figure in your head for what the place is actually worth, not the valuer-general's figure - - -

MR BYRNES (TPL): Yes.

DR BYRON: - - - which is I think very sensible and very considerate.

MR BYRNES (TPL): It's commonsense. If things don't get any better and all the land in this area comes the market, it's not going to be the real estate value that the banks have been - - -

PROF WOOD: Are there many farms on the market?

MRS BYRNES (TPL): Yes, there's a lot - you know, I should have sat down before we can up and worked it out, but they're not selling. For example, what, three weeks ago there were two auctions in one week, one was 1200 acres, and the subdivision of it has been approved and everything, 1200 acres really would only just, you know - - -

MR BYRNES (TPL): It wouldn't be a little block.

MRS BYRNES (TPL): But it didn't have a bid. Another one was three and a half thousand acres, so it would be quite a viable place; not a bid.

PROF WOODS: What sort of dollars per acre are we talking about?

MR BYRNES (TPL): \$1000, two and a half thousand a hectare, 3000 a hectare, which is nothing. With that kind of return, you couldn't even earn the interest if you borrowed that money off that area of land. So that's gone out of kilter.

MRS BYRNES (TPL): There are places next door to us, there's a block of 1000 acres, that probably in a normal time we would have been interested in. But at the moment there's just no way. I mean, the last lot of land we bought was in 1999 and at the time we more or less said that we knew that that was probably the last lot of land in that area that we could buy for primary production.

PROF WOODS: Are your paddocks sort of all continuous?

MR BYRNES (TPL): No, but they're not that far apart.

MRS BYRNES (TPL): They're only like two or three, yes.

MR BYRNES (TPL): But the worst part of this in the long term is that we're driving agriculture out of our guaranteed or better rainfall into the margined areas, which we're going to end up with the same problem, like every year. That's probably the worst thing that has happened to agriculture. If we get some of the stewardship everyone is talking about, that would help, you know, we'd have landcare grants. We have fenced off a certain area, classified all the materials and that but we still have to maintain that land.

DR BYRON: That surprised me. You've still got to pay rates on that.

MR BYRNES (TPL): Yes.

DR BYRON: A lot of other places, if you set aside land for conservational purposes, then you get either a complete or a substantial rebate off the rates.

MR BYRNES (TPL): This is where we say that stewardship could come in. The community would like us to do this, so if there comes a time when the community starts to influence what you do on the farm, they should have some input into it.

PROF WOODS: How close an approximation is there between the stewardship payment for locking up land and the costs of maintaining it? Is it a break-even or a net positive?

MRS BYRNES (TPL): We haven't really gone into it in a big way.

MR BYRNES (TPL): It would be a negative at the moment.

PROF WOODS: Is that because you're doing weed clearing?

MR BYRNES (TPL): Yes.

DR BYRON: And you're not getting paid.

MR BYRNES (TPL): As mentioned earlier on serrated tussock is the biggest problem we've ever had since the drought. You've only got to drive down the Hume Highway now to Sydney and see how it's taken over. Whether we need something from whoever to help control it dollar for dollar - but those environmental problems are coming up and shutting up land and it's still got to be maintained and looked after.

DR BYRON: Yes.

PROF WOODS: You have put on the public record that you have been receiving interest rate subsidy and income support. You will have seen in our draft report that we were proposing that interest rate subsidies be not continued after this current drought process. At a very personal level, how do you react to certain proposal?

MR BYRNES (TPL): Like you said, after this current drought.

PROF WOODS: Yes.

MR BYRNES (TPL): We didn't know it was coming even when we started the drought. I guess we will be able to handle it, you know.

MRS BYRNES (TPL): I suppose it's just been of such great assistance to us that we have been able to access it. As I say in my thing, when the areas was EC declared, we had not concept that we would still in EC now; I mean, none of us did. But as I also say, and I know there are areas, as you say, it has been in there for 13 out of the last 16 years and things like that. When they were looking at it records in Yass went back and they said that probably no time until the 1914 drought at least would our area have combined all of those - you know, the loss of production and I think that that is probably the really major thing in our area, the loss of production along with the rainfall that is needed for that EC declaration. As I put in here, an example of that loss of production is that circuit sale that usually has 20,000 sheep and brings in about a million dollars which is then spent in our community. This year it was 5000 sheep and probably would have been lucky to bring in 250,000.

Now, allowing for the fact that we know people decided instead of putting some of their crossbred sheep, their first cross ewes into that sale, that they will put them through a special sale in Goulburn. Some have gone to beef. I don't think that the movement into other enterprises would in any way make up for that loss of production. There is a big missing link there. If EC interest rate assistance stopped, yes, we'd survive, we'd just reassess how we would do it.

PROF WOODS: Tighten your belt and do - - -

MRS BYRNES (TPL): Tighten our belt and, yes, get on with it.

MR BYRNES (TPL): We get into the situation where we have to gamble more, take greater risks to fill that gap and when we get another drought that's how you end up with problems.

PROF WOODS: Yes, and we see a lot of land that's kept in active production to try and get through the drought that in fact there is a net negative impact on capacity.

MR BYRNES (TPL): It depends what cycle the family is in. If it's just young ones starting out with debt and purchasing the farm off their parents or educating their children or university and all those sorts of things.

MRS BYRNES (TPL): In our case, for example, you talk about farm management deposits, we've never had any. As this started we were just paying the last of our high school education, our children had been at the local regional boarding schools. That education was the most important thing in our family situation. So you think, "We can start to put away a little bit," we bought more land but it didn't work out like that. Now some of the boys are ready to come home.

PROF WOODS: What size holding do you have at the moment then? What size is your farm?

MRS BYRNES (TPL): 3000 acres.

MR BYRNES (TPL): There's about 1200 hectares.

PROF WOODS: A good size.

MR BYRNES (TPL): That is a liveable area, a family area.

PROF WOODS: So FMDs would good if only you had enough spare cash to put into it.

MRS BYRNES (TPL): Yes, and I think they are probably a very valid way of preparing, along with the physical preparation of holding grain on site and things like that that I still think you need.

PROF WOODS: Absolutely, they're part of the mix, not one instead of the other.

MRS BYRNES (TPL): Absolutely.

DR BYRON: Last Friday in Dubbo when we were talking about why it is that

some people can't destock early and continue to put pressure on the country. One of the main explanations we got was school fees. If the kids are away you've basically got to pay the school fees, even if that means pushing the country a bit harder than you'd like to.

MRS BYRNES (TPL): Yes. The day we sold wool in 1992, I think it was, when the wool reserve price scheme came on and I distinctly remember going down to pick up our daughter because it was school holidays and three children had been taken out of school that day because the parents could no longer afford to pay boarding school fees. I know that the school had said to them, "Look, we'll cover, that's not a problem," but that's a terrible human tragedy that those kids never finished high school.

MR BYRNES (TPL): That affects rural areas more than, say, people who live closer to the major cities like we do and that.

PROF WOODS: Yes.

DR BYRON: The more remote areas particularly.

MRS BYRNES (TPL): Definitely.

MR BYRNES (TPL): It's a great part of the family income that goes on education one way or another.

DR BYRON: The leads me to the other thing you raised about the next generation coming back after they've had tertiary education which has come up just about every meeting we have had all across the country and a lot of concern is about the kids went to uni to actually give them alternatives to going back on the property. But I'm wondering whether there is a time element that they may stay in Sydney or wherever they are until they're 35, until 40 or something and then they'll want to come back having made a bundle in the big smoke, but they may not want to come back to live on the farm when they're 21.

MR BYRNES (TPL): There is only one person to decide when he's 21. When he's 35 there's probably at least two or three in the family.

MRS BYRNES (TPL): A wife and a couple of kids or something thing like that.

MR BYRNES (TPL): 35 years ago I was able to purchase the farm off my father from the income that I earned in partnership with him. There's no way that my son will be able to do that. So it's nearly at the end of family farms in one way; around here anyway.

PROF WOODS: What's the solution to that? Is it in part with the different forms of taxation on super that farmers - obviously only in good years - but will start to separate out their retirement financing from their farm operation and so that you'd be able to more easily hand over a farm with less debt burden? Where do you go? What's your solution for this issue of succession farming?

MR BYRNES (TPL): No interest loans. There's got to be some way of - whether they get interest assistance or something, if you want farming to continue within Australia, I think something like that has to happen. We can't sell all our land to the corporates and that.

PROF WOODS: But family farming would be by far the majority activity in your area. It wouldn't be the corporates.

MS BYRNES (TPL): No, it's family farming now.

MR BYRNES (TPL): But very few of the farms are solely earning all their income off the land.

PROF WOODS: But that's diversification and risk management.

MS BYRNES (TPL): Yes, but it needs to be - just as an example, last year, the New South Wales Department of Primary Industries or somebody advertised some kind of a course. I've honestly forgotten what it was in, but it was directed for young farmers and things like that. You know, enrol and you would be eligible for the young farmers' grant or something that they have started up. So I rang up about it because one of our boys was half interested in doing it, but it was going to cost \$3000, and maybe you would be eligible for some of the refund of that if the scheme had any money left in it. That's really not a satisfactory - - -

PROF WOODS: Not a lot of incentive happening there.

MS BYRNES (TPL): I mean, that's not for real either, is it?

PROF WOODS: No, that doesn't encourage you to go for it.

MS BYRNES (TPL): No.

PROF WOODS: There's a lot in your story that gives us reason to think and to work out - the sort of innovative approach, the enthusiasm, the energy that you put into where you're heading - how can that be transmitted to others but I worry that if you fall into the trap of thinking, "Well, what can government do about that?" the government might actually get in the road rather than actually be positive and helpful.

MS BYRNES (TPL): As we said at the beginning, that's one of the reasons why we came along today, that if don't contribute together, then we're going to get nowhere.

PROF WOODS: That's very evident.

MR BYRNES (TPL): The government has interfered in a way with so many other industries within Australia; our interest rate assistance is really - if you look at it, the money goes to the bank and it keeps their shareholders and everyone happy and the government has just come out again and given them a bank guarantee, so they're quite happy with it. The motor industry, we know all about that; the building industry. While we have cheaper home loans because someone else is paying more further up the chain, that's why you can have 4 and 5 per cent or 6 per cent interest on home loans because someone else is paying more further up the scale. Agriculture has been probably been paying one of the higher rates of interest in the commercial world, apart from bankcards and things like that.

DR BYRON: I was just thinking about that. The TV and newspapers only talk about the interest rates that they charge on home loans.

MS BYRNES (TPL): That's right. They don't talk about - - -

PROF WOODS: Your overdraft no doubt is not at a home loan rate.

MS BYRNES (TPL): No, but it did come down over the last five days. They passed that last Reserve Bank drop on, so - - -

PROF WOODS: Be grateful for small mercies.

MS BYRNES (TPL): Yes.

MR GRANGER: Are the banks reasonably accommodating to - - -

MR BYRNES (TPL): Our bank put no pressure on us this time at all. In previous droughts, there has been slight pressure put on you, mainly by increasing your interest.

MS BYRNES (TPL): Which is sort of mean.

MR BYRNES (TPL): Really it is. Putting a higher margin on real farmers in the middle of the drought doesn't do anything.

MS BYRNES (TPL): In fact we had the risk thing - - -

MR BYRNES (TPL): The premium.

MS BYRNES (TPL): - - - yes, the premium, and we asked about three or four years ago for it to be lowered and it was lowered because we just said, "Well, we've always paid our interest, think about it," and they lowered it for us, so that was something. But as I said in the submission, we talked to the bank. I think because we do all our own figures, we go to the accountant - but that's the tax side. We pay him money to understand the tax thing. I fill out the budgets for the interest rate assistance and things like that. I do all those budgets. I then give them to our financial counsellor to check and everything like that and we have a talk about it. I know then what's going on in the business.

DR BYRON: And you're in control of that.

MS BYRNES (TPL): Yes.

MR BYRNES (TPL): You should be.

DR BYRON: You'd be amazed at how many people - - -

MS BYRNES (TPL): I know.

MR BYRNES (TPL): They get somebody else to do it and they don't even know what's in those, let alone what it means.

MS BYRNES (TPL): Yes.

MR GRANGER: How did you build up your capacity?

MS BYRNES (TPL): Really, as I say, Dennis 30 years ago started doing a farm management course through the New South Wales Department of Agriculture and Rural Youth and they used to go up to Armidale all the time and then they offered just a farm office management - - -

PROF WOODS: Yes, that farm accounting - - -

MS BYRNES (TPL): Yes. I've done that. Then when we decided to go over to computing, I used FarmBis to go and do some courses like that.

PROF WOODS: Good.

DR BYRON: That's exactly what it's for, isn't it?

MS BYRNES (TPL): That's what it's for, yes, exactly. If you update those skills - but that's how we've done it. I suppose it was always part of our plan.

MR BYRNES (TPL): It's part of the business plan, that you can't keep doing things that you did a hundred years ago.

PROF WOODS: We would like you to give that message to a few other farmers. What haven't we dealt with that's in your story? I think we've covered it.

MS BYRNES (TPL): We've covered the young people coming back and things like that.

MR BYRNES (TPL): The rural counsellor, they have certainly been an asset. The age of the farmers, a lot of the farmers have never had to do this kind of paperwork ever in their life and they were at home there struggling on and no-one actually told them that they were eligible, and they wouldn't go to Centrelink or wherever to apply. We might have mentioned it to the rural counsellor, "Listen, it would be nice if you would just - - -"

PROF WOODS: Knock on the door up there, yes.

MR BYRNES (TPL): It's surprising how it's changed their lives just getting a health care card or something like that. It's really lifted those people.

PROF WOODS: That's good.

MR GRANGER: Have you got a local network where you get with other growers and talk about issues? Is there some formal - - -

MS BYRNES (TPL): Not really. As I say, really, it's just grown out of some of us talking about the need for - we don't have a formal structure as such, no. We haven't been really ever part of any kind of a formal structure like that.

PROF WOODS: You've talked about this other group of 38. Are they based around a commercial group?

MR BYRNES (TPL): They're the local produce merchant and the local agronomist.

PROF WOODS: Local primary agronomists - - -

MR BYRNES (TPL): I guess you'd call it benchmarking.

MS BYRNES (TPL): Yes.

PROF WOODS: No doubt there's an entry fee in that process.

MS BYRNES (TPL): There probably is.

MR BYRNES (TPL): Maybe you buy your produce through him and he gets the benefit. The agronomists are always good at lime and fertilisers and things.

PROF WOODS: All right. Nothing else that you want to - - -

MS BYRNES (TPL): No.

PROF WOODS: Can I, on behalf of the three of us, thank you greatly, not only for the written material but for coming along today because it is quite insightful to just talk to people who have that innovative drive and to try and work out where that fits into our report. Thank you for your time.

MS BYRNES (TPL): Thank you very much.

DR BYRON: Thanks very much.

PROF WOODS: Are there any others present who wish to come forward and make an unscheduled submission? That being the case, I will conclude these hearings. Thank you all very much.

AT 3.28 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY