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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 MELBOURNE ON TUESDAY, 9 DECEMBER 2008, AT 9.30 AM

Continued from 2/12/08 in Brisbane

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PROF WOODS: Ladies and gentlemen, welcome to the Melbourne 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. 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 holding 81 meetings from 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 2009. I would like these hearings to be conducted in a reasonably informal manner but remind participants that a full transcript will be taken and made available to all interested parties. I would like to welcome our first participants to these hearings, the Victorian Farmers Federation. Could you please, for the record, each of you state your name, the position you hold and the organisation you are representing.

MR RAMSAY (VFF): Thank you, Simon Ramsay, president of the Victorian Farmers Federation.

RUSSELL AMERY (VFF): Russell Amery, chair of the Economics Committee of the Victorian Farmers Federation.

MR FORD (VFF): Graeme Ford, executive manager of policy at the VFF.

MS JULIAN (VFF): Lisa Julian, policy adviser economics for the VFF.

PROF WOODS: Thank you, and thank you very much for the support you have already provided to this inquiry. It has been very helpful input. For the purpose of today we have some early advice on the points you wish to raise and we're grateful

for that, and we look forward to a detailed submission from you in response to our draft. Do you have an opening statement you wish to make?

MR RAMSAY (VFF): Thank you, chair, and thank you for the invitation to be able to speak here at this Productivity Commission hearing. For the record we would like to perhaps precis a small presentation and then I'll ask Russell perhaps to raise a few of the issues that we have through the recommendations - some we support, some we don't - and then there's the conclusion if that's okay.

PROF WOODS: Thank you very much.

MR RAMSAY (VFF): The Victorian Farmers Federation, as a matter of principle, supports an emphasis to be placed on drought preparedness rather than on drought response and we have indicated that in our submission and also in our attendance to the Productivity Commission here in Melbourne some months ago. We support the commission's recommendations to expand the objectives of the Australian farming future initiative and in particular emphasise the need to assist primary producers to adjust, adapt to climate variability and climate change. We're fully supportive of the recommendations of the Productivity Commission on that basis.

We do not, however, support the hard deadline of the Productivity Commission as identified in their report 2009-2010 to end the current exceptional circumstance programs unless the current EC event is ended and farming has the opportunity to return to normal or near normal levels. We believe to do so will undo much of the effort that has been expended over the past seven years and may lead to forced exits of many farms in a relatively short period which will create additional problems and negative public benefits.

A sudden increase in exits due to the ending of the support programs will cause a dramatic social adjustment in rural communities. Loss of a few families in small communities can have a substantial impact on service provision, school enrolments, community cohesiveness and community viability. It also may create other problems for other farmers. A large number of farms coming onto the market in a short period of time could be expected to depress land prices. While this may be a positive outcome for those farmers wishing to expand operations, a reduction in land prices will reduce equity levels, reducing the capacity to borrow and the confidence of lenders that have existing loans.

Having said that, we are strong supporters of a well-funded and directed research and development and extension effort. Australian producers have managed to successfully and sustainably farm in a harsh and diverse climate in an agronomic sense. A major component of this success has been the innovative approach by farmers supported by a history of well-funded and effective research and development bodies. The VFF would also highlight the importance and benefits

provided by the Rural Financial Counselling Service and the FarmBis program which I think is now actually auspiced under another name, FarmReady.

Some adjustments to the operation of these services to reflect the broader policy direction may be warranted. The provision of support for families in hardship is an essential responsibility of government and we agree with the commission's recommendations of the continuation of income relief for farm families having that hardship factor. However, the asset thresholds as recommended do not sufficiently into consideration the particular circumstances of modern agriculture. The impacts of climate change, particularly through any increase in climate variability, will pose significant challenges for agricultural systems on a regional and sectorial base. To increase the resilience of agriculture on these levels, a well supported and activated adjustment will bring positive benefits. I don't intend to read the whole lot, chair, I think you have copies.

PROF WOODS: We're happy if you wish to put it on the record and we can include it, therefore, on the public record.

MR RAMSAY (VFF): Thank you.

PROF WOODS: Pleasure.

MR RAMSAY (VFF): I might ask Russell to just take us through some of our summary responses to the recommendations. They're identified in dot points.

PROF WOODS: Thank you.

RUSSELL AMERY (VFF): Thanks, chair. Basically, the cliff face that is proposed to the termination of the relief payments causes great concern. We've got farmers out there not necessarily relying on it but utilising those things. The idea that it will be a total cliff face, whether or not the drought is over, is a bit of a scary proposition. Some sort of reduction, easing off, would probably be more preferable than a cliff face, and more preferable would be a return to good seasons.

PROF WOODS: Rain is a good option. Are we better off discussing each of those as we go through, or do you want to lay out your view on each one and then come back to them and have a discussion?

MR FORD (VFF): I think if we do it as we go through, rather than going back over the same ground again.

PROF WOODS: Yes, okay. Perhaps I can respond to your views on that, it may not surprise you that you're not alone in your response on that particular proposition. The purpose of putting out a draft which in good faith we thought did allow two

seasons for farmers to adjust and was an appropriate measure. However, we have received from yourselves and others strong argument that that's not an appropriate transition path and we hear your views on that. We also note that Minister Burke and state ministers have stated that they intend to allow EC areas that don't yet transition out of EC to continue and that those current farmers who are receiving that support to remain eligible to apply for that support into the future while ever that area remains under EC. So we note that particular statement.

If that were to prevail we consider that as a minimum we would want those who are on those programs, including the interest rate subsidy, to be case managed through that process. At the moment there is a viability test at the front end of getting interest rate subsidy, but once you pass that test, then there's no subsequent need to demonstrate what your farm plan is, your progress against that plan, refreshing that plan at appropriate intervals and we would propose that if that commitment by ministers were to be put into force that at least there should be an ongoing planning and advisory support system to help farmers transition out of their circumstances into the future. Reaction to that? Is that something that would see could help in those circumstances.

MR RAMSAY (VFF): I think the main issue for us was - you've identified the 2009-10 yet it could be quite possible that the drought will continue and extend well past that date and Minister Burke has identified that the current arrangements would stay in place until such time as drought had passed that particular area of circumstance. Is that the assumption?

PROF WOODS: Yes. If that were to hold, then what we're saying is, yes, if that's the approach the government adopt, then we would be recommending that in addition to that there would be a case management process to assist those in receiving that support while ever they were eligible in an EC area to also have a business plan and to demonstrate progress against that plan to help them transition out.

MR AMERY (VFF): So you're suggesting an annual review basically?

PROF WOODS: Yes.

DR BYRON: Can I just add to that. I'm bit surprised by the use of the term "cliff face". What we actually proposed in the report is this new farmer assistance scheme that was always on everywhere rather than only giving household relief, the food on the table thing, for some families in EC areas but only while they were in EC areas. So we have proposed this general system to cover all farm families right across the country all the time starting in July next year and then after that had been running for 12 months if the EC household relief was discontinued because you don't want to two basically similar systems or very similar systems running parallel, people would, if they were still in drought, still met the hardship conditions would simply transition

from the EC relief payments on to the new relief payment scheme which had already been up and running for a year and debugged and so on. There was never any intention to have any sort of cliff face in this transition. So I am a bit surprised you saw one when we couldn't.

MR FORD (VFF): It would be a cliff face for the interest rate subsidy though, wouldn't it?

DR BYRON: There is no entitlement to an interest rate subsidy. Farmers are entitled to apply if they're in an EC area, but there has never been any guarantee that everybody who applies wins a prize and there has never been any guarantee that even if you got it last year you will get it next year. So it's not as if there was something that was there that has been wrenched away from somebody.

MR FORD (VFF): One of the concerns we had, for example, this year has actually turned out to be quite poor for many areas in Victoria and other parts of the country as well - some parts better than others - if we had another failed season next year, for example, particularly for the cropping industry and the horticulture sector, going into 2010 when the lending institutions could see that the interest rate subsidy was certainly going to be ended, that there would be no opportunity for anyone to access that interest rate subsidy, how those lending institutions may actually see financing the crop to be put in the ground in 2010 that there would have been this period or definite date where those EC declarations ceased, so those support programs were triggered by the EC, particularly interest rate subsidies, would have ended and how those institutions may have responded.

PROF WOODS: Perhaps we can separate two conversations, the household relief payment conversation, which this one starts at, and the interest rate subsidy which is the next one, so that in having the discussion about the household relief payments, if we tie that also into our draft recommendation 9.1, which is having access to temporary income support designed for farm circumstances which is where Commissioner Byron is heading in this discussion. I know you will want to raise the two to three million tapering issue and the 20,000 liquids cap. But if we can put that bit of that conversation aside just for the moment and go back to the principle of having instead of a drought triggered household relief program, a household relief program for those households in hardship whatever the circumstance applying across Australia and not requiring an EC process to have a first gatekeeping process.

At the principal level, do you have any support or objection to that proposition that we get away from drought as the only trigger that you have a form of household support and that you operate and always on, as Neil said, availability for farms who find themselves in hardship?

MR FORD (VFF): We've supported that argument and made that comment. We do support that, yes.

PROF WOODS: So conceptually, which is why the cliff face comment from Neil, that we saw this coming in, starting in mid next year as the alternative, but nonetheless there is then separately still the minister's view that while ever an area is in EC and while ever somebody is eligible, then can continue to apply to be eligible for that scheme as it stands. So there will be a transition path, but we think that there should be some case management actively surrounding it. So I think that deals with 6.1, but we might as well deal with 9.1 while we are at which is this proposal to have the always on and, as you say, in principle you support it. It then comes to a question of the overall asset cap and, as I understand your view, you would either want that increased or for the farm asset to be taken out of the cap and only non-farm assets considered and then the separate question of the liquids.

If we deal with the overall asset cap first, again it's a judgment question, but if you were extending the cap to rather than tape out at three million to, say, five million as a not too much more extreme figure, it does become a very hard ask for the general community to understand why somebody with a net asset value of five million - and we're talking net assets, not gross - to also be getting \$17,000 from the taxpayer by way of a household relief payment. It starts to question, "What is the capacity of somebody with a higher asset level to be able to find sources of income, whether they're off farm or extended overdraft or whatever is the option, particularly given the very high equity rates of most recipients at the moment, to not be able to find that sort of money for a year, two years?" I mean, 34,000 for two years out of a five million net asset base doesn't put a big dent. It does bring it down to four million, nine hundred and sixty-odd thousand, but it doesn't put a big hole in it. So that's our dilemma, and it is a judgment. We acknowledge that. But I don't know how - your views in responding to that?

MR RAMSAY (VFF): We've found from some experience through the state-based programs through Rural Finance that there is a significant number of farms in Victoria that have net asset around three million, but have very poor cash flow, and I appreciate what you've said but land values as being what they are, bear no relationship to earning capacity from a farm income. We still see opportunities for farmers to be in significant hardship, even though they might have a realisable net asset of three or four million dollars, and we don't think they should be precluded from the hardship provisions. We're seeing that extensively across Victoria as the land prices increase and cash incomes on farms decrease. The relationship between income and asset or equity is quite lengthy.

PROF WOODS: Yes. We do understand - - -

DR BYRON: The difficulty of the battlers in the western suburbs saying, "Well, why should someone who's sitting on four million net assets be getting a subsidy, a cash gift from the taxpayer at 17,000 a year?" It's not just talking about giving it to someone who's a millionaire, but someone who's got three and a half, four million in net assets. I mean, there's a perception issue there, and I think politically it's a fairly tough sell - could say why, you know, people in the western suburbs have to pay tax to support "millionaire farmers".

MR FORD (VFF): I guess there's been this debate around middle class welfare for quite a while in the political circles. There is a range of programs that also provide support to people, who would, some would argue, don't actually need taxpayer funded support. I think one of the real issues, it's one of those psychological things that when times are tough, farmers are debt adverse generally, and they don't like to have to increase their debt for the day-to-day living expenses. I think it also gives that leverage about those other tools which we have agreed with about the mutual obligations where it may actually provide a benefit in actually being the trigger to also get farmers to consider how they operate in those business plans. I guess, you know, he's justified that expense to get that other outcome as well. Our view is it would be.

MR GRANGER: Do you have a view on where the cap should be ?

MR FORD (VFF): I think probably our view would be that the farm assets should not be included.

MR GRANGER: Should be excluded.

MR FORD (VFF): Because essentially farms, particularly in Victoria where you've got the population pressures and land values are divorced in many areas away from the agronomic value. It becomes very difficult about how you would actually put an assessment of that value in and the movement in those values can be quite dramatic over very short periods of time. So I think any cap on sort of the land value becomes - it's difficult to manage where they actually sit in relation to the capacity of a farm to make a living.

PROF WOODS: Do you have a view on how sustainable this rise in land values is? I mean, is there ultimately a correction in that market? Presumably some of it is a response to agri-business models that have come in and have been able to buy land. Some of it is in response to urban income feeding out into those areas and picking up land as a way of diversifying their total operations. But presumably if the underlying asset over the long term can't sustain the income that it generates, then one would think that a correction might happen which would have presumably two effects; one for those who are currently on the land and find that their debt equity ratios suddenly ratchet up quite quickly and make them look less viable. But also for those who are

wanting to expand or new farmers, younger farmers wanting to come in, it would make it a more viable proposition. So there are pluses and minuses. But do you have a view on land values, why they're at where they are, where they're heading, what the sustainability of those values is?

MR RAMSAY (VFF): Well, we've just seen the premier announce yet another extension of the 20 to 30 urban boundaries. So those farmers are on that sort of green fringe belt are now looking at multi-million dollar properties, purely because of the urban growth. So it's an ebb and flow as far as those farms close to populated areas. Getting back to Neil's point though, it's very hard to compare real estate in Footscray to real estate on a farm. I mean, there's a very strong attachment to a farm and a family. With the farm it is quite different to a bit of real estate in town. What we're seeing is people are willing to go poor merely to retain the family farm asset. You can go around many farms around Victoria, and I do often, and the families are living quite poorly, are purely to maintain the asset base. I agree with you that's not sustainable and at some point, some consolidation or restructure or exit will have to happen, and we've supported mostly your recommendations on that basis. But it is quite different to compare the real estate in Footscray and the person living in that particular asset as against the family farm who at all costs are trying to retain that asset, and quite happy to live poorly and meet the hardship provisions to do so. Not sustainable, I agree, but that's the reality.

PROF WOODS: There's a difference between choosing to do it for a whole range of personal reasons and having essentially viable entity that goes into hardship and that warrants support during that period of hardship. Those who, at the extreme end are doing it purely for lifestyle, and that's only at an end - that's not the majority, but there are a large number who are doing that - then, that's fine if they're self-sustaining but shouldn't be funded on an ongoing basis by the general community, which is why we've also put into this, and we might as well bring it into the conversation, the idea of a three year in seven period, so that people don't start to build that payment into their family farm budget on a long-term basis. In principle, is that something that you would support and separately, whether the three year in seven is the right number?

MR AMERY (VFF): I'm not sure, but that's probably the way we would like to go. Maybe it's the maximum of three years at the full rate, and in a taper of the next two years of somewhere below that.

PROF WOODS: But the principle of it not being always available, I'm hearing you support, but whether it's three tapering or three out of seven or something is where you've got your objections?

MR FORD (VFF): Yes. One of the concerns we have against a cliff-face deadline is I think we noticed that the families at the really worst end of the stick tend to not make decisions, tend to almost go into denial, and that hard deadline makes of course some really significant problems if decisions haven't been made because the deadline is there. So it makes you think perhaps that phase-in and that's - also support those views about the business plans - - -

DR BYRON: That was the one cliff-face that was actually designed into the system precisely for that reason; that people know that you cannot stay on welfare forever and there will come a time, and it's designed to focus the mind to say, "How am I going to get myself out of this situation? By getting off-farm income or am I going to sell the farm, or am I going to stay here and slip down to the community-wide safety net," where you can only have assets of 340,000 or something, rather than two or three million and the case managed through Centrelink. That's the one cliff-face that was actually intentional precisely for those people who would otherwise drift on in that sort of intensive care drip-feed mode, which may not be in their own best interest nor in anybody else's.

MR FORD (VFF): I don't think we're disagreeing. It's just probably just how that fine-tuning is implemented.

PROF WOODS: Okay. If you can expand your views in your formal submission, but you can see the rationale that we've put in there that's - and, you know, some people have criticised us for putting in three years as being too long, but we've said, you know, you have a hard season, the next season is hard as well but then in that final third year you've got to make a very clear judgment as to whether you preserve what assets you've got and get out or whether you seek income, if that's possible - and it's obviously not always possible in a lot of farming situations - but you've got to come to some hard decisions. That's very clearly the cliff face that we did right here.

MR GRANGER: Further erosion of the equity - - -

PROF WOODS: Yes, that's the worry.

MR GRANGER: - - - I mean, I think that is - well, for me personally. I've spoken to a lot of cockies and who is best served by eking out an existence that, like a cancer it cuts away at whatever equity you've ever had and then you've got nothing.

MR RAMSAY (VFF): I think in principle we agree with you. The reality is, farmers don't like lining up to get a hardship provision. Most genuine farmers want to get off as quickly as possible from that predicament. I think three out of seven we can fiddle around but the principle is right, we agree with the Productivity Commission and it's a bit of a trial and error to see how that transition goes.

PROF WOODS: Okay. The only other one where, I guess, again you would be agreeing is that there would be a case management process for them and business planning and all that.

MR RAMSAY (VFF): Yes.

PROF WOODS: Thank you. The liquid asset sub-cap, again there is a question of judgment that while ever people have got bank balances of 40, 50, 60 thousand dollars, whether it's in FMBs or cash management trust or a general bank account for the household, the question is at what point should they be able to access Centrelink payments and still have high levels of liquids. Presumably you would argue, I suspect from your statements, that you'd want a higher cap. What lies behind those arguments?

MR AMERY (VFF): The cost pressure of running a farm, basically the first one there, \$20,000, as we talked about earlier, trying to put a crop into my area, 150, 200 dollars a hectare. If you put in 1000 hectares - - -

DR BYRON: We're not assuming you would want to have a million and a half in liquids - because that's what it costs to put in a crop - and still be able to get 17,000 household relief from the taxpayer, but that's an extreme position, but somewhere in between those two figures I would hope you would argue.

MR AMERY (VFF): We're talking here about the household relief payment which is for the family, you know, putting the bread on the table for the kids sort of thing. This is not about the farm business and putting in a crop. If you're unemployed and you go to Centrelink for the Newstart allowance, you don't get anything as long as you've still got \$5000 in your bank account because the rules are that people need to run down their liquid assets. For a farm family to be able to have 20,000 sitting in cash in the account and still going into Centrelink and say, "We want to hit the taxpayer for 17,800 a year," you know, there's that question of equity with the rules that apply to everybody else in the country. Just imagine what the tabloids would do with that, "A farmer with a \$5 million farm, 20,000 in cash, going to get his hands on 17,000 of taxpayer's money through Centrelink".

I mean, we appreciate that farmers have a higher need to retain some cash balances if they're going to get back into viable, serious farming again. But the question is, how much higher than the liquid balance that everybody else can have and still get a Centrelink payment.

MR FORD (VFF): Perhaps I can explain, for example, a reasonable sized dairy farm who may be in hardship generally has monthly income and actually fluctuate up and down on this \$20,000 cap quite easily and significantly on a month-by-month basis. I think there would be some technical issues about how you actually apply the

cap as well. But farm incomes will leap up and down - - -

PROF WOODS: But you're averaging it over a month or whether that's at any one cap point. Some of that information would be quite useful to us if you could expand on that.

MR FORD (VFF): The other side would be a livestock farm who as a part of their management strategy actually sell livestock which would cash into their bank account. It wouldn't take many livestock to be sold given that they have actually had quite strong livestock markets, even during drought periods recently. Again I think you would see this fluctuation of the liquid asset. Many farm businesses don't operate separate - between farms, the family accounts and the farm accounts.

PROF WOODS: The farm is the source of income for the family.

MR FORD (VFF): It's the one account.

PROF WOODS: Perhaps if you can expand on some of that information to help us with some of the finetuning. You can see the direction of our argument.

MR FORD (VFF): Yes.

PROF WOODS: I think that probably wraps up 9.1 and 6.1.

MR RAMSAY (VFF): Just on the 6.1, this is the interest subsidy component.

PROF WOODS: That's 6.2.

MR RAMSAY (VFF): Okay. So we're getting to that.

PROF WOODS: Yes, that's our next one. Interest rate subsidies. There are two issues there really. There's the question of interest rate subsidies and the question of the termination date. I think the termination date we've discussed because it's the same issue as relates to the household relief but the underlying issue of why choose debt as the best method of assisting the farm community to improve their preparedness; why choose an interest rate subsidy based on that debt that then has no requirements associated with it, to have planning and to work your way into a more viable situation if that's possible. Putting aside irrigation, one of the three worst droughts in 100 years, 70 to 80 per cent of farmers don't receive interest rate subsidy anyway and yet EC was supposed to be a situation where even the most prudent farmer could not possibly be expected to cope and yet somehow 70 to 80 per cent do cope.

So is this targeting a particular group instead of focusing more broadly across the farming community, across the cycle, to assist them to be as prepared and as

self-reliant as possible. We argued no, that that's a wrong approach to assisting the farming community more generally. Your views?

MR RAMSAY (VFF): Sir, just a couple of points and I'll pass to Russell. It's important to realise that different states apply different conditions in relation to the way they apply the subsidy. In New South Wales it's on new and old debt. So New South Wales farmers get a good free kick in relation to their interest subsidies. In Victoria we only get a subsidy on a loss that's shown in the previous year which I think on an average - and I haven't compared the two states - but I suspect is quite different. We've found that in the next section 6.3 about harmony between transaction subsidies.

Again I think I spoke to you at the previous hearing saying that somehow we've got to get a nationalistic approach to our state government's behaviour as well as the Commonwealth in relation to drought support, but that's another issue. But the interest rate subsidy, certainly in Victoria, is based on losses demonstrated because of drought the previous year, so not as substantial as in other states. The other issue I just want to raise is - and we've talked about the transitional arrangements or the offer from farmers to interest to something else - and I'm not sure you've demonstrated in your report exactly what else. We have had the discussion nationally about, "Well, if you take the interest subsidy away, what's to replace it in relation to providing some financial stability of the business?"

Graeme raised the issue which was raised with the Australian Bankers Association that banks - and I'm interested to see how they will respond to this - will take quite a different attitude to the viability test of a farm business once you take away the interest component. In fact they suggest that the margins based on loans will increase considerably because the risk increases without the interest subsidy component.

PROF WOODS: You're suggesting the possibility that the interest rate subsidy has an impact on the assessment of whether a farm is viable or not and yet I thought they were meant to be independent processes.

MR RAMSAY (VFF): The banks have indicated that they will take a different assessment if the interest subsidy is removed and the business is there basically on its merits with no support from an interest component. Say if it's pre-drought grants or something, environmental stewardship or water conservation, I don't know what we're talking about, to replace what we have now, but I think the view was that the ABA would take a different view in relation to the credit rating or the margin rating of that particular business.

PROF WOODS: We will certainly be wanting them to put on record then their approach on these matters and I'm sure we'll look on with interest.

MR AMERY (VFF): I suppose the best way to answer this question is to give an illustration of a neighbour of mine, a young fellow a little bit younger than I. In early 2004 he and his father, who was 59 at the time, decided to expand their operation so that when he retired, the son had a viable farm to take over by himself. He borrowed some money. This family had four or five homes in Melbourne that were to be given to the daughters. Their farm has been there for over a hundred years, never had an overdraft. Today they have fixed debts of over half a million dollars, an overdraft of quarter of a million dollars, the homes have gone, and I would think that they are in receipt of these exceptional circumstances. Now, they have used debt to try and expand and do some things and they are a family that I would hold up in our district as someone, if you moved here, go and have a look at them because they have done things right. They haven't made too many mistakes in the last hundred years because that's why they're still here. They have done things right and now are in a lot of trouble because of the debt that they have been faced with because of the exceptional circumstances of our district. You're saying to these guys that, "In 2010, it's all over, boys."

PROF WOODS: That was our proposal. I think the transition arrangements, as we discussed earlier, Minister Burke's announcement sort of deals with that particular issue, so if we could stick more with the principle of an interest rate subsidy, whether that's the right way to assist the farming community more generally and, to pick up Simon's point, we need to then get on to the discussion of where you go from here, what are the alternatives for those few who are in relevant areas. There's an option of looking at stewardship payments and there are water issues, there's FarmBis-type programs to improve risk management skills, and we can have that conversation in a minute. But the principle of an interest rate subsidy as being the best approach is not one that we see great merit in.

MR AMERY (VFF): To me, it's probably the best we've got at the moment but until we can come up with a better system, it's something I think we need to keep in place while we put the new system in place. But until we've got the new system and it's readily accepted or available or whatever, let's keep this here, so that people have got an idea of what's going to happen.

PROF WOODS: In our report, we do particularly acknowledge the situation of those who expanded their properties to improve their scale economies and it happened to be just before or at the front end of an extended dry period, a long drought, and also the situation of those who newly entered and hadn't been able to build up their financial reserves or otherwise. Your neighbour sounds like they got the double whammy, both extending and, in the son's case, newly moving in. Yes, that is a very real and pressing issue for those in those circumstances.

DR BYRON: But on the other hand, there are people in every other line of business

in Australia who make a business decision and get into financial strife, and as far as I know, there's no mechanism at the moment where the taxpayers will give them up to 100,000 a year for up to five years to stop them from going under. What happens to everybody else who is not a farmer is that they do go under. Again, taking a view across the whole of the community, we have to say - you know, we've all realised that farmers are special but the question is, are they really that special that it needs to be that much more than what everybody else could get? I mean, you just have to look at the bankruptcy figures. People in basically every line of work occasionally make a decision on the best information available and it all goes pear shaped, and a lot of people don't. I've met hundreds of people who said, "If only the taxpayers would give me \$100,000, I wouldn't have been bankrupt," but they're not farmers, so there's no mechanism for taxpayers to give them money. So again, we've got the question of on balance, across the whole of society, how much is reasonable and how often? I'm just trying to explain the quids and pros. It's very easy to see what suits farmers or what farmers would like to get, and the question is how does that square with what everybody else gets.

MR RAMSAY (VFF): I suppose that's a fairly pragmatic approach. I could probably say that that's fine, but look at the car industry and Rudd's recent announcement of \$300 million, which I suspect is only a very small part of the millions that have been poured into that to keep that afloat. Kodak is another company that we've kept afloat. There's a whole lot of multinationals and Australian companies that the government has put money in to keep jobs. We live on about a 3 per cent support mechanism here in Australia for Australian farmers. Our Japanese grading partners are on 60 per cent, the US is on 80 per cent, the EU is on 80 per cent subsidy supports, so you're asking us to battle away in a global market, when all these countries are supporting their farmers to the effect of about 80 or 90 per cent support and we're dribbling on about 4 per cent. New Zealand is on about 3.5 per cent. So that's the reality of the game we're in.

I take your point, but I think it's all a bit moot anyway because my understanding is EC is triggered on a one in 25-year event. The minister has indicated that we're just about over the event now, we're in climate change, and this is a one in three or four-year event and EC won't apply as it does now in the future. We have agreed that interest subsidies are not what we believe is the best support mechanism for farmers in the future, given that circumstance. We have talked about transitional change. There has to be transitional change to allow farmers to adjust. They need to move out of EC.

We're yet to hear what the government - and this is part of the drought reform agenda presumably - will put in place to assist farm businesses in lieu of the traditional interest subsidy component. It's all very well talking about training and business expertise and pre-drought - and we don't know what that means yet - but I've got to tell you, our constituency is particularly nervous about any transitional

arrangement until we know what's ahead of us. I think that's the point we've been trying to make through the whole submission. We don't disagree with the Productivity Commission, we don't disagree with the Commonwealth in transition in drought reform to climate change, but what are we reforming? What is it out there that we're going to be reformed to?

DR BYRON: That's why we're trying to look through the immediate crisis at hand, the drought conditions, and on top of that, the immediate global financial crisis conditions, trying to look through all that haze and static and say what is likely to give us a strong, viable, sustainable, innovative agriculture sector for 20, 30 or 50 years? I realise it's very hard to focus on the longer-term strategic direction when you're up to your eyeballs in immediate crisis, but we want to make sure that the steps that we take during the short-term crisis don't distract us from getting the right long-term direction. We're trying to look at a policy for the next 10, 20 years, not a policy for the next 10 or 20 months. I think we're all in agreement where we want to get to and what sort of future farming sector in Australia do we want to see, and the question is what's the best way of getting there. If you don't have a short term, then you haven't got a long term either, so we have to be very cognisant of the immediate crisis issues that we've got to get through, but there will be life after the drought.

PROF WOODS: So we can pursue the "where to" as we go through these points. The next one, 6.3, I have to say my immediate reaction was "quite surprising", that you would think that the transaction based subsidies that apply somewhat immediately north of you are something that you would vehemently wish to protect. Is that how I should interpret your here; that you don't agree with our recommendation?

MR RAMSAY (VFF): I would prefer to protect our own transaction. We assume you're meaning the state-based programs of government subsidies, which is 50 per cent of farm rates, as you know, and we've got productivity grants that are available. Again, we certainly support the harmonisation between states, and we've talked about that before. I guess, again, we'd like to see what might be before us in relation to replacing the traditional transaction subsidies. That will at least give some adverse risk management to those farm businesses. I haven't seen in the report what the intent is in removing the transaction subsidies and replacing it with some risk management tools.

PROF WOODS: The risk management issue we've dealt with as separate from - and our view on the transaction subsidies is quite simple, that they should just be terminated - another cliff face on those ones - because they are very distortionary. Particularly the drought fodder transport subsidies and livestock subsidies.

MR RAMSAY (VFF): We agree with you there. They can go.

PROF WOODS: We can be in heated agreement on those ones.

MR FORD (VFF): But there's some others that I think you would class as transaction subsidies that have brought some really good benefits for Victoria: the stock containment areas, if you'd call them transaction-based subsidies. They've actually been very successful.

PROF WOODS: You mean drought lots?

MR FORD (VFF): Yes, feedlots. They've been quite successful, given some very good environmental outcomes as well as some very good management outcomes. So I wouldn't necessarily say that the broad heading of transaction-based subsidies is all evil. Some of them have actually been quite beneficial.

PROF WOODS: Yes, and the development of drought lots has been demonstrated in quite a number of areas as a very successful technique, providing you can get environmental approval and all those other issues that surround it. We were particularly targeting some of the transport-related subsidies, and we concede the benefits of things like drought lots. The only question is if they are of such benefit to the individual farmer why is it then a requirement that they get public support for something that is of private benefit and where's the failure in the system, other than an understanding of their benefit, and there are extension programs and demonstration farms that do them and all the rest of it. Now, if there's a failure in getting the information out about it then that's where we can see a public good. But it's a bit hard to work out, whereas the failure in farmers coming to a view that this is for private benefit but not doing it unless government gives them some funding for it.

MR FORD (VFF): We'd like to argue there's some public benefit there as well about environmental outcomes. Human nature is human nature, even though in the back of our minds we may know that something is a good thing, an incentive to actually drive it does tend to drive behaviour quite significantly. I think that's where we see that those systems have worked quite successfully.

PROF WOODS: We do understand the point, but the problem is if you keep offering incentive programs then it's also human nature to say, "Well, I know it would be of benefit personally but I'll wait for the incentive payment, or I'll lobby for an incentive payment before I actually do it because that will be cheaper," provided then that all the materials and the like that go into these things don't go up partly to take some of the transaction costs.

MR AMERY (VFF): In defence of that, some of the work on stock containment areas, in 1994 it was suggested that we have about I think it was 25 or 30 square metres per animal. But in the last few years, and since 2004 it's become highly evident that the total requirement for a sheep is five square metres. So those of us

who had areas to do 25 or 30 square metres all of a sudden in the middle of a drought discovered that that's not in our best interests. We need to decrease that size to look after animals better, to move them into smaller areas to be able to manage them properly and to cause less environmental damage. Now, in the middle of a drought when you need to come up with some money to put up a whole lot more fences and areas and do those sort of things, that's where this program has probably been of great benefit, because we've discovered these things in the middle of a drought when we had no money and we've been able with the help of government to do it. It's about being educated, and that's part of this whole thing. It was discovered, it was shown to us that it worked, and we were able to put in place, not all of us but some of us, those areas.

MR GRANGER: How much did you get?

MR AMERY (VFF): There were differences. Some people got the cost of the materials, some people got half the cost of the materials, some got the cost of the materials and were paid to put the fences up. So it depended on which CMA you were in, how much money they had, what part of the process. So it's not the same for everybody.

MR GRANGER: But, sorry to press the point, I just want to know whether I'm dealing with a sheep station, figuratively speaking.

MR FORD (VFF): No, I think the maximal is probably about two or three thousand dollars, I think, with - - -

MR AMERY (VFF): Some were able to get more. It depends how many pens and livestock you had. So if you put up one pen you got X amount of dollars. If you put four or five pens, there was a maximum you could get, in some areas. I can't speak for every catchment authority.

MR GRANGER: You're saying in some cases it met the cost of the materials, in some cases it was a contribution to those materials and in some cases, at the other extreme, it might have been in fact the cost of materials plus some contribution to their construction.

MR AMERY (VFF): Yes, so it was different for every area and every catchment authority operated differently with the money they had.

MR GRANGER: We can see some environment benefits, but again, sure you might be in the middle of a drought and your overdraft is ballooning out like you really don't want it to, if you're operating a farm with a net asset of three, four or five million dollars and wait for an incentive payment of \$3000 to put in something that is in your private interest it must be a human nature issue happening there overriding

some other good business sense that says, "Hang on, I really should do this."

I mean, you made a very good point about '94, when a lot of these initiatives were happening in the 90s. Sure, the scale was different and you've had to do some re-fencing to realign the size of the lots, but it's surprising there's still an awful lot of farmers that don't have these despite a good decade of demonstration of their benefit to the farm, and during that time there have been good years when there would be cash flow. We're not talking big numbers, but they still don't do them and be prepared for when droughts happen. That constantly puzzles me, but we do need to look at the extension side and work out where we need to reinvest or reform our extension programs or somehow get these message across and get them accepted.

MR FORD (VFF): I think it's just the impacts of these failed seasons and the drought. Sometimes there's a lot of stresses on the businesses, the families with no income, managing day to day. Many, particularly livestock farms, the workload doesn't actually decrease during a drought, it increases significantly. I don't necessarily think that farmers in general are able to at times make those rational decisions as if you divorce someone or had someone else who didn't have those pressures on them would make. The environment in a drought is very difficult to manage, and I wouldn't necessarily say that every decision that gets made is actually the rational decision to be made.

These programs that actually drive them - governments all the time are making decisions about programs that are actually in the interests of the community, and when they do that and support them you generally do see a fairly significant change. One that clearly springs to mind is the baby bonus. See what impact that's had on the birth rate. When you think, such a major life-changing event that you would think a relatively insignificant amount of money in the scheme of raising a child would create such a change in our birth rates, but it has. It clearly has.

MR GRANGER: You'd have to pay me a fortune to get into that business. We've got grandchildren, they're a lot of hard work to me.

MR FORD (VFF): Exactly, but government programs can actually drive, without huge investments, really significant changes in the way behaviours operate. That's where we see some of these systems being very useful even though on a pure economic theory basis they shouldn't be involved.

PROF WOODS: Wandering through 7.1, where we're proposing that we don't have drought objectives any more but we expand the objective of Australia's farming future, from your notes here you're in broad agreement with that. Whether you come back with some variations on a theme in your final submission or want to discuss that now, it's up to you.

MR FORD (VFF): I don't think we have any particular problems with the words you have, there may need to be a bit of fine tuning.

MR RAMSAY (VFF): As long as we don't see the terminology "dryness" through the report we'll be happy.

PROF WOODS: I don't think you found it in here. Point taken. Now, significant public funding directed to RD and E in particular. We have had some excellent discussions as we've done the various roundtables. As you know, we're doing the formal hearing structure which particularly is useful for peak bodies but we are having, as we had in Mildura yesterday, roundtables of farmers and other interested parties. The extension side has been generating a lot of interests and some very constructive suggestions as to how improve those models of operation. We would be interested whether either today or in your rejoinder submission you would like to do two things: one, indicate where you think that the funding priority should be expanded on the R and D side but also what models of E that are currently operating that you support or whether there are variations to that that you think should be supported.

The extension side, I think you would agree, has generated some very positive debate and some excellent thinking that is happening out in the farming community about what does work and which way to go.

MR FORD (VFF): There are some very good models out there, Birchip Cropping Group, the Target Ten in the dairy industry in Victoria. They get very industry-specific some of those models and won't be adopted by others, but we can provide something.

PROF WOODS: So if you can draw on that literature to help us as well. I don't know if you want to add anything further today on it.

DR BYRON: Just on the industry models, one of the things that has come up in a few of the other states is the idea of having the extension workers who were funded by the Department of Primary Industry but actually located with an industry association, partly to specialise and focus but also to give greater continuity of employment so that the extension person isn't on a two-year stop-start grant.

MR AMERY (VFF): Two-year contract.

DR BYRON: Yes. We certainly appreciate that these sorts of things need some longer-term continuity and having that stop-start is not really anybody interest.

MR FORD (VFF): We have had variations of that within the VFF of various government-funded positions to put our programs in the industrial relations arena,

drought support programs. If you go back a few years, back in the late 90s there was the Farm Smart program where in effect the VFF was funded for two full-time staff to assist in the extension effort. We found it quite successful. We have obviously got a very effective network to communicate with farming groups and we can make use of that.

PROF WOODS: Picking up my colleague's views, the benefit that way of tying it into a partnership with industry, so it's industry-driven in terms of (a) the priorities but (b) also that there is an active contribution, there is a buy-in by industry into those processes, but that's going to be much more successful than just some wash of money that's provided from outside, that there is a commitment and a direction from industry as well as government funding support.

MR FORD (VFF): There are some changes - I don't want to speak on behalf of DPI, but I'm sure if DPI present you could ask the questions about the way the R and D at the department level, the government funded, not the industry research bodies, corporations, but essentially the state departments are divvying up to who's got the level of expertise to do particular things. There is a whole restructuring about how that pans out which will throw some challenges. For example, wool is going to be done by WA, so how do we make it applicable to Victorian circumstances? Victoria is going to do the dairy industry, so obviously other states may pose some particular challenges about the extension.

MR RAMSAY (VFF): In fact if DPI had their way they would want all the drought money put into R and D and manage some of the different departments.

PROF WOODS: We will no doubt get a rejoinder submission from DPI.

MR GRANGER: Can you see looking down the track that you will have to have a licence to farm? I will back off that statement a fraction - I'm thinking about a lot of people, say, in hort that want to market to certain areas and they've got to have certification for food safety and other issues, even pressures if you, say, go to the UK market on environmental status of your farming business. Just looking down that time tunnel - and I want to link this back into this concept of preparedness for not only drought and whatever or whatever, but preparedness for whatever risks that seem to hit farming all the time.

Can you really see looking down the time tunnel that eventually you'll have to have so many certificates across so many fronts that you may as well say you will have to be licensed? Can I draw you out on that because it links back into this whole area of R and D and looking and developing these accreditation systems, farming systems, whatever you want to call it.

MR RAMSAY (VFF): We have actually talked about it before. It would not be

unexpected at some point in time that there might be some sort of permit or licence required to farm and you're right, the animal welfare issues, the environmental issues. I would hate to think how many permits and licences farmers have now just to operate the business, whether from an occ health and safety issue, to environmental issue, to whatever. A licence that fits all would be interesting, but some way away probably.

MR FORD (VFF): I think from our point of view though it's about market drives. If market drives it then clearly the hort industry is with those QA programs, you need QA certification to deliver to a market. If a market drives it that way that's you will make a business decision to incur that cost or incur that system to meet that market.

PROF WOODS: Or an industry like cotton.

MR FORD (VFF): Yes. But if we're talking about essentially that because of some community pressure about the way farms operate that the government decides that you need to be regulated to be able to operate a farm, I don't think we would be supportive of that approach.

PROF WOODS: No, but increasingly there are requirements on farmers - and it ranges from the legislative, ie, your chemsafes and your transport and your occ health and safety and all of those, through to industry-related, if you want to get into this market, then you do that. But you could also attach it to things like stewardship payments, that unless you can demonstrate business plans and your ongoing capacity to be a professional farmer, that you wouldn't have access to those. So some of them would be incentive-induced or industry-driven or market driven as distinct from legislative, ie, "You can't own this land unless you've got the government licence."

MR FORD (VFF): I guess one of the real challenges will be where do you draw the law on who is a farmer and that has been something that is a vexed issue, particularly in many industries. If I've got 10 acres out the back and run a few sheep, do I need to be licensed to be a farmer and at what point do I become a farmer?

PROF WOODS: Or if you're not of a viable basis, then you're not eligible for support in situations where it's directed to those who are in hardship or whatever. So there would be a quid pro quo that if you choose to own a paddock and tether your sheep to the clothesline, well, that's terrific but (a) provided you don't use chemicals, you don't pollute the waterways, you have animal welfare, but you also don't get classed as a farmer. So there would be trade-offs in that process. As there is an increasing array of either legislative or industry or other arrangements that are imposing or requiring particularly performance and knowledge and skills by farmers, then some rationalisation and integration of it at various steps into the future I can see might actually be of benefit.

MR FORD (VFF): I think the QA system is an indication of how difficult that would be, that just about every industry and in fact some industries run more - multiple QA systems. None of them are consistent.

PROF WOODS: Yes.

MR FORD (VFF): It's a real - I think they're a real particular issue for agriculture, that a system where I - maybe it's not - whether it's a licence or what. It's a system where you can actually just bolt on those extra bits, but we can't do that at the moment. The way the QA systems operate, they're so diverse. They've got so many different requirements that you can't just simply add this bit onto it because there's a new drive in the marketplace.

PROF WOODS: No.

MR FORD (VFF): It's a real problem.

PROF WOODS: It's interesting in that respect though, because I think there's a lot of common agreement about where it should get to and, I would have to say, a lot of effort expended by various departments, DPIs around the place to try and get there but the outcome has been successfully unsuccessful at this stage. Is there any way of breaking through that or is it just cultures and practices?

MR AMERY (VFF): As Graeme said, I think it has to be market driven, especially in the QA area, although in the grains areas there were two programs that were put up seven or eight years ago. Apart from one marketer that I know of the others all fell over because anybody who went into that process went through - were accredited, spent a lot of money, were audited every year. There was no benefit in them, apart from one particular brewery who likes to buy their barley from growers. They have got a very small group of growers who have met their requirements and they're happy.

PROF WOODS: Yes.

MR AMERY (VFF): That's worked very successfully for them. But everybody else who was QA accredited went in and said, "Hey, my produce is QA accredited."

PROF WOODS: "So?"

MR AMERY (VFF): "And Simon's might not be," so he gets the same price.

PROF WOODS: Yes.

MR AMERY (VFF): So we've all gone, "That was a waste of money. Why did I

go and spend all that time learning that process?"

MR FORD (VFF): Yes. So until markets are able to pay a premium, which is probably unlikely, or restrict - - -

MR AMERY (VFF): Access to - - -

MR FORD (VFF): A penalty to non - I don't see it actually - - -

MR GRANGER: If you don't have that ticket you don't even get in the front door, do you? Look, let me say this quickly: it has driven the horticultural industry crackers over the years about the duplication, all that sort of stuff, and the cost. But it's something - what I'm trying to do is just sort of thrash around and say, "What's the circuit-breaker in everything we have been talking about?" I don't think - I fail once again to deliver a silver a bullet. It's easy to say it should rain but that's another debate.

But at the end of the day I just think the farming community is a lot better than what they often come across as. A lot of these things are happening through the back door. I'm just thrashing around and saying, "Well listen, is part of the answer in sort of becoming better prepared for all the vagaries of business, farming business, is it about some sort of cumulation of accreditation?" I called it a licence. A bloke could get tarred and feathered a few years ago for even mentioning this word but it's getting - people have got a more open mind, all because I think there is a genuine quest to try and find out, "Well, what the heck are we really aiming at," to sort of prevent this business of hitting the fan and the tragedy that comes with it. Anyway, I think I'm defining the problem, I'm not delivering a solution, but we'll get there.

PROF WOODS: Any further thoughts you have on that in your rejoinder submission would be useful. That takes us to rural financial counsellors. Our proposal there was in part drawn from the Kenny report and also from our own discussions and analysis of issues.

Since we have put out that recommendation I think two things have come to light. One is that the statistical analysis might be slightly skewed because a rural financial counsellor may indeed have a farmer on their books for a number of years but it may be two unrelated events separated by an extensive period when there was no contact. So we need to go and re-investigate the database to see whether we have drawn the right conclusion from what appeared to be some large hanging-on of customer bases by counsellors. So we'll pursue that. The second is that the new case management approach really is only just starting and whether you could develop any discernible trends and add value by having an immediate review is looking less likely. But do you have any other comments or views on that recommendation? No?

MR RAMSAY (VFF): No. We would just like some clarity on the funding issues which seem to be an ongoing issue about the tenure.

PROF WOODS: Yes. Again, long term - clear definition of roles so that there's no overlap with Centrelink and there's no overlap with other areas. So defining the role more closely and having a more stable form of funding seemed to be two of the areas.

MR FORD (VFF): The Rural Financial Counselling Service - and I'd be very surprised if you have got any or many negative comments at all about that service. It has been very positive. All the feedback we get over the years is very, very positive about that service. Given that that's a brand name out there, well-recognised, we would be strongly supportive of your recommendation to maintain it, even though there may be some fine tuning about the operations but essentially the service itself and the service it delivers, we have been very supportive of.

PROF WOODS: Okay, tick on that. Next one, it has surprised us at the strength of support that was given to the old FarmBis - that we have been constantly bombarded with very positive stories about what it was delivering. I mean not in total but a large part of the approach. For that reason our recommendation there says that the successful elements of FarmBis really do need to be preserved and strengthened. That's a strong positive that can be delivered out to the farming community. Your views on that?

MR RAMSAY (VFF): We got a rap on the knuckles from the minister to dare to suggest that there was just a re-badging of FarmBis to FarmReady. He denied that and said it's a whole new ballgame, much more contestable blah, blah, blah. We certainly found with FarmBis - in Victoria, I think, we didn't take up the full allocation. So there must be some problems with the approach or the access to FarmBis by different educators. There was also issues about - we suspect some profiteering out of the FarmBis by those educators.

PROF WOODS: Yes. There was some distortion into how it's delivered.

MR RAMSAY (VFF): Yes, so it needed a tidy up. There's no doubt about that.

PROF WOODS: Yes.

MR RAMSAY (VFF): But we saw it as a valuable tool as part of the training and education. It was well taken up in certain areas. It's just a shame that more people aren't disposed to access it, really. Quite frankly, we have got a generational problem with farming. There's no doubt about it. The average age is 58, 59. Many even of our membership are looking to retire or move on. You have got a younger generation, some willing, some not so willing to participate in the farm business.

There is no worries about the education of those next generation coming up but it's this older generation that is hanging on that is not wanting to up-train or re-educate or take opportunities to up-skill in certain areas. Until they go through the system and out we're sort of going to be badged with this sort of recurrent problem of all the things we have talked about this morning.

PROF WOODS: Yes.

MR RAMSAY (VFF): Not thinking about risk management, business plans - you talk about licences and providing business plans. The reality is that a lot of our farmers couldn't even fill in the Centrelink form; . They had to be coached in putting their name down. I mean that's where we are up to as far as far as the intelligence or the education of many of our farmers. So to actually think about a drought reform agenda where they have to provide business plans and significant up-skilling and risk management and all this, this is going to pass over in a haze to about 50 or 60 per cent of the farming fraternity out there. The good ones, the top 30 or 40 per cent, well, they don't need EC.

PROF WOODS: No.

MR RAMSAY (VFF): They're doing their thing. But until we get that generational push we are going to be dragged to that sort of demographic all the time.

PROF WOODS: There is no easy solution to that. One thing I think is important to impress though is that for the younger generation to not assume that they're all of a like mind either. We have been quite surprised in some of our roundtables at the conservative attitudes expressed by some of the younger generation. So we need to get the extension services and the business planning psyche and the risk management approach well embedded right across that next generation early, so that some of those don't lapse into the sort of situation that you find yourself with now. It's their personal decision to be a farmer and their personal decision as to what skills they take on but it's in the collective interests of yourselves and the general community to get to them and encourage them on that pathway as soon as possible.

MR FORD (VFF): Just as an observation, I think they're actually - which is a function, I suspect, of the early experience in agriculture between various generations. I think you would find that the very oldest of the generations are very risk averse. If you looked at the way their business is structured they probably have very high levels of equity, very limited debt and run a very conservative production system, whereas probably in about the 80s - and I think particularly the 82 drought was a trigger that led agriculture to pursue a very high productivity gain which was very high risk, or much higher risk because the input systems were much higher. That system played really well up until about 97 and now we're suddenly seeing that

that system is no longer very successful and we might actually see a reversion back to a 50s, 60s style of agriculture where it becomes much more risk averse. So as the climate changes I think we will see a different attitude instilled in the way people manage their businesses and it won't be a stable platform; there will be flexibility in how that pans out, as they have to.

PROF WOODS: My use of the word "conservative" is not in terms of their farm management models but in terms of their approach to seeing any merits in business planning and the like. Many farmers, particularly of the older generations who ran a conservative model of production, were coming along to our meetings and saying, "We're still getting turnover of X," and that and the neighbours were saying, "When can you put in a field day, please? We really need to see what you're doing." Anything more on that one? No.

Farm management deposits - now, surprise, surprise. I guess the preface to this conversation would be to say that we actively and strongly support farmers building up their forms of capital, whether it's the physical infrastructure on their farms, the natural capital base of their farms, the financial capital that they can put in to a whole range of instruments of which FMDs is one, but cash management trusts, et cetera. So we're not discouraging people from putting financial capital aside in the good years. All we're doing is trying to devise a trade-off between the cost to the taxpayer of the income tax deferral that FMDs represent, which is 75, 76 million a year, versus the need for farmers to have a good base of financial capital. So we don't disagree with financial capital being put aside. We just need a trade-off between how much cost to the tax payer through the FMD route.

MR FORD (VFF): I think we'd like to increase the cost.

PROF WOODS: Yes, we figured you probably would. But that's where that lies. I mean, it's not an argument about where you need more than 400,000 put in a crop, true. We go to WA wheatbelt and it's one and a half million. You go to the Eyre Peninsula and in some cases it's up to 2 million, depending on the nature of the farm or the livestock issue, et cetera. A lot of people have been surprised that we've supported FMDs because they have been going up and that's a statistical fact during one of the three worst droughts in the last hundred years, but when you disaggregate that you find that the cereal growers - theirs have been slowly but progressively declining as they put in crops and it doesn't turn out. So their FMDs are going down. The pastoralists, their FMDs are going up in the worst drought but that's because their destocking and putting money into FMDs and then draw it down when they restock.

So it's actually working the way it should work and we support it, which surprised a number of people, but it's just a debate about how much taxpayer support for the tax deferral that FMDs offer versus farmers putting money aside in other

instruments.

MR AMERY (VFF): In that regard, rather than have a cap on total there, a cap on what you can put in in any one year. Is that a possibility or was there something - we're just throwing it out there.

PROF WOODS: I don't think you're going to find us bending over backwards trying to find ways of increasing the size of the FMDs but if you've got an argument - this is a draft report and you're entitled to lodge your views on it.

DR BYRON: The other thing is that it seems to be very, very few people who are actually bumping up against the 400 K limit, and the average is 73.

PROF WOODS: 70 - - -

DR BYRON: If we had information to say that the 400,000 was way too low and everybody was hitting that threshold then you'd look at the threshold, but given that there's only a handful - and as Mike said, there's no limit on how much money people can put away for a dry year. It's just a question of how much of it gets preferential tax treatment.

MR FORD (VFF): I think there's two things that we'd be looking at. One is the - we were talking about a 20-year plan and we've talked about - so \$400,000, a different day, or \$400,000 today as will happen in 20 years' time.

PROF WOODS: Well, yes, there's that issue.

MR FORD (VFF): But also if interest rates subsidies are going, and agriculture is beset by lumpy investments, you can't buy a small part to the next farm. So it's about - and if debt is a real issue in a very variable and risky climate and you want to minimise actually the depth of debt people go into as they try to maintain their viability, then an increase in the FMDs to allow them to use that a store to actually avoid some debt at some future date would be useful as well, we would argue.

MR RAMSAY (VFF): We might remind the government if they get hot and sweaty about the funds sitting in FMDs, that they continue to support a policy of providing taxpayer money to management investment schemes which are polluting the landscape of agricultural land.

PROF WOODS: Yes. Well, there is a restriction increasingly on that back to forestry.

MR RAMSAY (VFF): Well, the test case is still being heard, as I understand, and no decision made.

PROF WOODS: Yes, that's right. Indeed. We understand that one very clearly. 9.1 we dealt with, which is the hardship program; the EC which is 10.1. The termination, well, that has been discussed. Are there any other matters, issues that you want to raise today as distinct from looking into your rejoinder submission, other - - -

MR FORD (VFF): I don't think so, given the time we've consumed.

MR RAMSAY (VFF): I think you've been very generous with your time and I think we've tried to make the subtle points, mainly about the termination of the timetable around interest subsidies and - - -

PROF WOODS: We've got that very clearly.

DR BYRON: Not necessarily for right now, but you raised the point earlier about getting coherency in treatment across states. If you've got time to think a bit more about that and ideas on how we can try and nail that, that would be really helpful because we've also been trying to figure out how you can encourage greater consistency across state borders. We're cognisant of the problems that it creates when you get these inconsistencies. The question is how and why, what might you do about it. So any suggestions you can give us on that would be really helpful too.

PROF WOODS: Given that we are concluding this session, can I just again put on record how grateful we are for the time and effort that you have put into this inquiry and assisting us with our trips around and the rest of it. It has been exceedingly useful and we do look forward to your final submission to us. Thank you again.

MR RAMSAY (VFF): Thank you.

PROF WOODS: We'll adjourn while we fill our cups and then we'll bring on the Australian Bankers' Association.

PROF WOODS: The next participant in this inquiry hearings is the Australian Bankers' Association. Could you please for the record give your name and the position you hold in the organisation you are representing.

MR CARROLL (ABA): Stephen Carroll. I'm a director at the Australian Bankers' Association with responsibility for agriculture and rural lending issues.

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

MR CARROLL (ABA): I do. I'd like to make some comments with regards to the recommendations concerning the interest rate subsidies and the farm management deposits, and I'll be happy to answer any questions that you would like, but I'll just summarise our views, and I guess, concerns about those recommendations as briefly as I possibly can. The ABA is concerned that the draft recommendations to terminate targeted interest rate support for farmers in times of drought doesn't take into account capital formation issues and the lack of availability of simple and efficient risk management tools for agricultural businesses.

The ABA recognises that the interest rate subsidy program is not a perfect piece of public policy and has probably been changed since it was first put in place under the exceptional circumstance policy framework. However, it does help farmers who have recently invested in best practice technology and invested in improved economies of scale to help them manage the impact of drought and changing climatic conditions. The ability of farmers to manage drought is highly dependent on whether there are other adverse impacts impacting on their business financially. If other factors are exposing the business to increased financial risk, then the ability of a farmer to manage the impact of a drought will be compromised.

Farmers have limited tools available to them to simply and efficiently manage risk. There are few if any financial products that enable Australian farmers to manage production risk. Products available to manage price risk are limited and complicated because they generally are not based on local markets. Farm businesses that have achieved efficient scale, invested in best practice production technology, are maintaining strong balance sheets and have retained capital in liquid investments, generally are able to manage drought. These are mature businesses and should not need or expect government assistance.

ABA's concern is that for a farm business to reach maturity, it needs to invest, and if it borrows significantly to do this, it will expose itself to financial risk. If it cannot simply and efficiently manage production risk and price risk, investing in best practice and/or increased economies of scale, can become a gamble against the occurrence of drought. The timing of these investment decisions often determines

the success of Australian farm businesses reaching their strategic goals. The need to adapt and adjust to the impact of climate variability and climate change will require investment and therefore expose growing farm businesses to financial risk.

This may leave them vulnerable to the impact of drought in the future. A tangible benefit of the interest rate support scheme is that for farmers the government identifies as being worthy of assistance, they also get an undertaking of support from their bank for the period that they're receiving that assistance, and their credit risk margin with that bank is locked in, regardless of a further deterioration in their financial situation.

ABA recommends that the inquiry consider supporting a modified interest rate support scheme that is strictly targeted at farm businesses that have recently borrowed to invest in best practice production technology and/or appropriate economies of scale that have viable business plans, can demonstrate the implementation of appropriate risk management practices and that are significantly financially impacted by drought. With regards to the FMDs, I'd just like to make a few comments about the FMDs. FMDs are a useful tool for a mature business in managing liquidity, especially given the lack of insurance products that are available in the Australian market for agri-business to manage production risk.

Balances should relate to the annual input costs, given the lack of those sort of insurance products. Beneficiaries of trusts and shareholders should be given access to FMDs on the same basis as partnerships, with the added condition that withdrawals can only be invested back into the business or taxed at the corporate tax rate. They're the comments I'd like to make to you in my opening remarks, and I'm happy to answer any questions.

PROF WOODS: We do want to discuss both of those issues, but can I start at a broader issue, and that's the question of agricultural land values. One of the three worst droughts in a hundred years, land values keep rising. Land values are such that they won't be able to generate an income, putting aside drought, even just over the cycle, that would sustain the servicing of that level of value of asset. What's driving land values? Is that whatever it is or whatever those factors are sustainable over the future and if not, what will be the consequence, if land values come back down, of the change in the debt equity values of the farm businesses arising from such a change?

MR CARROLL (ABA): Yes. That phenomenon of increasing land prices during this drought has been an extraordinary event in the sense that it has enabled farm businesses to manage this drought a lot more easily. It has given them access to finance that probably they wouldn't have seen in previous droughts. So I guess that in itself is an interesting point about how effective government drought assistance can be, without taking into account what other factors are impacting on a farm

business at a point in time.

PROF WOODS: So you're suggesting that interest rate subsidies in fact are contributing to an increase in land values?

MR CARROLL (ABA): No, I'm not suggesting that. What I'm suggesting is that during this drought, commodity prices have stayed reasonably strong. The outlook for commodity prices has stayed positive. People have been able to borrow at relatively low interest rates, whether or not they've got access to the interest rate subsidy or not having access to the interest rate subsidy, and that has enabled them to manage this drought a lot more easily than perhaps what a lesser drought from a climatic impact might have been if we didn't have that positive outlook for quantity prices or and if we had higher interest rates. So the ability of farmers to manage a drought will depend on what other factors are impacting on their business at any point in time.

PROF WOODS: Is the current escalation in land values in the ABA's view a sustainable event?

MR CARROLL (ABA): I think in the long term, those prices are reflecting the expected demand for soft commodities, going forward, and if we hadn't hit a global financial crisis, then I think those prices would reflect what commodity prices were doing and were expected to do. Given that we've gone into a situation that has taken growth out of the global economy, those prices are now looking a little bit high, but over the long-term, the expectations are that there will be pressure on commodity prices that are expected to enable those property prices to be sustained.

PROF WOODS: Do you want to follow that up at all?

MR GRANGER: No. It's sort of been a bit of a paradox through the whole thing and so it's good that - consistently as we've gone around, farmers have said to us along the lines of, "Property values are crazy. It's out of all proportion to the ability of the land to generate income as a farm," and all sorts of things have been suggested, whether it was the fact that you can now buy agricultural real estate over the Internet from Holland to the fact that - you know, the tree change thing from wealthy urban population in Australia or the role of MISs and so on, but given how important those rising land values or non-falling land values has been to equity, the debt-equity ratios and the ability of farmers to borrow, we'd really like to understand that a lot better.

MR CARROLL (ABA): The obvious point is, if those property prices turn down, then yes, that will put a significant pressure on farmers that are carrying significant levels of debt. I guess that one of the benefits that we've seen from governments providing interest rate support and also income support is it enables the market to

adjust in a more orderly fashion because that support is there, and as I mentioned before, the farmers that are receiving government support, to be eligible for that support have to have the backing of their bank or their financial institution to receive it, so that gives them 12 months forward. Typically, what we don't see is assets being pushed under the market and forced to be sold, even if the market is not accommodating.

MR GRANGER: Just to tease that out a bit, is there some tension there? The core of the issue for me anyway is if someone writes a certificate of viability, call it that - you know what I mean - do you think that these judgments of viability have been a bit soft in recent times? That's probably an unfair question. I know with a bit of experience in the cane industry, there were predictions of, "Life will never be the same," with the demise of this industry and predictions of cheap farms flooding the market and they never occurred, even for people in the industry that wanted to buy up capacity for their mills. It just sort of made me wonder, this paradox, if we're probably keeping people in the industry far too long that shouldn't - well, should at least have to decide whether they move on. It's bad business to give people false hope, type of thing.

MR CARROLL (ABA): The viability, I guess judgments are being made by state government authorities that have been given the responsibility of administering the schemes. The banks indicate that they will support the customer for the period of time at which they may receive assistance.

PROF WOODS: Separate from the decision as to whether they get the assistance? As I understand it, it's meant to be an arm's-length assessment of viability, irrespective of a decision on the interest rate subsidy.

MR CARROLL (ABA): The banks would say they're not making a judgment about the viability of the business, only that they would be willing to provide support for the period in which the government is willing to provide the assistance.

PROF WOODS: I thought that the process required the banks to form a judgment whether they would support that farm for the next 12 months full stop, and then there would be a separate decision as to whether or not they received the interest rate subsidy assistance, but what you're suggesting is that the banks look over that decision-making process and say, "We'd be prepared to support that business provided they get the interest rate subsidy."

MR CARROLL (ABA): That is I guess one of the things that we don't like about the way in which the current scheme operates. We don't think that the banking industry should give a determination as to whether or not it has a view about the viability of that business, and that being a point as to whether or not government assistance is then provided. The problem that process would create if it worked that

way is that if a result of the bank making that judgment that the customer that's applying for assistance will have the support of the bank going forward and that business continues to borrow, then that can come back and be a problem for the bank and the future of that business ultimately.

PROF WOODS: That is true. So in that sense, do you propose a variation?

MR CARROLL (ABA): The wording of those documents in which the banks indicate that they will provide support - - -

PROF WOODS: Support that business for 12 months.

MR CARROLL (ABA): - - - are very carefully worded.

PROF WOODS: Yes, we understand that.

MR GRANGER: But behind the scenes, the bank would have a view of the viability of their customer, wouldn't they?

MR CARROLL (ABA): Of course they have a view about the viability of the customer. There would be some customers that they look at very carefully before they agree to provide that support in that application, but having said that, I revert back to my initial comments that the wording of that support is very carefully worded and I guess to date hasn't created an issue that's been challenged, but potentially could.

DR BYRON: Could you just elaborate a bit more; you've mentioned a modified interest rate subsidy. I'd just like to tease out a bit more about those modifications as I didn't get a chance to write it all down.

MR CARROLL (ABA): I think any form of government assistance needs to be very tightly targeted and I think the current scheme is not targeted tightly enough. There is way too much variation between the way in which it's implemented between the states and it's extraordinarily generous.

PROF WOODS: An example being Victoria versus New South Wales, as an example of that?

MR CARROLL (ABA): Yes. As we were discussing, it all hinges on somebody making a call about whether or not this business is going to be viable going forward. I guess if you put tighter criteria around what that means, and does that mean that they do have effective risk management practices in place and can demonstrate them and that the debt that they're carrying is related to improved productivity or perceptions that they will achieve improved productivity, then I think people would

generally support some form of assistance for farmers who basically just get caught out by a timing issue and are adversely impacted by drought because of that. I don't think anybody would agree that it should be a scheme that enables businesses just to reduce the cost of the finance, regardless of whatever their practices are.

PROF WOODS: So you'd wrap around it some obligations to have farm management plans and to demonstrate progress on the plans.

MR CARROLL (ABA): Yes, and what the debt that is being supported is being used for.

PROF WOODS: That's an interesting one because I agree easily in principle that yes, if the debt is there because it's been directed to improve water management or fodder sheds or some productivity-enhancing investment - but you always get the problem of substitution because what they would do to be eligible for this scheme is to put the things that they were going to do anyway, but have the highest productivity component, they'd put into that bundle and say, "We'll do these things with this money and we'll do the rest of the things that we're doing with our ordinary money." So I agree in principle but in program design, that gets really difficult because substitution will just happen to make sure that they fit the criteria.

MR CARROLL (ABA): Sure. Looking at the more general issue of government providing assistance to farmers and via the farmers to rural communities in times of severe drought, I guess a more general concern that I have is that if there isn't some guiding policy that sort of has a set of criteria that stands up to scrutiny, then there's the potential for a policy vacuum. State governments will come in with all sorts of forms of assistance which they will justify on some form of productivity grounds and we'll be back to where we started from, say, 10 years ago. So I guess what I am suggesting is at least providing some guidance as to who should be eligible for assistance and why.

DR BYRON: Could I raise a slightly different subject that you haven't raised but many others have and that's the income contingent loans modelled on the HECS scheme. To us, that sounds just like another form of interest rate subsidy, low interest loans which are contingent upon a certain amount of income. Does the ABA have any thoughts about the pros and cons of something like that?

MR CARROLL (ABA): We don't support the approach. I think not only are they another form of interest rate subsidy but I guess there are other added components to it as well. There's also who is providing the capital; is it a capital plus interest rate subsidy and what's the impact on tax revenue? So from my mind it's actually making the situation worse, more complicated and ultimately what it is doing is increasing the debt for a farmer. It's not providing assistance with current debt that maybe is there and can be demonstrated is there for a positive reason. The banking industry of

course would have to take into account that debt, and going forward that could limit people's access to finance at a time of drought or some other downturn in agriculture. We can't find anything about that proposal that is attractive.

PROF WOODS: I imagine that the people who are advocating it to us assume that this income-contingent loan would be in addition to all the access to capital they get through the normal financial markets, and what you've just said very clearly is if there's an increased level of debt through that then it affects the banks' willingness or capacity to lend to the levels that would have occurred otherwise.

MR CARROLL (ABA): Exactly.

PROF WOODS: In our submission we drew on your views that the Australian Bankers' Association submitted, that in times of drought viable farmers should be able to access carry-on finance, have loans restructured to reduce repayments or defer payments without cost. You stand by that? That's a reasonable assessment of ABA's views?

MR CARROLL (ABA): At times of drought, where governments provide assistance through various forms, banks have given undertakings like I mentioned before, that they would hold credit risk margins constant for customers that were receiving assistance, and a part of the undertakings that are generally given in that context also include matters relating to drawing down deposits or whatever and not charging the costs for breaking those sort of arrangements. So the points made prior to that one, about the cost of re-financing, I would agree that viable businesses should be able to access capital from the banking sector during times of drought. The banking industry takes a long-term view about drought. It is accepted as part of the business cycle that agriculture goes through, and generally when financial accommodation is provided it is done with the view that the business will experience a drought at some stage going forward.

PROF WOODS: Because we're actually using that, not quote but understanding of your view in relation to those who weren't getting the IRS, we were saying that as a general principle across the farming community we understood your view was that viable farmers should be able to access carry-on finance, have loans restructured and defer payments without cost. To us, that gave us comfort that even if IRS were to be removed that the capital market was taking a long-term view of agriculture and included drought in that perspective. That's your view?

MR CARROLL (ABA): That is my view, and I guess I then put into a subcontext there are some groups of farmers, purely due to timing opportunities that arise to invest in more land that may be close by, and as a result of those investments - that are the sort of investments that we like to see in agriculture - they just get the timing of a drought wrong, then their ability to recover from that drought can be adversely

affected, more so than a mature business that's sitting out there, it's got its strategy in place and can effectively manage its way through that drought.

PROF WOODS: Yes. We've had other participants talk to us about the situation of those who have newly expanded or new farmers entering. Presumably the market in terms of share farming and leasing is always an option available, particularly for new farmers entering. Are there any impediments to the leasing market from the banking perspective? Is it flourishing to the extent you would expect it? Has it the capacity to grow but is being constrained by some forces? Where's the ABA's view on that?

MR CARROLL (ABA): I would say the leasing market in Australia, relative to other parts of the world, is an undeveloped phenomenon. As a result of that there are some problems. The sort of supply of land that comes onto the leasing market is typically run down, so there's costs associated with that. Often it's a short-term lease proposition.

PROF WOODS: By that do you mean five years?

MR CARROLL (ABA): It might be five years, but the person that then is looking at the viability of leasing that property, they have in the back of their mind, "Well, this is land that we would like to own. Why would we pay the lease cost and develop it up to a stage where it makes sense productively to lease it and then be forced to buy it at a higher price when it comes onto the market in five years time?" We don't have that market that appears to be in the United States, where land is held for a long period of time and is leased out and there is a significant market and the rates are reasonably competitive for taking on that land as leasehold.

PROF WOODS: What's preventing that from developing?

MR CARROLL (ABA): I just think it's a state of where our demographics are, relative to a country like America where they're probably a generation ahead of Australia - a lot of that land is owned by widows, it's still tied up in family structures. In Australia I think it probably won't play out that way but we will probably see more investment in rural land by outside investors who will want to hold it as a long-term investment as part of a broader portfolio of investments. That will then enable more land to come onto the market and create those opportunities.

The other issue is because the market is not well developed it's hard for people to know how to approach it, how to structure a lease arrangement, who pays for what. If a property needs to be improved to get it up to a productive standard who pays for that cost, does the lease reflect that there is an initial period of time? So the leasing arrangements are quite complicated to put in place at this point in the market.

PROF WOODS: Is ABA interested in promoting and developing that market or do you just see that as a side game?

MR CARROLL (ABA): We've always advocated that that is an appropriate way for young farmers to come into the market, and it obviously enables them to operate with reduce amounts of debt. There is legislative reform that is in place now that will enable the use of private property as security in a much more efficient way than what has been available in the past. In the past each state has had its own control over chattel-type security arrangements. At the national level we're seeing private property security reform which will come into place over the next three years, which will put in place a common form of rules and obviously a common understanding as to how to use that form of security, which will also I think facilitate this market. It will enable people not only to lease land and access finance but they will also able to lease some of the other capital, whether it's livestock or machinery and still access finance to run their operations.

PROF WOODS: Anything more on that bit of it?

MR CARROLL (ABA): No, not that bit.

PROF WOODS: FMDs, you express some views there. I mean, FMDs are one form by which liquid financials can be kept by farm businesses and they have some tax advantages. There are other ways and some farm enterprises choose not to have the family farm model but to have trusts or company structures. But they then have different taxing arrangements anyway. We're certainly not disposed to the idea that you should have something that has all the best bits of everything all piled in, you know, so you get the benefits of the company tax structure, and "Why don't we have FMDs," da dum, da dum, you know, all the good bits of everything all piled into one.

You have different structures according to different situations and there's no compulsion on any farm family as to which form they use, they make decisions according to what they think are in their best interests. FMDs don't prevent farm businesses from accumulating financials more than the current cap, and as Neil has pointed out elsewhere, that cap is rarely bumped against anyway but the average is \$70,000-odd in FMDs. So your views to expand who is eligible, what drives that?

MR CARROLL (ABA): It probably comes back to, well, how do you promote the take-up of these practices, the risk-management type practices, and prior to FMDs I guess being put into the private sector they sat in the public sector and were very, very poorly utilised. If you put them into the private sector, they were promoted, and I think if you changed the cap, if you changed the ability for trusts and company structures to access them, then again you would see I think the private sector marketing them more broadly and there would potentially or possibly be better take-up of them as a risk-management tool.

When they came into place, one of the arguments for having a tax-effective product was that, well, if the product is not tax-effective then there is an incentive for farmers to invest in other non-liquid assets in an effort or in an attempt to manage their tax. So the cost to tax revenue, while it might be identified by the amount of money that sits in an FMD, I don't think that is really reflecting what the alternative behaviour would have been if the FMD hadn't been available. I think typically we used to see farmers in good years buy new tractors and then find in bad years those tractors weren't worth much when they needed liquid assets.

DR BYRON: I still don't quite understand, I think you said FMD is accessible to shareholders. How would that work and would there be anomalies and distortions created from that?

MR CARROLL (ABA): Well, if the shareholders were eligible on the same basis as partners but with the added requirement that the funds could only be invested back into the business, back into the corporate for agricultural purposes, then you would remove the distortions.

DR BYRON: I'm assuming that the reason the companies weren't covered by FMDs originally is because they had a constant tax rate rather than progressive marginal tax rates and the companies had mechanisms for retaining profits and therefore the FMDs applied under the personal income tax part of the legislation but not the companies.

MR CARROLL (ABA): Yes, I guess I'd fall back on, to my observation, that if the FMD is regarded as a risk-management tool then it can be marketed as that. So if we want people to take up risk-management practices then this is a way in which we can market to them to do it.

PROF WOODS: But if you're in a company structure you can develop risk-management practices anyway.

MR CARROLL (ABA): You can. If you're in a private partnership you can do it too. But having an FMD product makes it simple to sell the prospect of managing risks by maintaining liquidity. So it's about how do you get the outcome you want as opposed to - well, you know, you can market all you like, but are you going to get a result.

DR BYRON: A number of people have said to us in other hearings that in their view most Australian farms are seriously undercapitalised and that they underestimated or undervalued the risk that they were exposed to. The corollary question of that is in Western Australia we were told about sort of joint venture mechanisms where farmers who are exposed to a lot of risks and need access to

external capital do a joint venture with urban people who have capital to invest and who are willing to take on more risk. So does the ABA have any view on those sort of JV operations or whether or not many Australia farms are undercapitalised and that's the reason they're so vulnerable to shocks like drought.

MR CARROLL (ABA): Yes, and that's consistent with the comment that I made in my opening comments about capital formation issues are difficult. The strategies for farmers to build up capital is limited and those sort of opportunities that you've outlined are an effective way to manage the risk of investing in whatever improves productivity because it limits the borrowing that's required and therefore limits the amount of financial risk that they're exposed to as a result of those borrowings and that therefore then limits their risk to the shock of a climatic event that knocks your production out.

DR BYRON: But how would a bank typically react if a farmer comes in and says, "Well, I'm about to enter a joint venture with a dentist in the city who is going to underwrite the cost of the crop, and we've got a profit-sharing arrangement, and if there's no crop at the end of the year because of a drought or flood or hail, then, you know, he will wear all of that," you know, would banks react positively or negatively to that sort of proposition?

MR CARROLL (ABA): I would say positively.

PROF WOODS: Banks on average expect a farmer coming for business finance to have a business plan for the farming enterprise?

MR CARROLL (ABA): Yes, there is an expectation that there is a business plan, and I guess at the very least some cash flow analysis so that there can be a determination about ability to meet financial commitment, but a business plan obviously would be the preferred situation. A number of the banks that specialise in agri-lending run courses, have pro forma business type plans that they provide to their customers, and I guess a lot of customers would put those business plans together with the assistance of their accountant.

PROF WOODS: The quality of business planning through the rural sector generally at this stage, despite the fact that there are pro formas and despite the fact that banks need cash flow statements and projections, I mean, is there more work to be done?

MR CARROLL (ABA): I think the quality of the strategic planning that goes in agriculture would reflect the proportion of agriculture that's producing the profit in agriculture. There's about 20 per cent of agriculture producers that are driving profit in agricultural industries. So at that level then you would say yes, the strategic planning, the business planning, the risk-management is probably as good as you

would see in any comparable small business, maybe better. The rest it would vary to - - -

PROF WOODS: Tapers away to almost nothing.

MR CARROLL (ABA): There would be business plans that are put in place that the farmer would not understand, their own business plan. It would be basically a documentation of what has been past practice, just taking that forward.

MR GRANGER: Just to push the boundaries a little bit, probably a bit rude this, but would the business planning that's expected from your customers include some issue of addressing succession?

MR CARROLL (ABA): Definitely that is an issue that banks are pushing that their customers address. Succession planning is, I guess, a risk to the bank. If for some reason or other the structure of the business falls over, the obviously it can leave the bank exposed to dealing with the mess when it eventuates. So succession planning is important from a perspective of providing finance, but also for the longevity of the business.

PROF WOODS: But how rigorous are the banks about ensuring that their customers have good succession plans in place because the evidence that has been coming to us is that it is a subject that fraught with all sorts of issues naturally, but that the quality of the succession plans in many cases is very poor. How does that happen? If you're a bank and you've got a set of customers and you're exposing yourself to a large mix of lending, why aren't all of these features part of the condition of you providing that lending or is competition such that if you push too hard they'll go somewhere else?

MR CARROLL (ABA): I would say for where there is large exposures then the pressure would be higher. But then as you mentioned competition will mediate that. Where you're looking at a smaller retail customer it might not be regarded as much of an issue just because they're one of many and they're relatively small. If something goes wrong, then so be it, it's not worth the angst.

DR BYRON: I guess the recurring theme through this inquiry is that farming is extremely complex and challenging and likely to get more so and that farmers therefore need to be very highly skilled and very professional to succeed. We've had some discussion this morning and in other places about ways that farmers can demonstrate through accreditation the skills and expertise, the risk management practices and succession plans and demonstrating that they're up with best practice in whatever line of work. Is there any possibility that banks might at some stage in the future want to see evidence that an applicant for financial support has some sort of demonstrable expertise as a farmer, whether it's through having done some credits in

business management or in an agricultural technology side or OH and S or animal welfare or something, but this idea of recognition of the farmer as a serious professional rather than in the past they were treated as the equivalent as semi-skilled labour, tractor drivers.

MR CARROLL (ABA): I think we've moved beyond that and obviously a bank is going to primarily focus on cash flow; the priority will be on the ability to generate a cash flow. Whether or not the farmer has accreditation that then backs it up obviously makes it more attractive proposition to support that person. I guess if somebody has the ability to generate cash flow and meet their financial commitments, then looking at what accreditation they have, unless it's something that is going to be a risk to the business, then cash flow, I guess, would be the primary consideration.

But going forward, the banking industry is committed to environmental sustainability and they are very concerned about the practices of the people that they lend to and, as an example, they would find it an issue if they were lending to somebody who was not farming in a sustainable way. So that is an example where they would look to see what practices are being implemented by a farmer, any business.

DR BYRON: That is part of your due diligence on that farmer to say, "Well, if you're going to continue to have access into that export market, you are going to have to demonstrate environmental compliance or animal welfare compliance and so on," and if the farmer can't demonstrate some level of serious expertise or competence of commitment to that, then presumably that would count against him in your assessment.

MR CARROLL (ABA): Definitely. That's a very good example of how we would see that playing out. The access of a farmer to a market that would require that they're accredited in some way and obviously they would have to maintain that accreditation for the banker to continue to support them. It will all come out in the cash flow, I guess, eventually but there would be an expectation that that is maintained.

PROF WOODS: I'm conscious that we have others who are scheduled to appear before us and that we are running a bit over time. One brief question, the interest rate margins that are charged on farmers, do they reflect the banks' assessment of their viability? How much spread is there between the best business overdraft versus the one where you're willing to take a risk, but only just?

MR CARROLL (ABA): The capacity for banks to take on risk is limited. So it's not a matter of taking on a customer that there is significant risk that they will be unviable and simply charging them a higher margin. The capacity to do that is

extremely - - -

PROF WOODS: Because of the market?

MR CARROLL (ABA): Well, because of the cost of taking that decision and the cost of providing that finance, just managing that customer wouldn't warrant doing that. You would get a margin big enough to justify doing it.

DR BYRON: Some customers just aren't worth the effort.

MR CARROLL (ABA): No. Most customers, given a reasonable run of seasons can support a reasonable level of borrowings quite comfortably and to that end the debt equity level of farmers remains reasonably conservative.

PROF WOODS: Thank you very much. Is there any concluding statement you want to make or have we covered everything?

MR CARROLL (ABA): No, I think we've covered everything.

PROF WOODS: Can I ask Birchip Cropping Group to then come forward. Thank you very much. For the record we have before us at this hearing the Birchip Cropping Group. Can each of you please give your name, the position you hold in the organisation you are representing.

MR McCLELLAND (BCG): Ian McClelland, chairman of the Birchip Cropping Group.

PROF WOODS: Thank you.

MS BEST (BCG): Fiona Best, acting CEO for the Birchip Cropping Group.

DR RICKARDS (BCG): Lauren Rickards, consultant at the Birchip Cropping Group.

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

DR RICKARDS (BCG): We do. We've got a couple of things that each of us would like to share, so I'll kick off. To cut to the chase, we agree with the need to improve the current system but we're concerned that we're not going to be able to achieve that change in management practices if all business is removed. Many farming families, more than those that can currently access support, are actually pinned to the spot at the moment by the fact that drought has eroded their reserves over many years. Their financial reserves, physical reserves, social and personal reserves have all been eroded over, in some cases, 10 to 15 years of dry and drought conditions. This means that they're not in a position to be able to make the changes that we all agree are absolutely necessary.

Lack of research, development and extension is a serious issue, and we'll touch on that in a moment. But the point at this stage is that the ability of farmers to take up the risk management and adaptation practices that are necessary at the moment is severely hampered. I think the important thing is that we can't underestimate the degree of risk that change itself represents to farmers, so not changing is a risk but changing is also a risk, whether we're talking about the cost and time of devoting to training, or whether we're talking about the cost, the energy, the risk of actually trying to put some changes into practice on the farm.

While we have 70 per cent of farms currently existing without financial assistance, this doesn't mean that they are in a position to change either. We can't take their lack of financial assistance as a sign that things are fine with all of them. The point is that we need to focus on long-term trends like climate change, but in the meantime we can't overlook the fact that there are acute short-term needs that

farming families are penned in by. The effects of the current drought are a serious impediment to being able to deal with future droughts and other effects of climate change. I'd now like to hand over to Ian.

MR McCLELLAND (BCG): I'd like to address the emphasis on climate change and dryness as opposed to drought. I think it's unfortunate that in a sense it seems like a political gesture to divert people's attention from drought. Dry times happen and no-one is disputing that. Droughts are a fact of life which to me are related to - severe droughts are related to a cycle. The cycle in terms of farming in this area, for example, has happened - we have had three cycles of long drought periods: the federation droughts, the 30s, 40s droughts and now the 2002-2008 drought period.

I would urge the report to consider more the effect of cycles in terms of weather. I've heard the Bureau of Meteorology have supported this by saying, "We're in a cycle. We don't quite know what causes it," but when you're in an extreme drought cycle like we have at the moment, then to just go away from supporting farmers is I think short-sightedness. Now, if we consider farming in the same context as, for instance, a subprime crisis, a financial crisis in America, our last really financial crisis here in terms of drought was in the 40s, 60 years ago, and the rationalisation that happened took many years to recover because of the fact that people's equity diminished, people's capacity to raise capital, to adjust to new systems, made an enormous difference on the way that they get out of it.

To me, to be able to just say, "We want to get some farmers off the land" is an easy thing to say but the consequences can be quite dramatic in terms of once some people have to go, the equity levels collapse, like they did here in the 80s. Suddenly, instead of having one bank in trouble or one farm in trouble, you'd have a hundred farms in trouble. You're replacing them with people who can't necessarily afford the purchase. If we think about the bigger organisations, like the superannuation funds or the managed investment schemes - I mean, Timbercorp is an example; there's no better in relation to their investment strategies than the small farmer.

There's still a place for the family farm. We have to accept that we will have severe drought cycles that will need some support from government. If I just give you my example as a situation: in 2001 we had big farmers, we have half a million dollars in cash reserves. Today I have a debt of three and a half million because of five droughts in seven years. I regard ourselves as good farmers but that went from a very safe position to one now of - we still have a lot of assets and I get no help and I don't want it. But it just shows you the dramatic effect this drought period has had on not only our farm but a lot of farmers in this area. I could go on but I think we'll move on.

PROF WOODS: Thank you.

MS BEST (BCG): I guess I really wanted to acknowledge in the report the importance of investment into agricultural research, development and extension. I mean, that's extremely pleasing for BCG to see the emphasis put on in the report because we, like the report, believe that improvements in farming long-term viability really do hinge on advances in technology and farming practice and knowledge of new systems. We applaud the recognition of that in the report and can only give that the real tick of approval from our perspective because preparedness from a farm person's point of view really does involve long-term strategies.

That in some ways goes beyond drought policies. An investment into research and technology is beyond drought policy. It's something that needs to happen on a continuous basis. Strategic investment into new varieties and new technology and new farming systems is something that has happened through the RDC for a long time and will continue to happen, we hope, but emphasis in this report that it must continue is really positive to see.

I guess perhaps where this report could go further in that farmers certainly pay a levy based on their production in the grains industry in research and development. But probably where the report doesn't touch on is the role of government when those levies are influenced by drought, so where farmers don't have the capacity or don't have the production that then supports those levies I guess the commitment for government to support farmers in research in those times is really important.

I guess where BCG see ourselves and our role in the next three or four years supporting farmers is really through the adoption of current and known technologies, I think that's really important to acknowledge as well. GRDC, for the Grains Research and Development Corporation, have certainly acknowledged that - they see the biggest gains in productivity happening through adoption of known technologies. BCG really will be looking to have a key role in that area over the next three to four years.

So look, I guess we just wanted to acknowledge that that's where - it's a really important part of the report and it's going to be a long - I guess a really important part of farmers' long-term preparedness for dry times. I'm not sure that it is totally going to overcome the drought situation that Ian talks about because I think Ian probably would have considered himself relatively prepared and a good business manager. But there is really nothing that he has been able to do in his farm business to overcome going from \$500,000 cash position to a three and a half million dollar debt. So think that is important to keep in mind.

MR McCLELLAND (BCG): I think also our particular group here have - underneath our logo we have a logo which says Shared Solutions. That we believe that the way we recover and progress in this farming society is that we share success and failures between industry researchers and farmers. We have been quite a

successful platform in being able to bring all the people together and distribute it to farmers.

I think the next area is that - my sister-in-law is a local GP doctor. I hear her absolutely crying with disbelief or - the lack of mental health facilities in the rural areas. She says that in her practice all the information just disappears from her surgery on depression and anxiety and to actually get into professional people, either in - psychologists, psychiatrists, social workers and financial counsellors - there's a huge lack of these people. Not only because of the farming community but because of the huge increase in the socially disadvantaged who head out from the cities and are living in these country towns putting huge burdens on mental health facilities. So I'd just like to say that that is one area just needs immediate attention.

The other thing which I got quite upset about reading the social document on the executive summary where it said:

Too many farm decisions are made under stress without adequate consideration of the needs of the family and in the absence of prior thought and planning.

I think that was a very harsh statement in that farmers - I think their number one priority is to be able to make their farm sustainable for their family, whether it's the son coming home or the child coming home or for the goodness of the family. There has always been a big debate in the country between buying the tractor and doing up the kitchen. I know instances where I would have built the kitchen and some other cases where they built the kitchen and went broke as a consequence. But it's such a difficult concept to start to tell farmers that they are neglecting the needs of the family. Sure, communication - their farms are family units, everyone is involved, everyone should be considered. But I thought that statement in that executive summary was a bit harsh.

Also, I just want to say that in the report you talk about average rainfall going down quite small amounts in the last 12 years. But you need to consider that the difference between northern Australia and southern Australia is quite dramatic. Our wettest month in southern Australia - at Birchip, for instance, over the last 12 years it has been November, after the growing season. We have demonstrated that 80 per cent of the yield of crops happen because of the rain in the growing season between April and October, so that the emphasis on annual rainfall northern Australia but for southern Australia growing season rainfall is something which you should put a high emphasis on.

PROF WOODS: And September rain is an awful lot better than November rain.

MR McCLELLAND (BCG): September rain is crucial for flowering, anthesis,

grain fill; crops have finished by November.

PROF WOODS: Yes.

MR McCLELLAND (BCG): You then start storing water for the following year. A lot of that water is wasted because of the temperature, the heat. We've got a formula that anything over 20 mils - you need 20 mils of rain in one fall to store any moisture and after that it's 50 per cent above 20 mils. So even though we have had over 55 mils for November it's not nearly as valuable as - 50 mils in September would have added at least one tonne per hectare but 50 mils in November may have no effect whatsoever.

PROF WOODS: In fact we were in the West Australian wheat belt and their 50 to 100 to 150 mils in November was absolutely no help because it turned it into seed grain or in fact in some cases you couldn't harvest it.

MR McCLELLAND (BCG): Exactly. Northern New South Wales, even though their crops are ruined, they helped their sorghum crops. They have stored moisture which they can measure and then they can sow next year's crop on that stored moisture.

PROF WOODS: Yes.

DR RICKARDS (BCG): Just to finish up. Coming back to - Ian said about the expert social panel's comment on too many decisions being made under stress, I guess the irony would be if that criticism which was levelled at farmers is then enhanced, if you like, through any actions that the government subsequently takes. I think the aim should be to remove that stress. That stress is a key barrier to the ability of farmers to be able to adapt as we need them to.

In my work I have done a huge amount of work on extension and what is it that stops people adopting. We heard that adopting to existing practices is a big problem. I can't overstate just how risky and costly change is for individual farmers. Likewise I've done a lot of research into the social impacts of drought. Again, I can't overstate just what a poor position farmers are in to be able to take on those normal risks in changing and adapting which are now enhanced - the stakes are so much higher because they have got so little behind them, whether it's financially, mentally et cetera. So I guess our point is, to sort of sum up, that we support the need for change. We very much agree with that. However, we are very much concerned that some of the key transitional factors that are required for farmers to be able to adapt have been overlooked, whether we're talking about overlooking cycles or overlooking current short-term needs.

PROF WOODS: Okay, thank you. If I can pursue - well, in fact, the three of us,

Neil Byron, Bob Granger and myself pursuing some of those issues. First of all, the social panel was an independent process from our own. They're not here to argue for the particular learning or position that they adopted but we do note your views on that. The second one being the - this drought. I thought we did make considerable note of the fact that in fact this drought is of similar severity to the 40s drought and the federation drought. One of the points to take from that is that where we are is not - putting aside irrigation - not uncharted territory. In fact, as we went around the countryside a number of farmers could show us their 120 years of rainfall and temperature records and show us the federation drought and the 40s drought and that this was part of their history of agriculture. So I think we understood that reasonably well.

MR McCLELLAND (BCG): I agree you did it very well, but I think the point I was trying to make in relation to that cycle is that if you just take away EC or alter it to a dramatic effect then during those periods of severe drought, which I think of as long-term drought, that's when special support needs to happen. I'm not saying what it should be. The one in 20 event of exceptional circumstances was a bit of a crazy system. But there are times, like the banks in America, when you just have to change tune and support an industry for reasons based on a combination of factors which just make all the planning in the world very hard to fathom and cope with.

PROF WOODS: We'll explore what some of those might be as we go through this conversation. One issue is the question of household relief. In our draft report we were proposing in fact to de-link that from drought, whether it be a one-year drought, the 80s or the 90s single year event, or the longer term even such as we're in now. The linking support for farm families who find themselves in severe hardship to a drought event didn't seem to us to make a whole lot of sense, that it was better to have it always available and in all areas so that whatever was the circumstance that caused that significant hardship that there would be a platform of support that recognised the farm situation for a period, and we've suggested three years in seven as a way of defining that. Do you have reaction to the proposal to de-link hardship support from drought events?

MS BEST (BCG): I think we would definitely support that. The social research that we've done in Birchip and Wimmera Southern Mallee area, one of the things that came out of that was the frustration that exists around the inequality that is embedded in the current system through EC and the additional financial criteria. So we'd certainly support the idea of making it open to a broader audience.

PROF WOODS: Ian, Fiona?

MR McCLELLAND (BCG): You've only got to ask the principal of our local school about how many children are on support in one sense and how important it is for their education.

PROF WOODS: So we can take a supporting comment on that side of it. The next one then is where to go in terms of broader-based support for the farming community through the cycles, not just in terms of these severe droughts, and then we'll get to the question of what might you do extra doing drought events such as we're currently going through. But looking through the cycles at that sort of medium to longer term perspective we've proposed additional funding and support in research and development. Importantly the "adoption of the known technologies", to quote your own phrase, is something that we're particularly interested in how to commit greater public support for those areas. I mean, you yourselves are an outstanding model of some of that.

But even from where you are are there areas that you're looking at as to how to improve the extension work that you do? Are there changes that you'd make to the current arrangements that get away from the one year, two year funding models that have a stop start effect on employing extension officers? What sort of models do farmers more readily learn from than others? Take us through that conversation.

MS BEST (BCG): I think certainly, as you've highlighted, extension is going to be a key area, and at the moment really is under funded. We look at our own program and as the Birchip Cropping Group we're always struggling to find ongoing funding to support extension programs on a long-term basis. As you say, it's very much a year by year proposition with applying to multiple different funding bodies over that period. So that makes it very, very tricky to provide consistent extension activities across the region. I'm sure that other farming systems groups, such as Southern Farming Systems and the Liebe Group and other groups in Western Australia and in South Australia would find exactly the same issue. So certainly trying to find some long-term investment strategies into extension would be very, very helpful.

I guess the capacity to be able to offer more regional support - when I say that, even to the point where you can run small group work, and we've identified that as something that farmers are desperate to have, which is more localised neighbourhood groups, something that used to be achieved through the old top crop system - this is from an agronomic perspective - which now is no longer funded. But farmers really did enjoy that model of learning and technology knowledge adoption. Under the current funding regime we operate in that small group deliver of information is impossible.

MR McCLELLAND (BCG): I think also, if you actually take state government's emphasis on extension, and I think you can do any state government, they have largely withdrawn from extension facilities on an agricultural basis. They are now concentrating on environment importing and that's fine. But we are feeling the vacuum at the moment in doing that. It's just so crucial that information is delivered to farmers. A lot of the information is going to farmers from consultants or the

agribusiness person in the Landmark or the Elders store. They're acting as a lot of the extension people. Our independence gives us access to the consultants and these other people to help focus everyone's attention into one area, which is an advantage.

I think it's worth remembering when we talk about these cycles that the last major cycle in the 30s and 40s was solved by debt adjustment. My grandfather was in a store and he lost most of his money that was owed to him, and so many farmers. That was the only way that the farming community got down to such a low ebb in terms of indebtedness, that they solved it by debt adjustment, which was two and six in the pound or something. So it's quite interesting to look back at history, how they solved the last one and how it's so crucial for us to keep our equity levels up. I still think there's a huge future for agriculture. I'm so bullish about the fact that agriculture has a huge future and we just need to be able to get us through a period of adjustment.

MS BEST (BCG): I think there's also two other problems with current day extension. One is that a lot of it remains in that very linear transfer of technology model, very much linked and funded according to certain technologies. If you add to that the accountability paradigm that we're all working in now, where everything has to be monitored and accounted for and outcomes are very much based on actual practice change, as opposed to what farmers might consider success, which is that they have considered a certain technology or practice, looked at it in the context of their farm and then decided for very rational reasons not to adopt it. In actual fact, too much of the success of extension programs is still based on how many people actually adopt the change in practice. So they are two of the issues that I frequently come across with extension programs again and again.

One of the things that it is really needed at the moment is help with sorting through all the different complicated components that farmers have to deal with on the farm. So you might have your agronomic extension person there, you might have your financial, you might have your succession one, you might have all sorts of different ones, but yet you still are the one that's sitting there trying to actually put it all together and work out what the complex answer to this sort of very, very difficult problem is in a sense. What seems to me to be really missing is help with that overall view, help with putting all the things together and working out, "Well, given X number of factors what do we do?" That's where one to one advice has to come in. At the moment, one to one advice is repeatedly ruled out as uneconomic. It doesn't hit those adoption targets. It's very, very small scale, micro scale and so that's where a massive funding gap is. It's also something that the state governments here have very much stepped away from, because that's where private good perhaps becomes particularly explicit, if you like, and so they've really backed away from that, and yet, those who are left to do the extension really haven't got the capacity, the people, to do that one-to-one stuff.

That brings me to the final issue with extension at the moment, which is that there really is a huge lack of capacity. I'm sure you've seen - but just terms of our agricultural training, et cetera, the training is just not taking place. Combine with that the difficulty of recruiting people to come to live in places like Birchip, which is actually a great town, but if you add a few more perhaps less desirable towns, you've got huge problems with recruitments, and not only do you have short-term funding but you have short-term commitment by people as they sort of go up there for a few years but then feel like they need to get on with their life and move on. So all of these issues are ones that BCG are busy trying to negotiate their way through.

DR BYRON: I agree with all that.

PROF WOODS: All right. We don't have too many areas of disagreement on that side. Business planning, putting aside the RD and E - - -

DR BYRON: Could I have one moment before you move on?

PROF WOODS: Yes.

DR BYRON: It's Neil Byron here. In the Air Peninsula, a number of farmers there told us that if they hadn't switched to minimum cropping, they would have gone broke long before now. There's no way they could have coped with the current drought. That made us think that to a certain extent, we're living off R and D that was done 20 years ago, and it raises the question of who's doing the R and D now that we're going to be adopting over the next five or 10 years? I appreciate that there's a huge backlog of research that's already been done that's yet to be disseminated and taken up. But is there also a question of not just living on past investments and intellectual property and new knowledge, but who's working on the next big thing, was going to save us next time?

MS BEST (BCG): Well, we couldn't agree with you more that investment into new areas is absolutely paramount. I mean, that's not BCG's core business. That rests with breeding facilities and even private companies and investment into new technology. So we agree that that investment has to continue. We're more at the applied end, where we're trying to increase adoption, and that's probably where we're at the cold face, where that's not happening for all the reasons that Lauren has talked about. But we agree with you. I mean, a new variety of GM technology - - -

MR McCLELLAND (BCG): Precision Agriculture - certainly the no till systems have been incredibly successful, particularly on the sandy soils.

MS BEST (BCG): Those same stories that you talk about from South Australia are still relevant here in Victoria as well. In the Victorian Mallee, on a growing season rainfall of between 125 millimetres of rainfall, there are some soil types that have

responded extremely well to minimum tillage or no till farming systems, and they've actually produced grain on a rainfall year that you would expect to get nothing from, but our farming systems have improved and have changed that. You know, we have been able to achieve some crop on those soil types. So we share your sentiments.

MR McCLELLAND (BCG): However, on the black soils of the - self-mulching black soils of the Wimmera and the sodic soils of a lot of Mallee heavier soils, then the combination of livestock and cropping still has a place, and to enable to get that farming system operating successfully and flexibly is a real challenge, and fitting into the environmental aspects of it all as well. We spent a lot of time trying to make conservation pay for farmers, even in terms of their living or the bottom line, and it's going to become far more important, the whole aspect of carbon greenhouse gases. There's lots of challenges in front of us but huge opportunities in terms of quality and good clean food from our part of the word. Anyway, we agree.

MS BEST (BCG): But certainly we would hate to see a lack of investment into the breeding and technologies and things like that.

DR RICKARDS (BCG): Yes. I mean, I think one of the reasons minimum till actually has attracted so much attention and research support is because it does have that environmental angle. It has a public-good justification that other types of research and development don't necessarily enjoy, and so I think we are dealing with a situation where there's market failure. I mean, we talked here about the research development corporations like DRDC before, but as Fiona pointed out, a lot of their research funding is on the back of levies, which is in turn on farmers' income, so you just get this really sort of negative feedback cycle, if you like, where just at the time when you need the most RD and E to actually help people adapt to the changing situations, the capacity to do so is weaker. So it's just like a parallel for what's happening on farms as well.

MR WOOD: Does that raise the possibility of a counter-cyclical-type investment that says that during periods of extended drought, like at the moment, the government investment in the RDCs should go up as an offset to the declining levy funds, but then when the good times emerge again, that it readjusts back downwards?

MR McCLELLAND (BCG): The cyclical process is strange in that the GRDC had 120 million in reserves for a rainy day and we're told by liberal governments that why should they give them any money, because they've got all these reserves? They then get rid of their reserves to fulfil the expectations of government and then suddenly they haven't got any levies. I mean, we had a number of projects that they wanted to fund but couldn't. So, yes. I think it's about saying to the research institutions, "We encourage your capacity to keep money for a rainy day," but that was the political process that happened in the last five years, which has come back to bite them.

MS BEST (BCG): Perhaps that showed a lack of understanding from that particular government, but certainly if it could be put forward that that area really needs to be sorted out and some good policy implemented, in terms of how RDC has managed their funds and their levies, to ensure that appropriate investment can happen at the appropriate time, then that would be encouraged.

MR McCLELLAND (BCG): The CRCs are wonderful initiatives, and they tend to try to limit it to a few. Often they limit the CRC to the ones that have the bigger industry support, which are not necessarily the ones that are in need. For instance, the pulse industry is very hard to be able to get support from industry because it's not a very big industry in itself, but potentially it could be quite a big industry for a number of crops. Yet, to get industry support from the pulse industry is very difficult, whereas something like fuel or alternative fuels has a different perspective. So I think the government in the past has certainly been trying to make accountability and support from industry at the coalface, but that doesn't necessarily work in every instance.

DR RICKARDS (BCG): Just the final point to note I think about the current research development situation is, of course, it's commodity-based. The SRDC is a single commodities. That's not the reality of most farms. Mixed farming is huge in Australia and also is likely to probably increase as one of the adaption sort of responses, and so unless there's actually the capacity to do research where we look at the interactions between crops and livestock, for example, we're always going to have some major gaps in what we actually be extending to farmers.

DR BYRON: The farming system's research.

DR RICKARDS (BCG): That's right.

MR GRANGER: It's not impossible for RDCs to get together. The government has been long putting out the signal that they want more collaboration. As a matter of fact, the weakness in the existing model is that very issue.

DR RICKARDS (BCG): Yes.

MR GRANGER: They're all different silos living in their own world, is the harsh judgment. But the practicalities are in areas like you've got that it's a mixed situation and there should be a coming together in partnership. It is very simple stuff. It doesn't need government policy. It needs people with commonsense to force the pace. You know what I mean?

DR RICKARDS (BCG): Yes, absolutely.

MR GRANGER: That means many cups of tea for people that - - -

DR RICKARDS (BCG): Well, Grain and Graze, for example, is a big program that tried to bring them together, but unfortunately it really hasn't reached its potential because of the different cultures that exist within the RDCs, is making the collaboration very challenging. So all I can say is that we need to push it further and encourage it further.

MR GRANGER: Yes. It's a challenge. It doesn't need government effect. I mean, this is a bit of a sore point with me. You know, the solution is in front of us. It's not up to someone in government to hand us the solution. On the RD and E thing, Birchip has long got a brand for a particular region and you write all the books, if I can really sing your praises, for others to follow. But the RD and E solutions are there within your district and I think you've just got to grab a few of these RDCs by the throats and get them to come to you and work on the regional solutions. It's not going to come in the post.

MR McCLELLAND (BCG): You don't want a job, do you? I reckon we could employ you.

PROF WOODS: Bob has got a long history in this area.

MR GRANGER: I'll finish the lecture now, Ian.

MR McCLELLAND (BCG): You're the ideal person we need.

PROF WOODS: You went out to Birchip.

MR GRANGER: Yes, my background is with sugar and we got the Birchip people to come up and try and get a DNA instilled in some areas in the cane industry and it has worked well. When people come together in partnership with the research fraternity, you will surprise yourselves how good you are.

PROF WOODS: The business planning side, upping the skill base, is there a shortfall in the capacity of farmers to see themselves as risk managers managing quite sizeable businesses? I'm not looking for generalisations, but are there target groups that should be focused on that need additional investment?

MR McCLELLAND (BCG): There's a huge number of consultants in the agronomy field, very few that really concentrate on the financial field. You tend to get back to your banker or your accountant and they're not necessarily trained in the ways of farming. So yes, there always is work to be done. I think there's one economist in Victoria, Phillip O'Callaghan, in Bendigo, who gives a lot of talks on financial planning, but there certainly is a need for more economists, more people

that can encourage people to set standards and to be better prepared to cope with their financial situation.

MS BEST (BCG): Absolutely.

MR McCLELLAND (BCG): We're conducting a financial forum tomorrow and Wednesday where we're getting the banks together to answer questions from farmers and we have a number of questions that we're going to ask the banks related to how they're going to lend money to farmers and what criteria and what farmers have to do, so to try to make the whole process easier between farmers and bankers to actually obtain finance. Then we're getting a number of farmers to talk about what their plans are for the future and what strategy they are taking in relation to getting out of this drought. So they're the sort of situations where farmers can learn and get confidence and just share information.

MS BEST (BCG): Certainly access to that training and support in whatever form that may take is certainly limited compared to agronomic support. As Ian mentioned before, the agronomic side of things is supported quite well through private agronomists and private services, but certainly those same services do not exist in as much abundance from the financial business planning - you know, that holistic perspective. So that level of support is certainly not as readily available.

MR McCLELLAND (BCG): I've always believed there's a real opening for a machinery consultant, one who can independently help farmers make decisions about purchasing machines or hiring or leasing, that whole process. There's no-one in Australia. The only people that can help farmers in that area are the people who sell you the machinery.

PROF WOODS: Not that they have any vested interest. You just mentioned the phrase "leasing" and to take it into a broader context, what's the degree of leasing as a way of entry for new farmers or extending scale economies without committing to the equity of purchase by existing farmers in your area and are there any impediments in the market to the use of leasing?

MR McCLELLAND (BCG): I think it's a growing area, without doubt. Glencore have taken on between one and two hundred thousand acres up in northern South Australia and across the Victorian Mallee and across into the Riverina. Farmers have been given either a spell to be able to get over their crisis or an alternative, and you've only got to go to the UK where most of the country is leased by someone. I think it certainly is going to be an increasingly important option for farmers. The capital involved in owning land and machinery is enormous. It's certainly I believe going to be a growing area of use.

MS BEST (BCG): Family farms are utilising it more and more and also new

entrants into farming. There are numerous examples of where that is happening in the region, but sometimes the lease price is not without risk either.

MR McCLELLAND (BCG): My next-door neighbour who only owns 1200 acres and has been supporting his father, gradually over the years he's just been getting poorer and poorer and this last year, he leased his farm to a couple of young farmers who, even though they had another drought, have altered the agronomic practice on that farm - the farmer has gone and got a job, living in his own house - so fulfilling quite a lot of the criteria that farmer was under.

PROF WOODS: That sounds exactly what you would hope the market would achieve.

MR McCLELLAND (BCG): Yes, I agree.

PROF WOODS: But why is the uptake slow? You did say it's expanding but from a very small base. Is there any impediment that governments should address or is it just a matter of farmers becoming experienced in what it involves, understanding the risks, understanding how best to maximise gains out of that process?

MR McCLELLAND (BCG): It's growing quite quickly. Most farmers always rejected it but the old share farmer system worked many years ago and the leasing was always rejected. I think some farmers believed that they were going to wait until a good year came along and then sell their property, but the fact that people think, "We may not have any buyers," they're now really thinking about leasing. Leasing values have been not very expensive, so the market hasn't met in the fair middle, where the owner and the leaser have an opportunity - the lessee have always had the whip hand in this part of the world and the farmers really weren't making enough to cover their costs.

DR RICKARDS (BCG): Historically you have to consider the status that is attached to either ownership of property versus leasehold, so obviously people would prefer historically to have owned the property and associated with that is the ability to actually improve that land. If it feels like you're renting a house and you can't actually make the changes you want, then it's always going to be second best, so I think there's that sort of historical context to consider.

PROF WOODS: Is that in part overcome by extending the period of lease and in part by having clear covenants or sort of end lease payouts that reflect improvements or covenants that require a certain minimum level of ongoing investment? Can that be resolved within the current framework?

MS BEST (BCG): I think it can. I think there's flexibility within individual negotiations to work out individual leases that hopefully will be a win-win for both

parties, so I don't think that there's any current impediments from that perspective that would stop those individual negotiations.

MR McCLELLAND (BCG): Fiona, talk about our field day when we had a CCI, about people paying expenses.

MS BEST (BCG): From our perspective here at BCG, we certainly have been encouraging people to think about alternative ways of expanding and thinking about how they manage land and all of those sorts of things because, like you, we think it's an important part of any sort of business strategy to have considered all options. We did invite numerous different corporates and farmers who have done a few different things. So one included a company called AACL which is - I'm not sure if you've heard of it but it's - - -

DR BYRON: Yes, we met them in Perth.

MS BEST (BCG): Yes, based in Perth. So, I mean, that's offering farmers another alternative where they can still maintain ownership of the land but they don't have the costs associated with the input costs, and they can still gain some of the upside but they protect themselves a little in the downside. I think farmers are becoming more and more receptive to hearing those alternative options.

PROF WOODS: What was your view on that particular model?

MS BEST (BCG): Look, I think it's certainly going to work for some farmers, particularly those who are going to struggle to access finance perhaps in the next couple of years in order to put in their crops. So therefore they're not under pressure to sell their land. They're certainly not going to make a lot of money but they have the potential in a good year to participate in some of that upside. One farmer who spoke about his experience of being involved in that scheme said that it worked for him because he wanted - he had two sons that he wanted to bring home to the farm and they both wanted to come home and be on the farm but the farm was too small and he didn't feel he had any way of expanding. So when he became involved with AACL, the money that he wasn't spending by putting fertiliser and sowing the crops, he actually went off and bought more land with the money that he wasn't spending on input.

So it's certainly good to hear his perspective and it's probably just about sharing those stories and those successful stories. It's not going to work in every situation but it's throwing the options in front of farmers and saying, "Have you considered all of these?" and fitting it into that business plan and making sure that business planning is part of routine - which it is in most farms. It is in most farms, but perhaps it is changing the mindset, and I think a lot of farmers now, they consult agronomists, they consult grain marketers but there's still a long way to go in

improving every farm business, as there is in every commercial business.

DR RICKARDS (BCG): I just wanted to come back to business planning, actually, just to really underline the point that that is a real area of need. Certainly the social research I've done has really given voice to the fact that a lot of farmers feel ill-equipped in this area, and I think that reflects the fact that business management, economics, et cetera, relative to newcomers into the agricultural education sphere - so those who went to uni a few decades ago wouldn't have necessarily touched on those subjects to the extent that they're featured today. As Fiona said, the training and services in those areas is lacking still today, and that partly reflects, I think, the focus on agronomy, et cetera, within government.

MR GRANGER: Don't the banks insist on a business plan?

DR RICKARDS (BCG): Yes, well, I think there's a few hurdles like that which are pushing forward those things. I think there's a difference between putting together a business plan as a one-off hurdle requirement and necessarily understanding and utilising one in the way that - and that's really what I'm talking about, is confidence in business decisions, confidence in financial decisions. Another factor to consider, of course, is that that whole area of farming has got a whole lot more complex, particularly in the grains industry when you think about the end of the single desk, the need to go into marketing. Certainly a lot that we talked to had been very negatively affected by their first efforts in the futures and forwards contracts area, and that's kind of a negative learning experience, if you like.

So you've got increasing complexity there, a historic lack of knowledge around that, higher stakes all the time with the economic crisis. So what you've got is a whole lot of lack of confidence there. So it really is at the point where you've got services like the Rural Financial Counselling Service who are doing an absolutely excellent job but have really sort of got their finger in the hole of the dam wall, if you like. Groups like BCG are, I guess - one of the things they need to look at is whether they can sort of start to move into that vacuum that exists there at the moment but, of course, they would need great assistance to be able to do that as well. So just to really emphasise that that's a really big area of need.

PROF WOODS: Any other areas now that you want to draw on?

DR BYRON: There was only last question from me. You gave us the example before of your own situation. Since the National Drought Policy in 1992 was written it has been very easy for politicians and everybody else to say farmers should be better prepared for drought. Now, I would have thought that you would be one of the best prepared people in the country, and it raises the question of how much is enough. Are we being too glib in saying, well, farmers need to be better prepared; they need to be prepared for a 15-year drought, not just for a five-year drought or

whatever?

MR McCLELLAND (BCG): Well, my risk management strategy was that I - my brother and I work together and he has a share portfolio in his superannuation fund of 1.4 million or something, which I now - - -

PROF WOODS: Was that yesterday or today?

MR McCLELLAND (BCG): That was last November. I have a share portfolio today of 600,000 and my brother has 700,000 or 800,000 in his super fund and our Pivot and AWB shares amount to about 500,000. But last November I had my shares equally balancing my debt and I thought it a good risk management strategy having something off farm, something on farm, and the debt was balancing nicely and I felt comfortable. So there has been a lot more pressure put on to - because that debt won't be three and a half million next harvest; it will probably be something like 4 million. But we've been able to maintain all our staff, for instance. I feel a responsibility to those people and, in a sense, the big people who have staff have greater overheads, and I have a very loyal staff, and I have property in the Western District, a lot of sheep down there, and so they're going to help us a lot this year.

Over that last period I had to buy - I've spent probably a million dollars on a farm and my mother went into a nursing home which was 250, my brother got out of the farm and I had to buy a house for him. So those sorts of other family aspects put pressure on our system. The bank would certainly keep lending it to me, and that's probably the trouble, in one sense. We have a diversified expertise and inputs on our farm of livestock, crops, whatever and different properties and yet our debt has screamed and I just see other people who I know are living on family support and interest subsidy.

I had to give a talk at Canberra at Parliament House last year, and Wilson Tuckey asked me why I would want to support EC when I don't get it myself, and I said, "Well, between my farm and" - at Birchip there are three farmers who live and I suspect they're all on EC; I hope they are. I said, "If they leave because there's no EC, I just wonder how long I will," because life is more than just farming; it's about a community and it's about having neighbours and friends. So in a sense what effect does a disappearing population - our statistics show there were 2600 farmers within 100 kilometres of Birchip of which more than half those farmers have a gross income of less than \$200,000.

So theoretically they're the vulnerable people in our society. Now, if you just wipe those off the map, the towns within 100 kilometres Birchip - Donald, Wycheproof, Charlton, Sea Lake, they go on, Boort - suddenly become different places, and if that happens too quickly - and we know the adjustment is happening at about 2 per cent a year of farmers leaving - then you can't adapt or replace it with

other industries or whatever. So a lot of it is about softening the fall, giving people options, and you don't want to have to go back to the 80s when they just sold people up. The banks, I think, have learned that - - -

DR BYRON: Your opening point about the serious erosion of all forms of reserves is a point very well made and very well taken. Thanks.

MR McCLELLAND (BCG): Thank you.

PROF WOODS: Presumably also you wouldn't want to sort of somehow prop people up on non-viable farms to live endless decades of just sheer struggle. You'd want some way in which they could realise what assets they've got left and move out if that's the appropriate situation for them.

MR McCLELLAND (BCG): Yes, I absolutely agree and we don't try to pick winners in our business at BCG, we say everyone should get the information and have a capacity to make it or not. People who do get out, they get out because of family reasons or succession or old age, whatever. But they often need time to make the decision and either wait for the good years or find buyers, so I'm not supporting long-term support but I think in these cycles of really desperate plights that some areas have had, then I think to bring people through that period has some value.

MS BEST (BCG): We certainly need to give those businesses the opportunity to make good decisions about their farming business going forward and that they feel like they have been given the appropriate support and that they have the appropriate information to make good decisions going forward. I think as Ian said, we don't want to see long-term support for the sake of long-term support but in situations like we're in at the moment, we really need to make sure that people feel like they can get through and then when they do hopefully get through, which is going to take a while for people to recover, we then need to ensure that they can start equipping their business and themselves to make good sound decisions going forward.

MR McCLELLAND (BCG): You've also got to remember that we're not made to be here, it's our choice and that we have got a lot of information or a lot of instances of people who have left the farms who are virtually broke who are making a real fist of it and some of them doing very well in place. So part of our mission is to actually help people adjust to whatever circumstances they're going to go to next. But it is a lack of rainfall - I've just written a newsletter on fear of the future and one of the key points I make is that it's not a life and death situation we're in, it's about lack of rainfall and it's not about some of the important issues of life, family and health and whatever. So there is life after farming and we need to also emphasise that there are other opportunities and it's not all bad news.

PROF WOODS: We should look at recognition of prior learning and all those

things that help people understand that they're more than what they currently perceive as a very narrow skill base.

MR McCLELLAND (BCG): Yes, I think that's right. One other point is that there has been a huge change, even in Birchip where our major towns Horsham and Swan Hill are 100 kilometres away that nearly every woman has a job. They somehow have got themselves organised to get jobs, whether they're teachers or nurses, but they work in shops, all sorts of little businesses. It's very difficult to find many women, apart from the ones with young kids, who haven't got some sort of job.

MS BEST (BCG): Just to emphasise what Neil was saying before about whether or not the message about preparedness can be glib, and I think there is a risk that it is because at the end of the day, risk management is not a guarantee, and a good decision isn't necessarily a good outcome. You can make the best decisions there are and adopt all the recommended risk management practices, futures contracts, share portfolios outside of farming, off-farm employment and yet at the end of the day your farm performs poorly. So I think we have to make sure that whatever message is given to farmers from the government doesn't make this implicit assumption that in actual fact risk management is the answer and that the outcomes that someone has on a farm is necessarily a direct reflection of what they've been deciding and doing on that farm.

PROF WOODS: It's certainly a considerable help, but it's no guarantee?

MS BEST (BCG): Absolutely.

PROF WOODS: If I've got my geography passably right, when we flew between Melbourne and Mildura yesterday we would have been traversing near your area, what sort of crop was taken off because clearly the fields had been harvested, but was it just baling up?

MS BEST (BCG): It's been very variable but it is very much linked to soil type. So a lot of soils in the northern Mallee, so closer to Mildura, many farmers were able to harvest one-tonne crops and some even in excess of that. But as you move on to heavier soil types, the yields have been variable from zero, so paddocks that haven't been harvested, to maybe half a tonne, if that. So it has been very variable across farms and across soil types.

PROF WOODS: I also noticed that the tops of the dune ridges were breaking through in a lot of the areas towards the northern end. Is that becoming more prevalent?

MR McCLELLAND (BCG): North of Ouyen I think that was far more prevalent. The area between Ouyen and Sea Lake have been drilling and have been doing great

things. You wouldn't have found too many ridges there, I suspect.

PROF WOODS: No, it was at the north.

MR McCLELLAND (BCG): We put in 11,000 acres of crop and we're going to average about .3 of a tonne per hectare. I'm harvesting a crop today that is going to be about half a bag per acre, yet the crop if you drove along the road, you would think it was a four or five bag crop. But no rainfall in September/October made the difference. Yet there is a little area around Quambatook or south of Swan Hill that on 10 September got between 25 and 50 mils. They were really quite drought affected, even worse than us, before that rain and their crops are between one and two tonnes just with one downpour. So we were a bit unlucky that we didn't get just one more rain in September to make the season and certainly maybe cover costs. But that's life on the farm.

PROF WOODS: Indeed it is. Is there anything that we haven't covered that you would like to raise with us?

MR McCLELLAND (BCG): I really thought your productivity report was excellent and I'd like to congratulate you. I didn't feel the same satisfaction with the social one. I found the social one - helping people is very important and I'm not disputing any of that, but I was more frustrated with that report. But I thought your productivity report was - lots of very relevant, good information and I just want to change a couple of things in terms of cycles and growing season rainfall, basically.

PROF WOODS: We have picked that up from this hearing. Are you intending to put some dot points to reinforce some of that or will we take it off today's transcript?

MR McCLELLAND (BCG): I'd like to think you'll take it off the transcript.

PROF WOODS: That's fine.

MR GRANGER: We don't want to make more work for anybody.

PROF WOODS: We have a formal transcript, it will be on the public record, so we will draw it from there. Thank you, Ian. Thank you, Fiona. Thank you, Lauren.

DR RICKARDS (BCG): Pleasure.

MS BEST (BCG): Thank you very much.

MR McCLELLAND (BCG): Thank you.

(Luncheon adjournment)

PROF WOODS: Our next participant is Citizens Electoral Council. Could you please, for the record, state your name, position that you hold and organisation you are representing.

MR BECK (CEE): Jeremy Beck, Victorian state chairman of the Citizens Electoral Council.

PROF WOODS: Thank you. As you are aware, we have had a detailed submission from your colleagues in another place and so we have traversed much of that ground. But please, do you have an opening statement you wish to make?

MR BECK (CEE): Yes, I'm aware that Jan Pukallus gave some evidence at the hearing in Queensland. I have a few topics I wish to discuss. I refer to the inquiry's terms of reference, specifically point number 3 of the scope of the inquiry, that is:

Identify the most appropriate, effective and efficient Commonwealth, state and territory government response to build farmers, farm businesses and farm-dependent rural, small businesses, self-reliance and preparedness to manage drought.

The Citizens Electoral Council has long campaigned for the most appropriate, effective and efficient way to manage drought, particularly in the context of the current economic climate and which has been brewing for many, many years. We issued a special report way back in 2002 titled, "The infrastructure road to recovery, let's build our way out of the depression," which focused largely on water infrastructure. Actually building infrastructure is the only effective way to manage drought. Any financial assistance which doesn't flow into infrastructure and the actual physical economy is actually welfare, and whilst this welfare at times may be necessary for the social good, it does not effectively manage drought. Whenever large infrastructure projects are proposed, inevitably some wet blanket will whine, "We can't afford it." In fact, the truth is we can't afford not to build infrastructure. If there's a shortage of money, print some more. However, the fact is there's no shortage of money. Central banks have generated many trillions of dollars but they're directed to the non-productive activities, the speculative economy.

So to address this non-productive activity, we need the federal government to fully control and issue national credit in the way the Commonwealth Bank founder King O'Malley actually intended last century. On 30 September 1909 in a five-hour speech on the subject to the federal parliament, O'Malley called for the adoption of an Australian national bank. He promoted the United States first secretary of the treasury, Alexander Hamilton, saying:

I am the Hamilton of Australia. He was the greatest financial man who

ever walked this earth. In the Commonwealth, the national banking system will greatly reduce interest rates that useful productions will increase in leaps and bounds. Wealth, instead of accumulation in the hands of a few, will be distributed amongst the producers. A large proportion employed on relief works building up cities will be expanded in cultivating and beautifying the country. Natural improvements will be made to an extent, in perfection unexampled in the history of the world. Agriculture, manufacturers, inventions, science and arts will flourish in every part of the nation. Those who are now non-producers will naturally become producers. Products will be owned by those who perform the labour because the standard of distribution will be neatly to the rights of humanity.

If our government has the full power of credit generation, the issue is not whether we have enough money but what we can actually do to build our economy. The proof is evidenced in United States president, Franklin Delano Roosevelt's credit generation of the reconstruction finance corporation to build out of the Great Depression. Much of the government-created credit was directed to water infrastructure, such as the Hoover Dam, at that time the world's largest concrete structure.

I want to cover nuclear desalination because in addition to dam building, the water infrastructure - nuclear desalination is the other obvious source. You can create an enormous amount of water. 71 per cent of the oceans cover the earth's surface. The average depth is 3.8 kilometres deep. There's no shortage of water in the world. With this much water, the world is our oyster. The feasibility of integrated nuclear desalination plants has been proven with over 150 reactor years of experience, chiefly in Kazakhstan, Russia, India and Japan.

In Japan, some 10 desalination facilities linked to pressurised water reactors operating for electricity production have yielded one thousand to three thousand metres cubed per day each of potable water, and over 100 reactor years of experience that accrued. In Kazakhstan they have a plant that has produced 80,000 metres cubed of potable water over some 27 years. In India, the National Institute of Ocean Technology is now producing one million litres of desalinated water per day. The cost of producing this desalinated water, including transporting it to shore, is currently 60 rupees per kilolitre, in Australian dollars about \$1.80 per kilolitre. Once scaling up the project to a 10 million litre per day system, they expect the cost to halve to 30 rupees or about 90 cents per kilolitre which is actually less than the cost that most Australians are paying now for their average domestic water supply.

In Australia we have the added advantage of possessing the world's largest uranium and thorium reserves. This will assist us in reducing costs of desalinated water. In addition, when combined with electricity generation, desalination costs are

further reduced as heat use is optimised. If our government had a commitment to the wide-scale use of nuclear power, improved economies of scale would further reduce costs. With a large coastline, nuclear desalination can clearly apply in many areas.

Next I want to cover the environmental movement - environmental Luddites. There used to be the Luddites back in the early 19th century that rioted, destroying labour-saving textile machinery. Today we have the new Luddites called environmentalists. The radicals amongst this movement will be a menace to effective drought management. They are anti-dam building, anti-nuclear power and actually anti-human, and they come up with myths, such as anthropogenic climate disasters. Now, I notice in the terms of reference of this inquiry, the assumption that:

Climate change is expected to increase the frequency, severity and lengthier drought periods in future.

Some so-called experts may assert this, however, I know this to be absolute nonsense. There is no scientific basis for such a statement. I make special reference to the climate change given its prominence in this inquiry. Earlier this year, Dr David Evans, who was a consultant to the Australian Greenhouse Office from 1999 to 2005, bluntly stated the actual situation. He said:

When it comes to light that the carbon scare was known to be bogus in 2008, the ALP is going to be regarded as criminally negligent or ideologically stupid for not having seen through, and if the Liberals support the general thrust of their actions, they will be seen likewise.

Also William Kininmonth, who was the head of the Australian Bureau of Meteorology's national climate centre from 1986 to 1998, and an Australian delegate to the World Meteorological Organisation's Commission for Climatology has also exposed the climate change hoax. He has said:

Life on earth evolved over hundreds of millions of years and during most of that time, carbon dioxide concentrations in the atmosphere were two to three thousand parts per million, nearly 10 times the current values. An increase in carbon dioxide concentration of the atmosphere is likely to be beneficial for food production. The reality is that water vapour clouds, and clouds dominate the earth's greenhouse effect, not carbon dioxide.

On the subject of climate change, it's important to stand back from the spin and opinion pieces and actually look at the principle. Their theory was that burning carbon-based fuels would increase the carbon dioxide content in the atmosphere and that absorbs heat and in turn that would be a warming planet. Now, the fact is the planet has not warmed in the last decade. There has been no net warming and this year has actually been much colder than a lot of other years. For example, China had

the coldest winter in a hundred years. Mumbai, India, experienced its coldest day in 46 years, and just last month, Perth had its coldest November since 1971. It was also the wettest November for the city since 1991.

It's important to understand who is actually behind the environmental movement if we truly want to make reasoned decisions in addressing drought. It happens that the founders of the green movement have a lot in common with Adolf Hitler. They were typically peddling in eugenics, the pseudo science of eugenics. Three of the key founders of the single-most important environmentalist organisation, the WWF, should give a clear picture of who these people really are. The three people, namely Prince Phillip - he was quoted in August 1988 in a Deutsche Press Argenteur interview saying:

In the event that I am reincarnated, I would like to return as a deadly virus in order to contribute something to solve over-population.

A sentiment that Prince Phillip has consistently reiterated. The second person, Sir Julian Huxley who was the first director of UNESCO and the president of the mass-murderous British Eugenics Society, when he co-founded the WWF. Thirdly, Prince Bernard of the Netherlands who was the founding president of the WWF and a former member of Hitler's SS. When he left that mass-murderous organisation to marry future Queen Juliana, he signed his letter of resignation "Heil Hitler". That is what I have to say. Does anyone have any questions?

PROF WOODS: No, that's fairly clear.

DR BYRON: Yes, I think most of the issues were raised last week.

PROF WOODS: Yes. Thank you very much.

MR BECK (CEC): Thank you.

PROF WOODS: We will be resuming at 4 o'clock.

PROF WOODS: This is a resumption of our public hearings into the government drought support inquiry. Our participants before us this afternoon are the Country Women's Association of Victoria. For the record, could you please each give your name, position you hold in the organisation you are representing.

MS MOTT (CWAV): My name is Robyn Mott. I'm representing Country Women's Association of Victoria Incorporated, even though I live in southern New South Wales in a small rural community, and I am the honorary accountant for the association.

MS JENSEN (CWAV): I am representing the CWA of Victoria Incorporated, and I'm Gwen Jensen, and I'm a farmer at Shepparton.

PROF WOODS: Thank you very much, and thank you for coming to today's hearings. We've met a number of your colleagues as we've travelled around Australia and have been very grateful for the contributions and advice that they've been giving, and helping to explain to us the role that you play in supporting the farming communities, which is very valuable. Is there an opening statement that you would wish to make to the inquiry?

MS MOTT (CWAV): Yes, there is. I haven't read the draft report but I've had a look at the overview, and I've just picked out a number of probably what I consider to be relevant or more important points for us to address, if that's okay?

PROF WOODS: Thank you.

MS MOTT (CWAV): These are just matters that I've considered of importance. We've had droughts in Australia previously, although probably not as prolonged and severe as the current drought. The farming community is concerned about what the future does hold. These days or in the future the droughts may become more frequent, and dry periods and temperatures will probably increase. However, in some areas the droughts could have been managed if water allocations, particularly in the last three years, had not been minimal or nil. To impact even more in our area, the irrigators on the Murray irrigation system have been asked to pay for water and its associated costs that they have not even received.

Page 33 of the draft report overview refers to exit grants available to small irrigation holdings in the Murray-Darling Basin, and it suggested that this revised exit grant scheme "appears to address some of the design failings of the current EC exit grant". It is noted that the Australia government has requested state governments to agree to a number of specified water reforms that will improve the functioning of the water market. This agreement is a precondition of delivery of this package to irrigators in each state, and currently only South Australia has signed the

agreement. Therefore, would it not be better to encourage these "blockies", as they are called in the report, to surrender their water allocations so that the water available could be used more efficiently by dedicated farmers. There are a number of several small farms in our area holding reasonable allocations, 40 megalitres plus, but currently due to the federal state politics it would seem that the revised program is a non-event except for South Australia.

In relation to the EC exit grants, the take-up has been low because of the perceived benefits and the conditions that people will benefit from the grant. The report states 550 applications and 75 have been paid, which is only 13.63 per cent, with a further 136, or 24.72 per cent approved but subject to the sale of a farm, and sale of a farm is just not happening. 211, or 38.35 per cent, possible grants to be paid, it's not a high percentage. A number of possible grantees are willing to exit the industry but selling the farm will not clear all their debt, and \$150,000 taxable payment plus the associated grants is not considered sufficient to assist them to relocate, retrain and support a family until employment or another income source can be gained.

As a result, these possibly inefficient and unprofitable primary producers remain in the system and on full government support. In fact, some of them are better off now due to drought than they were before we entered the severity of the drought. Also, one-off handouts are not always managed appropriately by recipients, and I believe it would be more helpful to provide a little assistance over a longer period of time.

Interest rate subsidies have been shown to vary between the states, be inequitable, and at times support inefficient farmers. Further, those farmers showing initiative by instigating programs to mitigate drought, such as by purchasing a neighbouring property for its water availability or its improvements, its growing crops, other measures, are denied assistance. Initially, the Rural Assistance Authority of New South Wales interest rate subsidies were required to be deposited into loan accounts because it is an interest rate subsidy and it was designed to meet the interest that would accrue on that loan. Now it is deposited to an account of choice and it is used by the recipients for any purpose, and there is no accountability as to the subsidy's use.

Would it not be a better program for the state bodies, which are Rural Finance in Victoria, Rural Assistance Authority in New South Wales, to provide low interest loans? That did also used to happen at 4 per cent and lower, but maybe even at home loan interest rate equivalents to those in drought or other hardship circumstances as warranted, and to be repaid over a set period of time. Security, probably by second mortgage with maybe interest only for the first two years and then principle and interest for maybe three or five years. To receive grants and subsidies places no responsibility on ultimate use, and what we don't pay for we don't really care about.

Exceptional circumstances payments, all farmers and businesses in a rural farming community should be able to access temporary income support. Also, assistance needs to be income related not asset related and the subcap suggested in the overview also needs increasing I believe, from the limit of \$20,000 including farm management deposits. I also believe the conditions are very restricting, because if you are in need of the support seeking independent financial advice and developing plans of action or reviewing them every six months will be expensive because professional services are very expensive and perhaps unaffordable. Could institutions or bodies funded or partly funded by the government take up this role and complete the work? This would also allow some consistency in the approach and information obtained and recorded in the reports and the considerations as to what is viable and to what plans will improve self-reliance, because everybody has a different opinion.

There does not appear to be any reference to the younger farmers in the report. I haven't read the full report, but in the overview there doesn't appear to be any reference to that generation. Currently, and generally speaking, this generation is leaving the industry because they are not prepared to work the hours and receive the remuneration and bear the frustrations and the difficulties that their parents and previous generations have borne. We need to encourage this generation to remain in the industry.

We need to educate and train them appropriately and address issues of concern to them, rather than just allowing them to leave; currently there is a drift from rural areas. Additional courses at agricultural colleges or TAFE colleges would be of assistance, and maybe it will also lead to further younger people staying to work on farms. If they can't aspire to own a farm maybe they can work on a farm, take up a share farming or a contracting role, but they do have the background because they've got a family in primary production. Sufficient employees generally are not available in all forms of agriculture throughout the year. So orchardists can never find pickers when fruit is ripe, et cetera.

Suicide, depression and other forms of mental illness are of concern in rural communities, and they cannot be ignored and need to be addressed. Farm management deposits are to be encouraged, and I believe the program should be widened to include non-primary production businesses. Currently there are businesses closing in rural communities because the trade is declining. Farmers have minimal income or are not spending and are the major source of income in a rural area. Also, it's like a dominoes effect, given that rural communities are shrinking there is a loss of services, schools are losing teachers and resources, hospitals and medical services are being retracted and people are having to travel further and further. For us, any woman expecting a baby has a minimum travel of 80 to 100 kilometres to a hospital in Shepparton, 150 kilometres to Albury, or for some

services to Deniliquin which is maybe 65 kilometres away.

If small businesses had a similar scheme to the farm management deposit scheme, maybe called the Small Business Management Deposit Scheme, where they could deposit in better trading times and receive the tax incentive for use in periods such as now, our rural areas would notice the benefits, remain more intact and be more supportive.

The irrigation management grant: the concept of capital expenditure for future benefit I believe is a positive. However, that's against intra-subsidies which are used for running expenses, but I believe the implementation needs improvement. Funds need to be more appropriately expended. Currently the grant is provided before the expenditure is made, so many farmers are not spending it where it should be spent because they are desperate for survival. It's not being policed. We are told that it will be audited but I very much doubt that it will be. It's just \$20,000.

PROF WOODS: It's a very efficient way of getting money out to the farming community.

MS MOTT (CWAV): Yes.

MS JENSEN (CWAV): Some.

PROF WOODS: Indeed, some.

MS MOTT (CWAV): We have four very dedicated large A-class farming people in our area that applied in January-February this year and still have not received the \$20,000, yet we have a number of farms of 30 acres or less that have received the grant virtually straightaway and they are using it more for titivational things to their farms rather than infrastructure and they are never going to be efficient farming enterprises, so I think there's a fair bit of inequity.

A new scheme to increase the incentives for those wishing to exit the industry is required. The scheme needs to be practically appealing as families may need to leave the area to obtain training or employment. We need more practically based up-to-date apprenticeships and on-farm hands-on courses. We need support to be accessible by all people in the farming and rural communities and we need some rewards, I believe, for the efficient. If we can determine, and I'm not sure exactly how, the lower echelon in the farming industry, maybe they can be provided with resources and training for, say, three years or five years and if they can't make it and improve their viability, they must exit the industry, but if they can improve it, maybe they can continue in the industry.

Just back on irrigation management grants, they are worth \$20,000 and

basically you have to do nothing to obtain one. There is a financial planning and advice grant available. It's \$5000 plus GST, but the hoops you've got to go through to get it, very few people are bothering to apply. They are just some of the points.

PROF WOODS: That's very comprehensive, I have to say, and we'll discuss each of those issues in a little bit more depth, if we may. Perhaps if we could first start though - and you didn't particularly deal with it - but the CWA's own role in providing support to farm families. We understand part of the role you play but perhaps if you could elaborate on that and give us your views on where you fit into the broader support network.

MS MOTT (CWAV): In Victoria we've been in existence - this is our 80th year - and our aims and objectives have always been to assist families, women and children and families, and one of them is to address the drift from rural areas. So it has been there for 80 years. Over the period of time, we have always provided assistance to the community; whether it be grants or assistance if your house burns down, if you're in hardship, there has always been some form of assistance available. But in more recent times, certainly in the last few years, the federal government has provided the Country Women's Association of Australia with funding which has flowed down to the states and that has allowed us to put a lot of programs in place. We have been issuing initially grants of \$3000 for community funding of groups to provide functions, all sorts of things, to try and relieve the pressure - - -

PROF WOODS: Social support events.

MS JENSEN (CWAV): Yes, in the rural community.

MS MOTT (CWAV): Individuals can apply or could apply for up to \$2000 to assist power or utility accounts, motor vehicle registrations, but not business expenses. It's meant to be expenditure of a personal type. But I have to say if you're paying a farmer telephone, electricity or motor vehicle registration, it's probably a business expense anyway. So that was available, providing you weren't already on a pension or some other type of government support. We just put a few of our own restrictions on it. That happened twice. We also had two Woolworths/Safeway fundraising days and we used that money in a similar manner.

Now we are using money that we have raised ourselves or has been donated to the association and we are still providing assistance but it is now \$500 per family to meet the same type of expenditure. If someone has a proven case and they require more for some reason, the funding can be provided. We have always provided scholarships and we are still providing many scholarships to help rural families meet the costs of sending their children to school. Some of those are restricted to members of the association or their children but there are quite a few open ones. There's also open ones to universities to help rural children come down to the city

universities to study. We have tried to put in a program of accommodation for university students but that really hasn't got off the ground yet. We do lots of pamper packs and provide grocery vouchers and clothing and just general assistance. A lot of that money comes from the funds we raise at the Royal Melbourne Show each year where we do the catering for the 10 days at the showgrounds, and just from the other functions that we generally hold, but we are community and service based.

PROF WOODS: Yes. That's a very valuable support role in building that social support.

MS JENSEN (CWAV): It's actually a very frustrating role and very heartbreaking when you go out to the families; because we're part of the community, we're up against the people who are actually suffering and we do find that just being there, perhaps money isn't as important as that, and we've felt that most of what we're doing is a type of bandaid, it doesn't go on for long enough. We just have these little bursts. But at the end of the day, that's why we're coming, mainly from the direction that the people who are never going to survive on their farms, we've got to do something positive for them, and that is most probably to help them either live on their farm and not farm any more or move off their farm and go somewhere else. That, when you confront a farmer, as I know, is a very, very difficult position to be in, and we've run a lot of community - you know, to lift their morale up in the different areas, but it still comes back to the same thing.

I don't know if it's appropriate here, but my main question is - there's a message out there going out to the farmers day in day out, whether it's media, whether it's government or what, but I think governments of both persuasions, federal and state, have got to decide whether they want an agricultural sector in Australia.

PROF WOODS: Let's explore that in the context of some of the other issues. You said in both your opening comments and just then in supplementary comments about needing to address the situation of the small unviable farmers and to either help them grow to viability or to have them accept that they live on the land but not try and make a go of a farm that's inherently just not going to work, or to exit, to recognise their skills and the like and to move off. Part of that is a move to increase scale economies and to make more efficient farms, but when you do that, you reduce the numbers of farmers in a district but at the same time, not only the CWA but the local country fire brigade and everyone else then sees that their membership starts to dissipate, but both are forces that are long term and need to be addressed. So you have this dilemma of wanting to retain the number of people in the district and the social support services that it provides and the viability for the school and the hospital and the local shops and things but at the same time, agriculture has to keep getting more efficient and scale economies and more capital technology and less direct labour. How do you, in your perspective, address those two conflicting sets of trends, because both of them are real, both of them are long term?

MS MOTT (CWAV): We are in a very closely settled community, so - - -

PROF WOODS: Sorry, precisely where are you?

MS MOTT (CWAV): I'm actually at Finley.

PROF WOODS: Okay, yes. I know Finley.

MS MOTT (CWAV): So we're very closely settled. I take your point, but at the moment, for instance, our high school is going to fall below 500 students this year and it's not all that long ago it was 800 and something. The reason is that some of our better farming families are moving off farms, leasing their farms and have gone to the west or to Darwin or other areas, working in high-income positions, to try and meet their farm repayments. Now, would we not be better to retain them in our community and allow them to use the water or buy up the land of their neighbour who has got 60 acres, is never going to be a viable farming enterprise unless he grows flowers or whatever, wouldn't it be better to retain them and let the people who are leaving the area be those people, rather than our well-trained farmers?

PROF WOODS: Yes, except that I don't think we're quite at the stage in Australian society of dictating who is and who isn't.

MS MOTT (CWAV): No, you're not.

PROF WOODS: But we understand the sentiments and the outcome of - - -

MS JENSEN (CWAV): You're not, but you can put into a process - I've seen it done time and time again - where it is very favourable, the people go out feeling good about it, so that's not our job, I don't think, to come up with a process of creating that because in the long term, those people that are in the bottom 20 per cent are very sad, suicidal - you name it, we've seen it - people. I think we've got to be big enough and gutsy enough, excuse the French, to do what is right by them which is giving them a way out with pride. That is a difficult one, I know, but surely to goodness there's people with a lot more brains than myself who can come up with some sort of solution. We're saying that if for some reason they don't want to leave the district, there must be a way - because it would be more economical, if nothing else - for the government to leave them in their own little house on the farm that you can't sell anyway and nobody wants, or the next-door neighbour can put a few sheep in or whatever. But it's a big area and I don't think the brains of - I'd love to see some universities in this country grapple with real problems and look at things like that. They're doing great things in some areas but I think this is an area where they could really come up with some great solutions where it's a win-win. We get very few win-wins out there at the moment.

PROF WOODS: Yes. You're talking about some structural adjustment that benefits everybody.

MS JENSEN (CWAV): Yes.

PROF WOODS: The more efficient farmers become bigger and can capture the water rights and the like.

MS JENSEN (CWAV): That's good for the country, you see.

PROF WOODS: And the smaller, less efficient farmers can find alternate ways of - - -

MS MOTT (CWAV): I think small acre farms are going to still survive because we're going to farm our land a little more intensively. Like, flood irrigation I believe will never come back, but we can handle that. We can use drip irrigation like we use on tomatoes. As long as the infrastructure is there, we're encouraged into it, we are trained, I don't think that's a really big change. I think small acreages can survive but with - - -

PROF WOODS: But with a different form of farming.

MS JENSEN (CWAV): Yes, that's right.

PROF WOODS: But in some other areas where that's not an option, particularly in your broadacre dryland farming, the smaller farms are just very hard pressed to change practice enough to survive.

MS MOTT (CWAV): That's true, and we're heading to dryland farming at a rapid rate.

PROF WOODS: We've been out through your district - - -

MS JENSEN (CWAV): So is Shepparton too.

PROF WOODS: - - - and you won't find too many rice paddies.

MS MOTT (CWAV): No. You've no doubt noticed that we had a number of rice mills that are now closed.

PROF WOODS: Yes.

MS MOTT (CWAV): That has impacted; 30 families at least were put off from the

Deniliquin mill 10 months ago. Most of the other mills have closed, so it's a flow-on effect.

MS JENSEN (CWAV): Can I butt in here?

PROF WOODS: Yes, please.

MS JENSEN (CWAV): When I think of things, I need to say them at my age.

PROF WOODS: No, it's an open conversation.

MS JENSEN (CWAV): Thank you. Really and truly, in years gone by, because I've been farming over 50 years - so you know how old I am - when there was any government support given out, it was when everybody was in dire trouble and everybody got it. Instead of propping some up, the good operators got help too when they needed it and I think that has got completely lost, and it's the only way agriculture will survive, because we do have to work against drought and all sorts of things occasionally, where it's just beyond even the best to survive. I really feel this is another area that doesn't get addressed anywhere at the moment. It's just a few little handouts here, there and everywhere, but it should be when there's diabolical problems, that is when the government steps in and helps. Really, farming families - I'm not sure how it works because it's too complicated for me - but with Centrelink, I think assets come into it, and it should be always income where a farmer is concerned because really, nobody wants to buy your assets anyway, so they're not - - -

DR BYRON: You're talking about something like when a cyclone strikes or bushfires ravage - - -

MS JENSEN (CWAV): Well, a long drought - most of us bigger farmers could always last about five to six years and then we're in big trouble if all crops fail. That sixth year - and it happened in 2005, I looked up my cashbook the other day - 2005, there was just no fodder to buy and that's when the government stepped in and opened up some of the wheat bunkers and things like that. But we were sending heifers over to Tasmania to just keep them alive, and things like that. We got no help whatsoever, not a dollar. We were desperate, so we just went into the backward mode and put up with it. But this is what I think has got lost: you shouldn't be propping up when things are not diabolical. It can be diabolical because of decisions made like zero water allocations all of a sudden, and that to me is diabolical as well as the lack of rain.

PROF WOODS: Let's separate the discussion into the farm business and the farm household. If we can look at the farm household first - I mean, I know they're interrelated but if we can try and - - -

MS JENSEN (CWAV): No, keep them separate.

PROF WOODS: Yes, exactly. If we can try and pull them apart for the moment - - -

MS JENSEN (CWAV): Definitely.

PROF WOODS: - - - your comment on keeping them separate reflects an attitude that the better farmers are very strongly ingrained and a number of the less-efficient farmers don't understand at all, so - - -

MS JENSEN (CWAV): No, I think they do, but whether they can do much about it, I doubt.

PROF WOODS: But let's tease them apart for the moment. On the household hardship cases, the current scheme requires you to be in an EC area before you can be eligible and you've got lines on maps - yes, that doesn't appear on the record but we understand your point - and in and out and all of those situations. In our draft report, we're proposing that you don't have that; what you have is an always on arrangement for farm households who fall into hardship, whatever the cause might be. It is income related, and I'll get to the assets in a minute, but if they're not generating income and they've exhausted all their possibilities and they've got nowhere to go, then whether they're in an EC area or not, whether it was a drought that caused it or whether the bottom fell out of the commodity market and they had presold at a higher level and can't meet the shortfall, whatever the situation, then they would be eligible for it. But we have suggested an assets test and we've suggested two million tapering out to three million and anyone under that to be eligible. But in part the reason for that is that it becomes a very hard ask to suggest to the Australian community as a whole that somebody who might have, say, net assets - and I'm talking net, not gross - of, say, five million, should also be getting taxpayer support for 17,000 a year for welfare.

I know that you can't eat dirt and the farm may not be producing income, but it just becomes a very hard sell to the community as a whole that somebody who has an assessed net worth of five mil to be pulling down 17 grand from the taxpayer. So there are two parts to that conversation: in principle what is your reaction to having an always-on household support program as a support?

MS MOTT (CWAV): I think it should be not only farmers. As I said in my statement, I believe it should be opened up to all businesses in rural communities because if the farmer is not making an income and doesn't have income to spend, the local livestock freighting company is not freighting any livestock, so there is no income for him. The sprayer for the crops, the rice or the wheat or the barley is not

earning an income because there's nothing there for him. Then in the rural retail businesses we're losing our - a hairdresser shut two weeks ago. Whoever heard of a hairdresser having to close, because women, she said, are just taking longer and longer to come in for a cut, only having colour only second and third time and all these sort of things. We all laugh about it, but it's real.

PROF WOODS: It's real, it's true.

MS MOTT (CWAV): So I believe that that support should be available to everybody.

PROF WOODS: So you would agree with our extension to farmers, but you would want to extend it beyond farmers to others who are - - -

MS MOTT (CWAV): Yes, because at the moment you can get small business support or interest subsidies or drought assistance from Centrelink. So I would like to see that opened up to everybody. As for the five million, well, I'm sorry but I have yet to run into a farmer our a business in our area that's got five million in net assets.

PROF WOODS: There are a number, but they're not in your area.

MS MOTT (CWAV): They're not where we are.

MS JENSEN (CWAV): Are they in trouble?

PROF WOODS: There are certainly calls from - - -

MS JENSEN (CWAV): I wouldn't have thought so, is what I'm saying.

PROF WOODS: That's our reaction, but we have had strong calls from a number of farm organisations who claim that our proposal of a two million, tapering out at three is not enough.

MS MOTT (CWAV): If they need they support, I would be - you've got to open it up.

MS JENSEN (CWAV): Yes, I don't think you want to put a limit.

MS MOTT (CWAV): You can't be restricting.

MS JENSEN (CWAV): If they're in an area, say, in the outback of Australia, you can own 30-million-dollar places and have huge droughts out there and it takes, as I keep saying to everybody, just as much for the big farmer to feed one cow or put in one acre of crop as it does for the little bloke to do his 10, in fact sometimes it's

harder because you've got the bigger cost. I think it needs really - there should be ways of doing it, looking into a system where it's fair for all. But if you're big and you need it, those few times - you most probably find very few - I don't know about the outback of Australia - in that class would ever require anything because we've seen when we saw your overview, which I might add I was pleasantly surprised with and amazed that it was as good as it was.

PROF WOODS: What, that a bunch of economists could come up with something almost that good.

MS MOTT (CWAV): Wouldn't it be better though in that circumstance to make the low interest loans available because pride comes into all these things. If you're going to have five million net assets, I would imagine pride is going to be an issue over accepting 17,000 from the government. So wouldn't it be better to make funding more easily available, low interest funding?

PROF WOODS: Low interest funding, although attractive - - -

MS MOTT (CWAV): You've got to repay it.

PROF WOODS: - - - in one sense, is still essentially a grant. It's a grant that's the difference between the market rate of interest and the subsidised rate of interest. So you're still just getting a grant, it happens to be in a different form.

MS MOTT (CWAV): That's true but you've still got to repay the principal.

MS JENSEN (CWAV): An interest grant only.

PROF WOODS: Yes, the principal has to be repaid.

MS MOTT (CWAV): I think that gives you a sense of accountability and responsibility that you just can't spend the money however you like because you've got to meet repayments on a debt.

PROF WOODS: Neil, anywhere you want to go on that one?

DR BYRON: I'm still on the previous point and just wondering what the tabloids would do with somebody with \$5-million of net assets who can't afford to feed their kids and needs to get \$17,000 a year from Centrelink. The tabloids would make the case that surely - - -

MS MOTT (CWAV): They can sell off something out of their five million.

DR BYRON: Or they can extend the overdraft.

MS JENSEN (CWAV): You're obviously an economist, not a farmer. You can have, and I know people who have - had huge assets but no income.

DR BYRON: Yes, me too.

MS JENSEN (CWAV): I think that's the difference. If you make them sell off their assets in the time of drought which they cannot do anything about, they could become very good producers for the rest of the century or whatever.

DR BYRON: I don't think we're talking about making people sell off anything. But there's an argument that if somebody has that much in assets, surely they should be able to find some way of feeding their kids and giving them shoes to wear to school without having to go to Centrelink.

MS JENSEN (CWAV): I think you're right on that one, yes. I don't think they'd come to you.

DR BYRON: Somebody said to us in Western Australia that going to the Centrelink office or even the drought bus is a bit like going to the HIV bus. Nobody wants to be seen going in there.

MS MOTT (CWAV): That's what I'd call the pride issue.

PROF WOODS: On the household hardship issue, I think we're in broad agreement on its application to farmers and that it shouldn't be only related to drought but you're also arguing it should be extended to the rural-dependent business.

MS JENSEN (CWAV): Yes.

MS MOTT (CWAV): The other thing I'd like to see there is that at the moment the EC Centrelink payment is not reconciled, whereas if you're in the receipt of family tax benefit or anything like that, it's reconciled.

DR BYRON: Absolutely.

PROF WOODS: We put that in the draft report.

DR BYRON: I don't know if you'll get a chance to look at it, but we have said that six-monthly you must account for what your proposed income was, what your actual income is and also that you have a case management process that says, "Well, where's your farm business plan because it's your farm business that's generating the income to support your household. So if it's not generating income, where's the

plan? What progress you've made against it."

MS MOTT (CWAV): If you're going to make it every six months, don't make it too demanding.

PROF WOODS: I did pick up your very strong point about the cost involved in - - -

MS MOTT (CWAV): It's also the work, because I work in the industry quite obviously.

DR BYRON: We weren't thinking of something that would require lots of expensive professional advice. We were thinking of something that wouldn't require even one visit to an accountant.

MS JENSEN (CWAV): Excellent point. It should not need to go to professionals.

PROF WOODS: In part because they don't own it then in that case. If it's filled in by some external person who puts the numbers in and says, "Is that right?" and they nod wisely. But it's not a planning document.

MS JENSEN (CWAV): It doesn't make them change anything either.

PROF WOODS: No, they don't belong to it. They don't own it.

DR BYRON: So the sort of process we were talking about was saying, "How have things been going in the last six months? Is it looking up or not? If it's not looking up, what can we do differently over the next six months so that we're trying to get out this hole?" If at the end of two and a half years and you're still in the hole or getting deeper then say, "Well, there's only three years. We've proposed three years out of seven," and then people would start to say, "If I'm not going to get out of this, what am I going to do instead?"

MS MOTT (CWAV): What are you going to do with them?

DR BYRON: We're not saying that you have to sell or that you have to move interstate or whatever else, but you need to start think about, "How are we going to support the family if the farm doesn't look like getting viable?"

MS MOTT (CWAV): What are they going to do?

PROF WOODS: That's where your grants, where your recognition of prior learning certification - - -

MS MOTT (CWAV): That's why those grants, I believe, need to be a little bit more realistic because, as Gwen said before, you want to encourage them to get out with a sense of pride and - - -

DR BYRON: Dignity.

MS MOTT (CWAV): - - - yes, dignity so, therefore, you need to make it very easy for them or to provide them with a rational excuse to get out.

PROF WOODS: In part, to enable them to say, "Well, sure, my parents had made a go of it and I tried, and even though I haven't I've got this that I'm walking away with," because otherwise it's all squandered.

MS MOTT (CWAV): And just on your previous point about the reconciliation or the accountability each six months, if it is possible to do it without any sort of financial data that's great, but I question whether that could happen, and the minute you want financial data you're really transferring the responsibility from the person to some professional somewhere or some support person somewhere to help them with it, because in reality that's just what happens.

MS JENSEN (CWAV): Do the counsellors do that, the whatever they are?

PROF WOODS: Rural financial counsellors.

MS MOTT (CWAV): They don't in our area, no. They don't have time.

PROF WOODS: Not really their job.

MS MOTT (CWAV): As a profession we don't the work. We're behind with our compliance - - -

MS JENSEN (CWAV): Perhaps we need to set up something where somebody other than the professionals, something where they can help them.

MR GRANGER: Do you do their BAS?

MS MOTT (CWAV): We do most of their BASs.

MR GRANGER: If they're selling through some central point it's just a statement of income over a period of time. It's not hard work.

MS MOTT (CWAV): It's work that we're prepared to do. A lot of accounting firms won't do it, but we do do it and we are prepared to do it, but we are very much behind with our compliance work because we are putting drought first or supporting

people first.

PROF WOODS: It is a bit of a worry that there are a number of farmers there who, once you start questioning them on their financial management abdicate to the professional.

MS MOTT (CWAV): It's changing, they are becoming more knowledgeable and educated in that area, but it's still - because our farmers are an aging - - -

MS JENSEN (CWAV): They're my age group, that's right. Most of them are.

MS MOTT (CWAV): So they've never been brought up to do their - they've always taken their work to an accountant or a professional to do it, so life is not going to change.

DR BYRON: But the president of the Tasmanian Farmers and Grazier said, "It's probably about time we started thinking of ourselves as rural business people rather than thinking of ourselves as farmers and graziers."

MS JENSEN (CWAV): Definitely.

DR BYRON: "We're running a serious business."

MS MOTT (CWAV): That's true. It's not a lifestyle any more, it's a business.

DR BYRON: "It's not just a bloke on a tractor with a few sheep, we're running a serious business," and to take that more business-like approach to it. I've heard so many stories of people who bring in the shoebox full of accounts and say, "Make some sense out of this."

MS JENSEN (CWAV): It gets quite complicated after a while, though, with different entities and so forth and so on.

PROF WOODS: Also, sometimes they get advice that, "Go into this structure and this will be terrific and it will save you this much amount of tax."

MS JENSEN (CWAV): Trusts are in trouble today.

PROF WOODS: Yes, and sometimes that's not always good long-term advice. But putting that aside, this increasing professionalism of farming does raise the question of how far is that trend likely to go and what are your views on it? For instance, there are now increasing numbers of legislative requirements: if you want to use chemicals you've got to do your chemsafe course, you've got your oc health and safety, and transport, and all of those, animal welfare, et cetera, et cetera. So

they're increasingly binding at the legislative or prescriptive end. Then there's a whole lot of compliance-related issues: if you want to export to this market they require some certification from you that your quality is at this standard, or that you've done this course, or whatever. Can you see that trend increasing? Particularly for some industries, whether it's dairy or the like, the industry itself is pulling all those issues together. Is that a trend that (a) you see continuing and (b) you would support as a way of improving the professionalism of farming?

MS JENSEN (CWAV): Education is very, very important, and I mean the drop-out at year 10, there's a lot out there farming at the moment of that. I'm not saying you need to go through to university or anything. You need updating and you need some structure where the farmers can keep updating and call it a business. That's why I'm a big believer in the house is not part of the farm, and the farm is the business, the house is where I live. I think this has got to evolve, but it's got to be encouraged. Now, to get apprentices, which I think is a wonderful form, they learn as they go through, and I think apprentices could be 30 years old, once males mature.

PROF WOODS: It takes that long, does it?

MR GRANGER: That's on the record.

MS JENSEN (CWAV): No, but you need that education which I doubt Australia's got.

MS MOTT (CWAV): But can the education be practical because - - -

PROF WOODS: Yes, we're not talking theory.

MS MOTT (CWAV): - - - in the farming community - - -

MS JENSEN (CWAV): But it still has to be book work.

MS MOTT (CWAV): Yes, it does, but the number of farmers that comment about, because they're probably older, that they have to go and do a water management course for two days on how to irrigate, or a farm chemical course when they've been doing it for 50 years and they know that they have to wear gloves and dispose of the cans appropriately, and they know they have to do whatever on the irrigation, they treat it with disdain because the courses are not teaching them anything.

MS JENSEN (CWAV): No, they're just going to get that certificate so that they're - - -

PROF WOODS: They're just going through the motions.

MS JENSEN (CWAV): The motions, yes. Make sure they're always short enough so that you can milk the cows each end of the day and things like that.

PROF WOODS: That's an important point.

MS JENSEN (CWAV): That is most important. It's a totally different industry to most industries because you have to do your practical as well as your training, and I think definitely Australian farmers - I've seen overseas quite a bit - are very good operators, they just need that encouragement to be that little bit better and I think if you give them the way they will do it. They're very willing, usually, if they can see at the end of the day a dollar or an improvement or something, you know, they will do it.

PROF WOODS: If it works they will be onto it.

MS JENSEN (CWAV): But they do have a lot of disdain for a lot of the courses. If I've heard about Dookie College once I've heard a thousand times. But we've got to uplift that sector too to be much more relevant in this day and age and give the farmers what they need not what they think they need. But education is one of the big things we've got to address.

DR BYRON: We were talking before about say the bottom 20 per cent who are almost permanently in need of some sort of help and you wonder if they're ever going to make a real success of it.

MS JENSEN (CWAV): Be honest, they're not.

DR BYRON: The question is, we don't think anybody should go and tap them on the shoulder and say, "Listen, you've got to leave," but you could give them some information that makes them realise it's probably in their own best interests if they do. One of the suggestions that's come up with the point that Mike was making is that if there's these increasing pressures to have certifications for some things like chemicals, and there's other pressures for quality assurance to get into markets, that may well be the trigger where some people say, "Well, stuff it, it's all getting too complicated. I might as well sell and go and get a job driving a grader for the council or whatever." But we've talked a lot in the hearings about things like recognition for prior learning, because a lot of people who are frankly struggling on farms but don't understand there are lots of other things they could do that would actually give them a better household income.

MS JENSEN (CWAV): Eg welding or electrical work or plumbing or - - -

DR BYRON: Stuff that they do every day of the week but they may not have a ticket for it.

MS JENSEN (CWAV): Exactly.

MS MOTT (CWAV): There's also an issue that that some are farming families for numbers of generations and there is a pressure being put on them, whether it's expressed or not expressed, that they are letting the family down because they're exiting the farm.

DR BYRON: That stigma, we've been told about that.

MR GRANGER: Can I draw you out a bit on the issue of women and agriculture, just whether you see this is as a largely untapped potential there? I'm not saying they're not in it, I'm just saying do you think - - -

MS JENSEN (CWAV): We're the quiet achievers. I did all the book work in our household, and all the - - -

MR GRANGER: There's often the view expressed that they should be less quiet and they should step forward a bit, and perhaps - - -

MS MOTT (CWAV): Yes, I think there is an untapped resource there. Certainly a lot of women are involved in both the practical aspects of farming, and as Gwen mentioned, the office side of the business. But there is a resource that hasn't been fully utilised.

MR GRANGER: As a community, how do you see us better tapping into the potential that's there?

MS MOTT (CWAV): I think it still does come back to education and training. A lot more apprenticeships open to both males and females in all areas of agriculture and encourage to women to become involved in practical farming duties, which they often do now but they get the little jobs on the dairy farm, like bucket feeding the calves or pruning the grapevines, those types of jobs.

MR GRANGER: Can I ask you a really rude question? Do you think farmer associations are a hindrance or a help in regard to better gender balance?

MS MOTT (CWAV): If there were more females involved in the farmer organisations I think they would be better. I think they are perhaps a slight hindrance at the moment because they're male dominated and there is that bit of a chauvinistic attitude.

MS JENSEN (CWAV): In some areas.

MS MOTT (CWAV): I'm speaking generally.

MS JENSEN (CWAV): I must admit, I've been on more boards and things where I'm the only woman, because my husband is not into the public arenas at all. I have always been treated in every way with respect and as an equal because they most probably know what I'm talking about, as far as farming is concerned anyway. So I think the opportunity is there. I think it's happening more and more but women are very emotional. I'd rather have an argument with a man any time than a woman. No, to be quite honest, we are emotional people. We look at things very differently, we're very cautious on the whole because of the mothering family thing, but we're just as capable out there on the farm and I think a lot more women are participating.

I notice my daughter, who's on a dairy farm too, doing the whole thing. She's managing it, she's doing the whole bit, and she's quite capable of doing that too. So I think it's an individual thing. I don't think you have to say women have got to do something or - I think they already can if they want to.

MS MOTT (CWAV): Definitely on dairy farms it's noticeable that women are much better managers in the actual dairy, milking the cows, because they, as a whole, don't get as angry.

DR BYRON: As aggressive.

MS MOTT (CWAV): And the cows react to that.

PROF WOODS: Contented cows are best.

MR GRANGER: You'll often hear miners say that they prefer women on heavy equipment, would you believe. I mean, I'm not going to challenge what you said before, but they've got better emotions anyway for giving respect to these huge machines and driving them.

MS JENSEN (CWAV): You're not wrong. We don't wreck things like you boys.

MR GRANGER: A lot of people think women have got to come out a bit more.

MS JENSEN (CWAV): Yes, I agree.

PROF WOODS: If I can lead off from the education issue into extension programs. Part of our draft report recommends there be significantly more investment in extension. We need the research, we need the development but we need to get it on farm more so than has been the case. Do you have any views on what sort of models of extension do work better than others? I mean, do we go back to the days of the DPI extension officer or do we have the DPIs maybe employing

the extension officers but that the industries take them under their umbrella and provide all the support, the expenses and use them as if they're their own? Is there a problem with extension officers being employed for one-year programs, two-year programs but not ongoing? What are your views? Where are your thoughts on extension?

MS JENSEN (CWAV): You certainly need continuity. So that means you don't shift that good bloke that I've just got to know and he's really helpful and he zips off after 12 months, two years or something like that. You need it to go on. Now, all I know about farming mainly came from the old ag department and their extension officers. We were in dairy. Now, it was a wonderful system. It really was. The whole system there was to encourage young people to be motivated, how to do it if you needed the help. The factories were a lot more helpful as well where you sold your milk. But I'm a great believer that you've got to have good extension officers and people that are not going off - how shall I put this; this is on record - but going off to have a baby every now and again. That has been a major problem with our local extension officers at the moment. So you really need to look at that as it has got to be ongoing and it has got to be good, what they are doing.

Now, I will give a plus here. When they came up with the lack of water and the drought, the DPI suggested that farmers in the irrigation areas have to look at perhaps not having water, and they came up with a formula of dried feed mixes and feed pads. Now, they can cost \$200,000 for a decent-sized one with a cover and everything on it. A lot of people can't afford that but they know that's what they need. The feed mix is 120 to 180 grand. It's big bickies and a smaller operator can't find that money in the drought at the moment with feed costs as well. So it's a wonderful idea but perhaps we need to look at helping that to happen so that they're still there milking the cows next year.

PROF WOODS: So these are the drought lots. So you protect your pasture and you move them into the drought lots during the hard times.

MS JENSEN (CWAV): Yes. You feed them before and after milking. There's no green grass any more but the cows are milking pretty well, actually. There's some jolly good things happening out there and we're not hearing about it.

DR BYRON: Some people have told us that with the water cutbacks and people have switched from irrigating grass to dry feeding, they've actually found that it works out even better than the previous system, that they might keep on that even when the drought is over.

MS JENSEN (CWAV): I think they will.

MS MOTT (CWAV): Because there's a movement away from watering summer

pasture because we haven't had the water. So there has had to be an alternative.

MS JENSEN (CWAV): But not every industry can do that. We're in amongst the horticulture too with Shepparton. They don't use as much water but if a tree dies you don't get fruit next year.

PROF WOODS: That's right. You've got seven years before you replant.

MS JENSEN (CWAV): Yes, that's right. So it's all different for the different industries of course. But I do think you're extension officers, be they in horticulture or wherever, there's certainly a place for them as long as they are well trained.

PROF WOODS: Do you have similar views?

MS MOTT (CWAV): I would, yes.

DR BYRON: Can I come back to the point that you made earlier about the need to attract and retain young farmers. This is a recurring theme. A lot of people have said that the kids basically refuse to inherit the farm or that they've gone off to the city and got university degrees or something and not interested in going back. The question is, how do you make a career in farming as attractive as having a house in the suburbs with a cushy job in an air-conditioned office and a regular pay packet?

MS MOTT (CWAV): But it's not only - - -

MS JENSEN (CWAV): Because farming is a wonderful - and I wouldn't be anywhere else, I tell you. But you've got to get that across to the kids. It's not all about money, is what I'm saying.

DR BYRON: But the problems that have come up is that in many cases perhaps succession planning hasn't been done or done well. We're frequently hearing that it's so hard for the younger generation to buy in because of - - -

MS JENSEN (CWAV): Well, they can't.

DR BYRON: Yes, exactly.

MS JENSEN (CWAV): I'll tell you, quite honestly. Who at 22 or 23, other than going via the share-farming situation - which I am a great believer in, by the way.

DR BYRON: Which is the traditional way.

MS JENSEN (CWAV): But who as a young bloke can find 10 million to buy a decent running dairy?

PROF WOODS: But isn't that the point, that if you go back a couple of generations they did go in through share-farming.

MS JENSEN (CWAV): They did.

PROF WOODS: Now you've got leasing, which is probably more prevalent now than it was in those days. So that you can start as a share farmer and then you can lease a couple of paddocks and you can progressively build up and then you can put your toe in the water and plead with the bank and - - -

MS MOTT (CWAV): That's not only in farming, though.

MS JENSEN (CWAV): That has never happened with broadacre, though. I don't think that has ever happened in broadacre. You inherited it in broadacre.

MS MOTT (CWAV): It's not only in farming, though, that you've got that problem. We're in instant demand society whereas in those days you accepted that, you know, that's how you did it.

PROF WOODS: That was part of the apprenticeship.

MS MOTT (CWAV): Or you started off with secondhand furniture in the house and whatever. These days we've got to have everything and we've got to have it now attitude. Even in other areas, like medical practitioners or whatever, they go off from rural areas to city areas to study but they don't come back because we don't have the lifestyle that perhaps they're looking for or they've got to take a cut in salary to work in a country area. There's all sorts of reasons. It's not only in farming, although it's very prevalent and it's easy to see it in farming. But it is in other careers and other professions as well.

DR BYRON: But you talked in your opening remarks about having agriculture courses in TAFE and college and so on but my understanding is that a lot of the ag colleges are actually closing down, because they can't get students.

MS MOTT (CWAV): They are. But why not do it like the VET program through the high schools? You can't do - I don't know what they're called now, but home industries through a VET program, you can do automotive courses. Why can't we be doing farming apprenticeships and courses through our local colleges while the children are still at high school? Why do we wait till they have left high school before we start thinking about training them?

MS JENSEN (CWAV): There is a perception too that it's a dud career by young people.

PROF WOODS: But to quote you, you wouldn't be anywhere else?

MS JENSEN (CWAV): No, but there's not that many of me.

DR BYRON: I think you're right. It's probably a common perception - - -

MS JENSEN (CWAV): It is.

DR BYRON: - - - but it's probably a false perception because - I mean we could all name some very, very exciting and innovative things that are happening in all different branches of agriculture.

MS JENSEN (CWAV): That's right.

DR BYRON: As you were saying before, Australian farmers have a track record of being very, very quick on the uptake and very innovative. But the perception is that it's - - -

MS JENSEN (CWAV): They're drips, they're in trouble, they need government help. It's all that perception thing.

MR GRANGER: I think if you follow the public statements and utterances of some rural leaders, right, I don't want to argue on this point - - -

MS JENSEN (CWAV): They're saying it too, are they?

MR GRANGER: - - - why would anyone want to go into agriculture - - -

MS JENSEN (CWAV): Yes.

MR GRANGER: - - - for the picture that they paint? To win the 6.30 news headlines anywhere you've got to say something that is usually negative and adverse. If it's dealing with primary industries you've got people that focus on all the tough and bad things that are happening. Why wouldn't an industry balance sheet be written down by the doom and gloom people?

MS JENSEN (CWAV): That's right, doom and gloom, and yet we're holding the country together at the minute.

MR GRANGER: I mean I could be accused of having rose-coloured glasses on, and I don't mind that, but there's a lot of positives out there and I think they're forgotten, on average, by leadership in many areas of agriculture; and they forget - - -

MS MOTT (CWAV): You were just talking about succession planning. I think in the older generation there is this idea that you don't hand the family farm over until you actually - it's through your will, because that's how they got it; whereas in a lot of cases succession planning is not being done perhaps the way it should be done. People should be encouraged or farmers should be encouraged to get the next generation on side and get them working with them in a partnership or whatever so they're sharing in the ownership of the asset and the ownership of the liabilities as well as doing the farm duties rather than, "You can have this when I'm no longer here to farm."

PROF WOODS: And to be building up a retirement fund in parallel - - -

MS MOTT (CWAV): Yes.

PROF WOODS: - - - rather than assume that when they leave they take a million out to fund their retirement and leave the next generation with a debt.

MS MOTT (CWAV): I think the relationship breakdown also influences some of the decisions. They don't want to, as we mentioned before, pass over the family farm, "because young Johnny might get married and in two years time we've lost the family farm through a family settlement".

PROF WOODS: They're very real considerations. They're very unique to each individual household but as a general rule you would want to hope that there is a greater emphasis on building up a separate retirement fund and structuring your farm business on a more stable footing than is the case at the moment. Where do you want to head now?

DR BYRON: Well, I'm trying - I'm just running through the list of notes while you made your introductory comments because - - -

PROF WOODS: Yes. You said it's a very large agenda.

DR BYRON: Yes, but I think we've actually ticked off - - -

MS JENSEN (CWAV): We've worked hard on this.

DR BYRON: Yes, it's terrific.

PROF WOODS: We said we're very impressed.

DR BYRON: But I think we've actually ticked off most of the things that - - -

MS JENSEN (CWAV): We mentioned?

DR BYRON: Yes. I think so. Bob?

MR GRANGER: I'm fine, thank you.

PROF WOODS: We did, in the body of the report, draw on this question of the young farming generation and also those who had expanded to increase their scale economies but then got stuck with six, seven years of drought. Those are - it's all in the timing.

MS JENSEN (CWAV): That's right.

MS MOTT (CWAV): Because some farms aren't as easily adaptable to different types of cropping or activities as others. So therefore they've always just thought, "Oh, it's going to rain next year, whatever," until as you said they're trapped in that situation.

PROF WOODS: Particularly if they're in marginal cropping areas but cropping is all there is.

MS MOTT (CWAV): Yes.

PROF WOODS: Like if you're in the north-east of the WA wheat belt or if you're in the middle of the Eyre Peninsula or something.

MS MOTT (CWAV): Yes.

PROF WOODS: There aren't options - - -

MS MOTT (CWAV): No.

PROF WOODS: - - - because you put sheep on and you break the ground pastures and it just blows away and all the rest of it. But in those cases what some are trying to do is have properties in more reliable rainfall areas so that the areas - in the marginal areas they crop opportunistically; good season, put in a crop. But if that's all you've got then you've got to keep putting in crops and you keep going backwards when you have long droughts, whereas others can say, "Well, I'll fallow it this year because I've still got this property down here and it's going to generate an income."

MS JENSEN (CWAV): That's right.

MS MOTT (CWAV): Yes.

MS JENSEN (CWAV): That's a very good strategy actually.

PROF WOODS: Yes.

MS JENSEN (CWAV): Yes.

PROF WOODS: Yes, so looking to risk-management strategies that diversify the income base.

MS MOTT (CWAV): Particularly when we're being told what our future is likely to be weather-wise, temperature-wise. So we've got to start changing people's mind sets.

MS JENSEN (CWAV): Should some of the land be retired?

PROF WOODS: It's a very good question, and particularly some of the very marginal cropping areas. I mean they were semi-desert to start with.

MS MOTT (CWAV): Yes.

PROF WOODS: They haven't got any better.

DR BYRON: We pushed into the frontier during the 50s and 60s which, when you look back at it, turned out to be very decades.

MS JENSEN (CWAV): That's right.

PROF WOODS: Or even the Mildura areas and things. A lot of what is there was only sustainable while there was plentiful water. With both the climate issues and the policy drought that we have had - - -

MS JENSEN (CWAV): That's right, yes.

PROF WOODS: - - - it's going back to semi-desert.

MS JENSEN (CWAV): Yes.

PROF WOODS: But that's what it was. So yes, land retirement. I mean some of that is happening through market forces in areas around Mildura but what you're being left with is abandoned land - - -

MS JENSEN (CWAV): That's right, a problem.

PROF WOODS: - - - that then generates weeds and pests and disease and the like, so it becomes a community problem.

MS JENSEN (CWAV): No, it's not an easy one, that's for sure.

PROF WOODS: Now, are there areas in your long and extensive list that we haven't then dealt with in more detail that - - -

MS JENSEN (CWAV): I'm still wanting to know whether the governments want an agriculture industry - - -

PROF WOODS: Absolutely. I can't - - -

MS JENSEN (CWAV): Well, you see, the message is coming out loud and clear that you don't. Not you personally, but governments don't. I hope that's on record.

DR BYRON: I honestly can't understand how you get that impression because - - -

MS JENSEN (CWAV): Oh, it's every day.

DR BYRON: - - - I've been saying at every other hearing we've had in every other state that if I put on the table the proposition that Australia should have a long-term viable, sustainable, dynamic, innovative, world-class agriculture sector, I do not think I would get one single person opposed to it. You certainly wouldn't get a politician, state or federal, of any persuasion opposed to that. There might be some argument about how we get there but I think it's absolutely unanimous across Australian society that we want to have a strong, viable, dynamic, world-class agriculture sector. We're just arguing about the details of the strategy to get there.

MS JENSEN (CWAV): No, no, no. No.

PROF WOODS: All right. Speak to us. Tell us. Where are the messages coming from? What's giving - - -

MS JENSEN (CWAV): The message is - I'm only talking about Victoria, okay?

PROF WOODS: Yes, please.

MS JENSEN (CWAV): We have got Mokoan. I don't know if you've ever heard of Mokoan - - -

PROF WOODS: Yes, I know Lake Mokoan.

MS JENSEN (CWAV): - - - which was shut down, and the farmers were told, "You'll never be worse off". Now, we happen to be on the Broken River, which comes out of Mokoan.

PROF WOODS: Yes, know that.

MS JENSEN (CWAV): They've shut down Mokoan even though the farming population had a win-win situation where you put a small amount of water in there to just be enough for the irrigators and the rest could go into their swamp or whatever they call them, wetlands. Nillahcootie, which is the dam on that system, is a third full and we are getting - the irrigators that are sitting right on the river are getting nil allocation. Now, we never - when Mokoan was there we never, never ever had less than 100 per cent on that because there was the two back-ups. There was a back-up for the other.

As I say, there is water pouring down out of Nillahcootie, we're sitting there with nil allocation. Where is that water going and for what? It's a political reason, I know. It is being sent down for environmental water or whatever you like to call it now, which is just an excuse to send it to South Australia. The second one is, I'm on the Goulburn system as well. Now, north of the divide is the Murray Darling Basin, Melbourne is south of the divide. There's water. They have had plenty of water coming down out of the mountains going out to sea. Now they're putting a pipe in.

As the farmers see it, it's a political decision, which it is, and we see that we are not getting our water because it's going to Melbourne who can get water by other means. We're getting messages all the time, "You don't count, we count more." The city counts for more. They have got plenty of potable water which is all they're entitled to, but for some unknown reason it's got bunched in with all water, whether it's a swimming pool or a field or something. They've got reuse that they could be using and they won't.

DR BYRON: There's reuse going to Werribee onto - - -

MS JENSEN (CWAV): No, into the bay all the time.

DR BYRON: No, into irrigated vegetables and stuff from the Werribee Treatment Station.

MS JENSEN (CWAV): Yes, but it could irrigate Melbourne. I mean, go to London, you get it seven times. Why can't Melbourne get it twice? That's my - - -

PROF WOODS: I think Adelaide gets it a few times.

MS JENSEN (CWAV): Yes, and Toowoomba tried and I don't know what they're doing now.

DR BYRON: My understanding of Mokoan was that the reason for closing

Mokoan was the evaporation losses were four times the amount - - -

MS JENSEN (CWAV): That's right, but we paid engineers to come up with a win-win situation which was to make it deeper and smaller. We paid for that, the irrigators. We put that submission, no, the minister just said, "No, we don't want to know about it." It was a win-win situation. When farmers are prepared to put their hand in their pockets for thousands of dollars to get a situation where it could work, and the politicians are just not listening - and that's the message we're getting out there all the time.

PROF WOODS: I could sit back and just let you dig deeper into this but - - -

MS JENSEN (CWAV): No, I don't think you need to, I'm just making the point that there's a perception out there with irrigators in particular that they're not wanted, their food is not wanted, their agriculture is not wanted, because you must admit, the minute you take water off a farm, your production goes down. There's no two ways about it.

PROF WOODS: No debate there.

MS JENSEN (CWAV): I've said my piece.

DR BYRON: But this isn't the inquiry into the pipeline for - - -

MS JENSEN (CWAV): No, but it impinges on your inquiry very substantially in Victoria.

DR BYRON: Yes, absolutely. But what we've been saying about the irrigation drought is that a few years ago you wouldn't have put the two words in the same sentence, except to say that having irrigation is the way you drought-proof yourself.

MS JENSEN (CWAV): That's right. That's what we were told.

DR BYRON: So I think people who are in naturally very dry or very irregular places like Wimmera and the Mallee know that there's one or two years in five where you won't take the tractor out of the shed. But if you're an irrigator - - -

MS JENSEN (CWAV): You expect some water.

DR BYRON: Yes, you didn't have to worry about that problem. I think the irrigators are probably more vulnerable and less prepared because - the dry land farmer expects it now and again but the irrigator thought that they had the "get out of gaol free" card. Having an irrigation licence was your preparation for the dry times.

MS JENSEN (CWAV): We were dryland farmers. I know all about dry. They used to talk about the wet and the dry and the catchment (indistinct) but we bought irrigation, spent big bikkies to drought-proof ourselves. That's what we were told.

PROF WOODS: I understand that.

MS JENSEN (CWAV): I don't mind. I can put up with drought and less water, as long as the water that I'm entitled to and pay for is given to me. My case rests.

PROF WOODS: Thank you very much. It's very clear, it's on record. But can I say, your opening statement and your subsequent development of those arguments reflects an awful lot of time and effort that you've put into this. It's now all on the record and certainly you've made your messages very clear to us. We've benefited from that. We do thank you for your time that you have put in today.

MS MOTT (CWAV): Thank you for listening and given us the opportunity.

DR BYRON: Thank you for coming all this way.

PROF WOODS: No, it has been a very useful discussion and we will benefit from having that information, so thank you very much.

MS JENSEN (CWAV): Good, thank you.

MS MOTT (CWAV): Thank you.

PROF WOODS: Are there any others present who wish to make an unscheduled statement? That being the case I will adjourn these hearings to Dubbo roundtable, Sydney hearings. Thank you very much.

AT 4.20 PM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 15 DECEMBER 2008