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**PRODUCTIVITY COMMISSION**

**DRAFT REPORT ON GOVERNMENT DROUGHT SUPPORT**

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

**TRANSCRIPT OF PROCEEDINGS**

**AT PERTH ON TUESDAY, 25 NOVEMBER 2008, AT 9.30 AM**

**Continued from 20/11/08 in Launceston**

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**COMMISSIONER WOODS:** Welcome to the Perth public hearings for the Productivity Commission Inquiry into Government Assistance for Drought Events. I'm Mike Woods. I am presiding commissioner for this inquiry and I'm assisted by Commissioner Neil Byron and Associate Commissioner Bob Granger.

As most of you will be aware, the commission released an issues paper in July, setting out the terms of reference and some initial issues. Our draft report was released on 30 October. In essence, the commission has been requested to report on the appropriateness, effectiveness and efficiency of government support measures, identify impediments to improving self-reliance and preparedness for periods of financial difficulty and identify the most appropriate, effective and efficient government responses to building 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 and held 81 meetings with a wide cross-section of people and organisations. We received 109 submissions from interested parties prior to releasing our draft report. I would like to express our thanks and those of the staff for the courtesy extended to us in our travels and deliberations so far and for the thoughtful contributions that so many have already made in the course of this inquiry.

These hearings represent the next stage of the inquiry, with an opportunity to make any final submissions by 19 December. The final report will be completed by 27 February next year. I would like these hearings to be conducted in a reasonably informal manner and remind participants that a full transcript will be taken and made available to all interested parties. I would like to welcome to the hearings our first participants, the Western Australian Farmers Federation. For the record, could each of you please state your name and the position that you hold in the organisation that you represent.

**MR NORTON (WAFF):** Thank you, Commissioner Woods. My name is Michael Norton. I'm the president of the WA Farmers Federation.

**MR HILL (WAFF):** Alan Hill, director of policy, WA Farmers Federation.

**MR McMILLAN (WAFF):** Andy McMillan, CEO, WAFarmers.

**COMMISSIONER WOODS:** Excellent, thank you. Do you have an opening statement that you wish to make?

**MR NORTON (WAFF):** We certainly do, Commissioner Woods. Thank you very much for the invitation once again to address the commission. It goes back to our conclusion about our submission:

WAFarmers promotes a policy of self-preparedness to manage drought. However, after successive years of drought and adverse economic conditions, agriculture has to regain its past viability. Loss of viability results in a lack of financial capacity to manage drought.

We still stand by that statement, commissioner. Alan has been through your interim report in a great deal of detail. I haven't. Some of the things that Alan has pulled out of it, and you can quiz him in more detail later because he has made some written notes; but certainly the area where we have some concern is the asset cap. You are talking about \$2 million net and a total of \$3 million net on the farm asset. The one query we had is, is that net less of liabilities or is it liabilities included? With the farming enterprises I think, as we said to you last time, probably one of the reasons that we in Western Australia have always fallen outside the EC net is the value of our assets. We still believe 2 and 3 million would preclude most Western Australian producers from being eligible, depending on whether that's inclusive of the debts or not. So there's a question there.

Certainly similarly with FMDs. FMDs of 400,000 we believe for the Western Australian side of things is probably too low, bearing in mind to put a crop in, in those areas that are fairly marginal for a crop, can cost you anywhere between 1 and 2 million dollars, depending on the size of the operation, so whilst farmers put away anything up to 400,000 and probably more in Western Australia to tide them through those tough times, once again 400,000 probably would preclude most of our guys from participating. They are the two financial issues.

Research and development for climate change - really that needs to be long term. It seems to be a bit grey in your papers so far, as to how long that's going to run for. The problem we have with the political process in this country as it stands, we tend to live from one election to another and from one particular party to another. Certainly this type of stuff - research for climate change - needs to be really long term. We're talking decades in time. A decade in climate change is not a long period of time when you start to look at some of the stats and the data that is coming out of our climate change stuff.

We'd be looking for some bipartisanship amongst political parties: that once you put R and D processes in place, they're there for the long term or till such time that the community decides to change it, and not necessarily a politician or a bureaucrat or a political party wants to change it for political purposes or political vindictiveness. We're seeing a little bit of that in New South Wales at the moment, where they are in financial problem and agriculture is really getting the axe taken to a lot of those infrastructures. Unfortunately, it happens all around the country, so that's a real issue on R and D that we need to look at.

There's another comment there on the overlap for hardship and managing special circumstances and how that caters for the family income support. We need a bit more information there as to how you're going to apply that, bearing in mind we probably fall outside the square with the two financial issues. If you're stuck out there north of Mullewa and you've been in a five or six-year semi-drought cycle, your equity is down to 20, 30 or 40 per cent, which is what happened to those fellows up there last here until McGauran went in there and sort of bent the rules a bit to make those people eligible; how do you attract this income support process in a situation like that?

Fortunately, a lot of those fellows walked off the properties and got a job at the mines to generate an income to feed the family; and provided you had a tolerant bank manager, you could put the farm on care and maintenance. That's what happened up there. A lot of them the bank has helped to plant a crop this year and they've had a bolter, which is going to get those fellows out of gaol. Similarly out the back of Merredin this year we've had people who have come to Perth to drive a Coca-Cola truck and put their farm on care and maintenance. How do you cater for those families in that environment? Like I said, while you've got a conciliatory banker you can do it, but if you haven't you've got to stick it out or you've got to leave your wife and kids there to put the farm on care and maintenance while you go away and generate an income to live off. That is something that breaks families up and takes a lot of people out of the community.

Rural counselling is another area there that we've picked up in the report, where you've asked the question, "How successful is it?" From our organisation's point of view, it's always a debatable one. We have a very successful rural counselling set-up in Western Australia, but some farmers want it and some don't. It's an issue that you probably have to make available but it has to be done in a way that the farming community want to use it; and farmers are pretty difficult to manoeuvre into a position that they think they need help and are prepared to accept it. It's certainly necessary but you need to package it somewhat different to what you would in a city environment, because you're dealing with a totally different group of people with a totally different outlook on life and a totally different set of values.

The learning process is a little bit like rural counselling. Some of the presentations we've done for other meetings and the research that we've done is that the average age of farmers is increasing at an extremely rapid rate. In the 70s through to the 80s the average age actually went down. It went down from about 46 to 45 and in 1980 something happened and the average age of farmers has just gone north at a rapid rate and we're in the vicinity of - depending on what commodity you're in - around the 55, 56 years of age, and the line is still going up. I'm not too sure when we're going to peak.

How do you package a learning process for a lot of 55 to 60-year-olds? That is a tremendous issue for agriculture. The only way you can really change that is to change government policy and put profitability back into agriculture. That's really long-term stuff to really turn that around. Where does drought and where does EC fit into the whole macroeconomic policy of all the political parties to make agriculture financial, when we have these drought events?

The other one that sort of confused us a little bit - and you might be able to help us, commissioner - is the scheme for - you're only eligible for three years out of a seven-year event. My interpretation of that is it's probably a bit hopeless. You're either in or you're out. Why wouldn't you have a scheme - if somebody lines up for drought assistance and you get him in the system and, depending on how long the events or how long he's been in this environment, wouldn't you start him off on, say, 20 per cent help the first year and, if it did go on for seven years, then you would marginally increase the percentages as the years rolled on?

That's if you wanted to keep him in agriculture. If you got to seven years, you might be giving him 100 per cent support or you might have written him off. One or the other. Because in the early stages usually they've got a bit of spare capital but they just need a bit of a top-up to get them over the hill. With the cost, especially for the cropping industry, of putting in crops this year of a million-plus dollars, you can burn up your reserves and your FMD and your love with the banker pretty quickly. After two or three years, as happened in the northern wheatbelt, you're a cot case.

Really, you have to put in place some pretty hardnosed management decisions as to how you manage your way through that. That's where we think your EC should really start to chip in and some pretty hard decisions have to be made for that enterprise, or perhaps he might have been a bit gung-ho in the earlier period and he's made poor management decisions. One of the issues is tax. People get a tax problem so they go out and buy a new tractor or they do this and they do that. When they reflect, in hindsight, "Gee, we probably shouldn't have done that. We didn't spend our cash very wisely."

It's that type of assistance environment that you need to think through. The EC program needs to be a total package and you need to be part of the total farm environment in those marginal areas on an ongoing basis so that you can help manage those people and those enterprises through the good times as much as the bad times. That is what is so important. People tend to waste their money in the good times and, when they get to the bad times, they tend to front at the government, "We need help and we need this and we need that." So we've got some queries on that one. That covers me, Alan. What have I missed?

**MR HILL (WAFF):** That is a reasonable opening, Mike. Those are the key points.

**COMMISSIONER WOODS:** You've raised a number of areas and perhaps we can explore those through a conversation. If we pick up the household support side first, because you raised a couple of issues there - the asset levels to the period of time of eligibility, et cetera. So perhaps we can wrap those into one conversation. The essential point that we were trying to target is that farm households can get themselves in hardship situations for a whole variety of reasons.

Drought clearly is one and drought has been the dominant one in recent years, but there are all sorts of reasons why farm households can fall into hardship. It can be as simple as terms of trade. You put in a crop with high input prices and then find that the price of the commodity at the back end falls apart, or whatever it is. There can be reasons for that. So we have put together here a proposal that hardship support would be always available for all circumstances, not just drought. So it's a floor - that all farm enterprises that provide income to households, those households know that if they fall out the bottom there's a scheme in place. We thought that was a much more equitable arrangement.

That, of course, requires judgments about equity levels and equity levels is an issue that you raised in your opening comments. We are talking about net equity, not gross equity there. The question becomes, if all that was available to farm households was the basic social security network that the rest of the community has available to them, then their net equity would fall to such low levels that you would never come back out and become a viable farmer again. If you got yourself down to the \$246,000-type levels of net equity, you can't recover from that, for most farming enterprises.

So on those grounds we thought, recognising the special situation of farming, that it was important to have, for a period of time - and we've put forward a proposition for three years - that they could become eligible, if their net equity was \$2 million, tapering out at \$3 million, for income support. If you have net equity of \$4 million, \$5 million, you do have reasonable capacity to draw on your overdraft or visit the bank for a longer-term loan structure for the \$15,000, \$17,000 that you would be getting for household income from these hardship arrangements.

So we felt that, while it is true that in WA, for example, the farming model - the large cereal grower through the wheatbelt - has higher equity, it also gives them capacity to draw on that equity for household support. But, as a number of reports, particularly for the north-east agricultural region show, there are a number of households who do fall below that, particularly after a couple of dry years and have lost their crops or got very little return from it or had to cut it for hay or whatever they had to do. But their equity does fall below that level and we felt that it was

appropriate that they should have access to a scheme such as this. So all farming enterprises, when your equity falls down to those levels and you have no income and meet the standard criteria for hardship, we felt you should be eligible for it, and not just only because of drought. So that's our rationale for that.

As to the reason for three years in seven, the proposal is based on an understanding that, if you become permanently attached to welfare, the question is should you permanently be in farming? At some point in time you've got to make a hard decision about, "Is this an enterprise that you can run that makes best use of your assets that you've built up?" or should you at some point realise those assets and adopt a different lifestyle?

Does that mean farmers walking off the farms, farms being abandoned? I suspect not. The history has been that other farmers will take on that land as an opportunity to increase their scale of operations, to diversify their places of farming so that they might be in a secure rainfall zone, would pick up some marginal lands that they can opportunistically crop. There are a whole range of models. But history tells us that the land doesn't get abandoned as such, that other farmers incorporate it into their enterprises and use it in a way where they have the financial strength and management capacity to make better use of that than if you have found yourself in long-term hardship trying to manage that single property.

So by putting an end point - a three year at the end of it - it allows farm households to have welfare support for three seasons, but to understand progressively that, if they can't turn themselves around, then they've got to make some hard decisions as to what their future is. We'd be interested in your reaction to that. I sense from your opening comments that you would see a more extended period of time, but you also did say that hard decisions from time to time do need to be made. It's a question of when and how and by whom.

Certainly there is nothing in our report that proposes that an external body make that final decision for a family. That's a very personal decision, based on a whole lot of financial and non-financial issues that they must weigh up themselves. But it's a question of for how long do the taxpayers continue to provide support to them while they go through that decision-making process? That's a judgment call. We're interested in your reactions to that and we're getting reactions all around the countryside on that. So your input in that is valuable.

I should probably also say at the front end that we are very grateful for the input that you have made, both in meetings and in your earlier submission and in coming along today. That level of interest and involvement and input has been appreciated by the commission. We're very grateful for that contribution that you've made. You raised a number of other things - FMDs, RD and E, et cetera - and I



would like to go through those. But perhaps if we can focus at the front end on this question of hardship support and our proposal that it not be only tied to drought, but that it be generally available to all of your farming community, whatever the circumstances are where they find themselves in hardship and whether that is a more equitable approach to your community.

**MR NORTON (WAFF):** Certainly the issue of net and not gross helps the equation quite dramatically because, as I said, with the cost of running an operation now, you can erode your equity, especially in the grains industry, very quickly. So that would certainly help the numbers quite dramatically. As I think I've said earlier in relation to how you manage an operation, the quicker you can get these people to step up to the plate and work out a plan, the better off everybody is going to be.

The state and the industry can tell very quickly as to when an area is getting into trouble. Sometimes it's not necessarily on a shire basis. We've got pockets in shires out the back of Merredin this year that just missed out and, if climate change is going to go the way it is and we're going to get different weather patterns that come and don't saturate the state but just revolve around thunderstorms and pockets, I think we have to think a little bit differently as to how we look after farmers that find themselves not under a thunderstorm or in the wrong spot at the wrong time and how we deal with them.

I think we need a structure that starts to deal with those people early in the piece and you build up a profile. If they have good seasons they can drop in and they can drop out and manage it a bit more efficiently than what we do, because there are a lot of people in the central wheatbelt this year have been frosted and now they have had heavy rain events. Nothing to do with EC, but that's going to affect their financial viability as they go into the next year. If they have a dry one on the back of these other events, all of a sudden their budgets are flyblown.

**COMMISSIONER WOODS:** We've been tracking the seasonal updates.

**MR NORTON (WAFF):** Yes. Excellent.

**COMMISSIONER WOODS:** There is the July one, this is the November one, looking at the different patterns across the shires and the like. We've been taking a very active interest and watching the effects of the frost unfold and the like. We agree with you that particular parts of shires can very quickly fall in and out of situations. So we think that the EC process itself is too cumbersome and too rigid and too gross, in a spatial sense, that you are putting lines on maps and declaring this in or this out, but the needs of the individual households can vary quite dramatically.

Frost isn't contemplated as an EC event, but it can cause a hardship event. So

we think that the scheme we're putting here as the alternative is a much more flexible approach; that when a household falls out the bottom, for whatever is the circumstance, then this scheme I think will prove to be more appropriate.

**MR NORTON (WAFF):** EC is part of a total agricultural package. Admittedly, you are cumbersome, it is difficult. But what we have to do is keep people out there. Fair enough, we can bring in corporates to buy the asset, but a corporate only brings money, he doesn't bring people or expertise. That's why it's so important to keep these people out there. Even though they haven't been successful in their own right, they still have ability and experience. They're all part of communities. You need to find a way there.

If they can't make a go of it themselves, you try and encourage them to stop in the district. So they can run the asset on behalf of either a banker or a corporate that comes in and buys the capital asset. That's where we talk about family farmers and keeping genetics and basically people out there. It's not much good having all this country out there if all these people are going to leave the land and head back to the coast, which is what happens.

You have to keep schools out there, you have to keep an environment out there that women want to go and live out there, because blokes without women aren't much use to you. Really, you need the assets out there to keep the women out there. You've got to educate the kids, and that's all about hospitals, it's about schools, it's all about an environment that people want to go and live out there.

**MR GRANGER:** The picture you paint, which I agree with, is bigger than an EC program, isn't it?

**MR NORTON (WAFF):** I know, but you're part of it at the moment.

**MR GRANGER:** I guess it's a debating point, but sometimes the expectations of the EC program and the support that it does offer in good faith run way beyond what was ever intended. So disappointment is guaranteed, isn't it? But I'm supporting what you're saying. I think that as a community we need to address the total package of where people live and regional issues, development issues there.

**COMMISSIONER WOODS:** If you were wanting to focus on regional development, you would have to question whether the occasional periods of EC and the money that flows through those programs is the best way of addressing regional development. I mean, it seems a fairly blunt instrument. There's a lot of leakage of the funds out of the regions. It does mean that the farmer next door who does want to increase their scale of economies can't if that land is tied up with an owner who is not managing it as well as what they might be able to. Those sorts of issues.

Is it better to concentrate on a regional development program that's a lot more targeted? For instance, if you wanted to grow a particular town, then adding an extension service to it or a research station or something and creating some infrastructure that brings people and jobs and income and helps maintain the viability of the school and keeps the doctor in the town and those things - whether they're going to be a much more targeted and successful program of populating the wheatbelt, which as its own merits - keeping the services out there, rather than relying on the intermittent periods of EC and the funds that flow through that.

**MR HILL (WAFF):** To paraphrase what Mike was saying before, commissioners, we're in the business of keeping farmers on their land. If you could convince governments to develop infrastructure, as you've just been talking about, fantastic. Go for it. But it's our view that all these government decisions based on infrastructure are statistically based, based on the number of people in a community, and as soon as that number drops below a core level they'll close down schools, they'll close down police stations and they'll take away this infrastructure. So we've got a bit of a circular argument here.

I mean EC is only one part of a great big picture that I appreciate that you're not dealing with, but we've got this new Caring For Our Country program that's coming out; at the moment that we've got very little information on how that's going to work, but the way we're seeing it, potentially that's going to withdraw further funding from rural communities because people are going to be subject to a competitive tendering basis for projects, and that's fraught with danger for Western Australia and the regional NRM group simply because of the size of the land mass that we're dealing with over here and the resources needed to manage it effectively.

**DR BYRON:** I guess our observation is that changes in rural Australia have been happening for the last 100 years and in terms of the depopulation of some of the smaller country towns, statistics seem to show that the rate of that is pretty much the same during good years as it is in bad years. So just having money coming in as drought relief every three, five, seven years, whatever it is, isn't actually going to prevent that sort of gradual decline of little country towns that, in some cases, have lost their reason for - the rationale for them being there. The other thing that you observe is that every time the roads get better, every time cars get faster and safer, et cetera; every time there's a new big supermarket chain - it's sort of one more nail in the coffin, if you like, for little country towns because people can drive half an hour to a big place where there are all the services and big shopping centres and so on.

The evidence seems to be that many primary producers are actually driving past the little country towns to spend their money in the bigger towns, and that itself

is quite a rationale thing to do. So the problem for governments is to work out which little country towns they can save or whether they're going to try and save all of them, and how you do it, but even if that's what they want to do, I'm personally convinced that drought relief is just not the right tool for that job; that you need a different tool that works all the time, not just in their values. I'm not questioning the objectives. We're questioning about what's the best way to achieve it, and drought relief just doesn't seem to be able to do that.

**MR NORTON (WAFF):** As we said at our last meeting, EC never ever really performed any miracles for Western Australia. It's been great where we've managed to achieve it and it's been a long way between drinks.

**DR BYRON:** I was just going to take up the question of the asset limits and debt - - -

**MR NORTON (WAFF):** Yes.

**DR BYRON:** You're right, it's a tough call about what should be the threshold asset test for someone to get taxpayer relief through the Centrelink office, and we could have said net assets of, say, five million, but then you have the difficulty of explaining to everybody else in the rest of Australia why someone with net assets of five million should be getting 17,000 a year from the taxpayers through Centrelink when an aged pensioner or disability pensioner or unemployed person is only allowed to have 243,000, and some people have suggested that we've been completely over the top in saying that people with two to three million in net assets should be still getting 17,000 a year through Centrelink.

We appreciate that the farms here are a lot bigger, but if you're saying that our problems is that our farmers have got so much assets that they're not qualifying for the taxpayer support, well, I mean, I think it's terrific that your farmers are prosperous enough that they have sufficient assets that they're excluded. You know, it's the prize you don't want to win. I don't think anybody sets out to get themselves onto a Centrelink payment. That's the last resort. It's not what people should be trying for.

**COMMISSIONER WOODS:** I think you're a bit more comforted when we clarify that - - -

**MR NORTON (WAFF):** It wasn't quite clear in your report.

**COMMISSIONER WOODS:** Okay, and we'll fix that up.

**DR BYRON:** On the FMDs, I mean, we heard the arguments that it should have the limits that, as you say, it costs over a million bucks to put in a crop here, but the 400,000 upper limit is on how much of the money that you stash aside and reserve gets a favourable tax treatment. It doesn't say you're not allowed to put away more than 400,000. You can put away as much as you like, but only the 400,000 each or 800,000 a couple gets the preferential tax treatment, and people have been putting away reserves for the - not for a rainy day but for a dry year, and it can be in FMDs or it could be in having an investment property in Perth, it could be a share portfolio, it could be whatever. The point is that you've got reserves that you can call upon when your income fails for whatever reason, whether it's drought or anything else.

The other reason why we weren't inclined to increase the limit on FMDs was at the moment Australia-wide, the average is more like 70. There seems to be only a handful of people that are even close to the 400,000 limit at the moment, and that suggests that there's no great pressing need to raise that. But if we got the information to say that it really was a limited constraint, we can look at that again.

**COMMISSIONER WOODS:** Yes, but just picking up on Neil's points, we're certainly not getting a sense that they're being capped out as a general principle, but also Neil's other point that it doesn't prevent you from putting aside financials in other means, whether it's cash management trusts or portfolios or bonds or whatever you choose. It's just a matter of how much of it gets protected in the tax system. 400,000 at the moment seems to be a fair balance of trade-off. I mean, FMDs aren't available to the rest of the community, so they are a special focus for farming, and they are being used. FMDs get a lot of complaints, that how come in the worse one of three droughts in the last 100 years that FMDs aren't falling overall? And we thought that's a reasonable criticism of them, but then when we investigated in a lot more detail you find that for pastoral districts, for instance, FMDs are actually going up during the drought and that's because they're destocking and putting some money in FMDs and some money in other financials so that they can then draw on them to restock when pasture improves.

Cereal growers - and South Australia is a very good example of that - are progressively drawing on their FMDs and their other liquids as they put in crops and then end up with hay rather than cereal or whatever is their situation. So closer inspection shows that they are in fact being used as you would expect during a drought, even though the aggregate figures tend to hide that picture. But what's the pattern? We sort of have some understanding that FMDs are not highly used by the cereal growing community in WA. What is your understanding of that?

**MR NORTON (WAFF):** I'm probably not the right one to ask because our business doesn't use them.

**COMMISSIONER WOODS:** Yes.

**MR NORTON (WAFF):** We don't have droughts and we find other ways of minimising our tax. A lot of people use them as tax minimisation schemes. That's my understanding. Andy might have a better idea than I, but some people like to use them and some people don't. It's a personal preference. Neil made the comment that you can actually split the 400,000 amongst partners - is that what you were saying, or enterprises? Is it 400,000 per enterprise, or per partner?

**DR BYRON:** Per individual.

**MR NORTON (WAFF):** Per individual. So that makes a whole lot of difference. In our operation there are six partners.

**DR BYRON:** Yes. Each of you can put away up to 400,000.

**MR NORTON (WAFF):** Yes, that puts a totally different context on the whole argument. We thought it was 400,000 per enterprise. Most enterprises now would have two, three or more partners. So that puts a totally different context on it.

**COMMISSIONER WOODS:** The use of them is interesting. I mean, you also have tax averaging and presumably that's what you use rather than FMDs. So there are a range of tools available to the farming community, of which FMDs is but one. So in that sense, we think that it is sitting there. It is entirely true that a number of farmers use their FMD to put money in before 30 June and hold it over so it's not taxable for that year, but ultimately they're going to draw it out and it will become taxable. That's a feature of it and that's a criticism that a lot of people apply to it. But as we look at it, we find it is a tool that is also used to manage drought or other seasonal events and is entirely legitimate.

One of the benefits of it is that it is non-distortionary. There are other ways of providing assistance - accelerated depreciation or something - but the trouble with a lot of those programs or irrigation management grants or whatever, is that they tie themselves to specific activities or investments. So you have a prescribed set of things that become eligible and all of a sudden it starts distorting people's decision-making because they say, "If I put money in this hayshed or extend that dam or put in this pipe, then I'll get this benefit from it, rather than if I do something that I would have preferred to do as my priority, but I don't get the benefit." So a lot

of those programs start shifting decision-making and not always necessarily the best outcome, whereas how you use FMDs is totally discretionary. You apply it to what you think is your next-highest priority, so we think that it has a lot of value in that respect.

**MR NORTON (WAFF):** I came across a member that had been quietly putting money into FMDs, a bit of surplus cash, because he had a big event coming up and that was educating his kids. That was going to be a big draw on the farming enterprise. He was a wool producer. The price of wool has gone down, so now he's still educating his kids, but he's drawing his moneys out of his FMDs to run his farming business with low income from wool.

**DR BYRON:** What we are trying to do with this report is to change the emphasis away from dealing with the crisis once it's happened to be preventative and put more focus on the preparation and the risk management in the good times to try and minimise the extent of the problem when it does happen. So FMD certainly seemed to help in that sense of being prepared and accumulating reserves in the good times that you can draw down in the bad times.

**COMMISSIONER WOODS:** I guess that takes us to the RD and E issue, which you also raised in your opening comments. We agree with you that long-term commitment is absolutely fundamental here. You can't just turn this stuff on and off. Even fairly basic issues such as what should be the pattern of fallow rotation in your more marginal areas and should you be putting livestock on and what does it do to your groundcover - they're fundamental questions but there's still an awful lot of research needs to go in there: what level of nitrogen do you put on if you're not getting much more than a tonne per hectare yield, and these sorts of questions. So you do need to build up a body of expertise over a very long period of time to understand what are the best approaches to those. We'd be interested in your views.

We're aware of the strong support given to the Geraldton facility. Are there other ways in which government, both state and federal, should be investing in that RD and particularly the E side, the extension side? You made the point about the increasing average age of the farming community and how best to approach them. Again, the statistics that we've been looking through very closely show that the best 25 per cent performing farmers, whether it is on gross operating surplus or net equity or whatever, invest heavily and attend the field days and participate in the trials and all of those sorts of things, but the bottom 25 per cent are the ones that you never see. That's an exaggeration and a simplification but as a general tendency, they are less likely to be at those sorts of events and participate in the extension networks.

We would like to build further into our reports more practical examples of how governments at federal and state level should pursue this and give long-term commitments to investment in this area. If you could help us in that, either today in discussion or in any supplementary notes, we'd very much appreciate it.

**MR NORTON (WAFF):** It's an issue that we wrestle with professionally on a daily basis. There's a lot of money gets tipped in at the top end, through a whole variety of funnels. Sometimes you question what comes out at the other end. In this state, for instance, there are 50-odd production groups that we've identified. They're all on drip feeds and they're all making a contribution but there's very little linkage right through the system, other than the state farming organisations, back to Canberra and your cattle councils, your sheep needs, your wool producers.

**COMMISSIONER WOODS:** The GRDC.

**MR NORTON (WAFF):** The GRDC. There's less and less people out there, there's less and less money to run our type of operations. There's less and less farmers coming forward to be agri-politicians like myself. I see it as a real weakness. Politicians and political parties don't like to see these organisations get too strong because that then creates political headaches for them. You don't want to overfeed these fellows, you've just got to keep them on a pretty lean diet where they're not going to bite you too savagely. It's a delicate thing that I don't think we're managing extremely well and I think we need to all collectively show a bit of bipartisanship as to how we can make this whole process work much more efficiently in the current environment we have, with money and people; because people are the key issue in driving all this.

**DR BYRON:** Do you think the increase in the average age is the culmination of fewer young people into farming and more of the old blokes staying on? That raises the issue of succession, which is something we've thought about and talked to a lot of people about but it's not really clear what the government should or shouldn't say or do about that. Succession planning is obviously important, but it's up to families to sort that out for themselves, not for government to try and direct. Any reaction?

**MR NORTON (WAFF):** Yes, I think there's been some poor government policy put in place over the last 20-odd years that really hasn't helped agriculture. That's had an influence on the younger generation because it's easier to go to uni and get a degree and go and be a lawyer or a doctor or a geologist or work for a mining company than go home and belt your head against a brick wall, working for peanuts. To fix it isn't going to be easy. There's been too much power given to supermarkets. There hasn't been enough change made to the Trade Practices Act. But you go off into a totally different area as to why farming is not as profitable now as it used to be, because it all gets back to money at the end of the day.



**DR BYRON:** When I enrolled in ag science in 1968, the ag science faculties were absolutely booming all over Australia. Now they're closing down.

**MR NORTON (WAFF):** Yes, but agriculture was the cream. That was a key driver of the economy. As you got into the 90s and the 2000s, it all changed and the politicians changed. I think they made some pretty poor decisions round about that period. They didn't put enough emphasis on agriculture and where it fitted into the socioeconomic fabric of the Australian community, because you've got to eat. If you don't eat, you die. Politicians have lost track of that notion. It's how you re-gee it. I think there's a lot of younger people want to come back into agriculture, but they're not going to be prepared to come back into agriculture and work for 20 or 30 grand a year. That's what happens sometimes.

**COMMISSIONER WOODS:** The paradox also is that yields and overall production volumes are still going up. Even in the worst of three droughts in 100 years, the yields of 05 and 06 were some of the best yields in history. The productivity of the agricultural sector is quite inspiring. You've been having average productivity of 1.8 heading to 2 per cent whereas the economy has only been showing productivity of 1, 1 and a bit per cent. So ag is out there leading all that productivity and producing more and more food and fibre as the years go by, so it's quite a positive story in a sense.

**MR NORTON (WAFF):** Yes, but you want to continue your research as we have.

**COMMISSIONER WOODS:** Yes, absolutely.

**MR NORTON (WAFF):** We want to go a bit further and I'll be doing a presentation tomorrow where we've done the hard work and, sure, those numbers are exactly right, and off the top of my head, Andy - and I haven't got the presentation in front of me, but our costs have gone up 53 per cent but our profitability is in the negative. Everything has gone up. Our margins have been squeezed and we've been done over, and really we haven't had any protection from the politicians via the Trade Practices Act. They parachute the ACCC in to try and find the problems; they never find them, and you have all these good - yes, we have led the pack, but we're being milked, and that's why - the younger fellows aren't dumb, that's why they're not coming back. They're not going to go back to the farms and be milked by the politicians, the supermarkets and everybody else in the district or in the supply chain. That's why they're not coming back.

**COMMISSIONER WOODS:** If we could get back to that point about investment in RD and E then as one of the cornerstones of improving the situation. I mean, do you have a view on whether the current pattern and distribution of funding for RD and E is the right way around? Would you put in more research stations? Would

you have more Department of Ag people out in the field or is the use of more and more consulting firms the right way to go? One observation on consulting firms in the extension area in particular, is that whereas they're doing a good job and people are responding to what they can offer, not all of the information that they accumulate gets into the public arena, and so it's not widely disseminated, but do you have views on that?

**MR NORTON (WAFF):** I certainly do have some views on it. I don't think there are any consultants in the room, are there?

**COMMISSIONER WOODS:** You're on the public record.

**MR NORTON (WAFF):** There are some very good consultants out there, but there is some pretty poor advice dealt out by some consultants. I think your department has put out, in years gone by, some excellent bipartisan advice, but they're tied to the public purse and public strings get pulled one way and another. I don't think we need any more research stations. I think we've probably gone through that era.

**COMMISSIONER WOODS:** Yes.

**MR NORTON (WAFF):** But we certainly need targeted research and we need research that we've got some ownership of, and part of the problem that we have here now, the department do all the research, do all the hard work and use the taxpayers' money, then they give it to the consultant, who then go and sell the advice to the growers and some of it's good, some of it's ordinary and some of it's well-crafted. I think that's not serving us well.

**COMMISSIONER WOODS:** Some of it coincides with that they've got in the back of the ute to help the farmer along.

**MR NORTON (WAFF):** Sometimes they got and pick the brains of the best 25 per cent and then go and flog that information off back to the other stuff, and I don't think we're getting the best use out of that process, and that's why I talk about the 50 production groups out there. I think we've got to go back to basics on some of this stuff and we're funding a lot of the research through our levies.

**COMMISSIONER WOODS:** Yes.

**MR NORTON (WAFF):** And the Commonwealth government are funding a dollar for dollar as well. So there is a lot of taxpayers' money going in there, there's a lot of our money going in there, and I question sometimes the due process that we currently have; whether we're getting the best return on that capital investment. But we need to work collectively and in a bipartisan manner to get the best outcome.

**COMMISSIONER WOODS:** If you did have some material from other presentations or speeches or something on that topic that you could put forward through to us, that would be really helpful. I mean, we're not asking you to create a whole new document, but if there is material that we can draw on to get some understanding of your views on that, that would be very useful to us. We think that whether there is an opportunity for governments to put in a bit more investment into this area because it does provide the foundation for the future of the place. There are some very big questions that are fundamental to farming practices and methods and budgeting that are still quite open questions that need to be explored and for the solutions to be offered out to the farming community.

**MR NORTON (WAFF):** Also your bureaucrats in Canberra. Some of the philosophies and the dry economics of the bowels of Canberra, you know, leave a lot to be desired. The dairy industry is a classic example - deregulated it and gone from 14,000 dairy farmers down to 8000. In this state you've cut your dairy farming in half and production has dropped by 25 per cent and in the last two years we've been importing fresh milk from South Australia and Victoria. It wasn't very clever economics, but the notion was, "Well, get big or get out," or do this or do that. Some of the philosophies and policies that come from those dry economists in Canberra leave a lot to be desired.

**MR GRANGER:** The dairy industry was okay when you look at it. I mean, I know they got whacked with the dry or the drought but - maybe this is a topic for another time - but I thought that one of their challenges was producing enough for very bullish markets overseas, et cetera. I mean, I hear what you say about some - - -

**MR NORTON (WAFF):** What about the seven years where they ran it below the cost of production. It wasn't a drought, it was a money drought. We got done over and half of them left, and a lot of them were in that 35 to 40-year-old category. It was the old blokes that stopped there, 50 plus - they stopped there to serve their term out. All the young fellows left because they couldn't see a future, and sure, it's turned around now but there were an awful lot of casualties, and it wasn't very smart politics.

**MR GRANGER:** I'm not saying there weren't casualties but there was certainly a lot of adjustments that had to be - - -

**MR NORTON (WAFF):** That didn't need to happen. It didn't need to happen.

**MR GRANGER:** I've probably listened to some of the Victorian farmers too much.

**MR NORTON (WAFF):** Yes, well come and listen to some Western Australians.

**DR BYRON:** Can I change the subject. You raised earlier about the rural financial counselling services. It was one of the points that you raised at the beginning that we haven't talked about yet.

**MR NORTON (WAFF):** I'm not real close to it. Andy's probably a bit more closer to it than what I am.

**MR McMILLAN (WAFF):** Yes, my understanding is that they're not over utilised in Western Australia, shall we say, and I don't know whether that comes down to the psyche of farmers but I'd suggest there's probably something in the social expert group report that would cover that side of things, and we probably subscribe to those views.

**COMMISSIONER WOODS:** Yes, and we've worked with that social panel and in fact some of the material that we've got on the rural financial counsellors in our report is drawn out of theirs, including their recommendation that we do need to have a bit of a closer look at the model they've been adopting and how effective that's been. We agree that that panel has delved into that in some detail and we don't have any great difficulties with the views that they - - -

**MR NORTON (WAFF):** I think by and large the bulk of farmers handle stress and pressure pretty well, but there's certainly a percentage out there that don't, and some of the outcomes of their actions you wouldn't want to see, because there is some pretty poor data in relation to that. Perhaps some of the women more than the blokes and they've got an option that they usually leave and then that breaks up the family unit. So it's a sensitive issue that's not an easy one to deal with and Julian Krieg and his group have been quite active out in that outer wheatbelt. In the areas where I live it's not much of a problem. If times are tough you go and do something else before you do something silly and whatever.

**COMMISSIONER WOODS:** Yes, and certainly all those rural men's health initiatives and that, we have been following closely and there's good work being done in those areas.

**MR NORTON (WAFF):** But they've been around for quite a while.

**COMMISSIONER WOODS:** Yes.

**MR NORTON (WAFF):** I know that. It very much revolves around the individual guy that's giving the advice. It's a little bit like a bit of a religion, they get a bit of a following that's good at dealing with this type of thing. But it's probably a pretty narrow group of people within that agriculture - most of them are pretty resilient up to a point.

**MR GRANGER:** Do you think the people are really facing bad prospects, et cetera, and they require household support - do you think people as part of qualifying for that and receiving the support should be - it should be compulsory to develop some sort of business plan to at least see where viability begins and ends for them? Do you think there should be an element of compulsion there to develop, say, I don't know, whatever you want to call it - you know, a farm plan, to at least see whether they can get out of the - - -

**MR NORTON (WAFF):** That got back to some of my opening address. Once somebody steps up to the plate to get involved in a scheme like this, you need to develop a profile and you need to develop a plan from day one so that it's all there, it's all in the public record and, if you can get them early enough, you can probably help them from getting into further trouble. Part of the problem is, by the time the current systems get them, they are usually terminal. There's not much you can do. But if you get them earlier on and start to build a profile when they start to front up with what you're suggesting, there's probably a better chance of turning them around than if you wait till later.

**MR GRANGER:** So what are your thoughts and ideas about getting to people earlier, before they get to that point? In the good times, do you think there should be some requirement for farm plans, even a compulsory requirement if you want to?

**MR NORTON (WAFF):** I don't have a problem with that and I think, as farming changes, the good farms have all that. As we go down the quality assurance, the environmental and climate change models, all that is going to happen; farmers fight against compulsion. But if you could have a driver out there that makes it happen, if it becomes a compulsion by default - and that's what we've done with a lot of things in the meat industry; it's pointless trying to get a law or a bit of legislation changed to make people do it because they usually fight you tooth and nail. There's got to be a financial reason to drag them into it and you make it voluntary. They invariably - for example, Cattlecare was one that we did in the cattle industry. Those managers, because they did a bit of bookwork, were always better managers when they put livestock into an abattoir than the fellows that didn't do it, for example.

**COMMISSIONER WOODS:** That's a very useful point you make: that if you attach it to some other process that they need to go through and say, "Before you can do this, you must present this plan or this documentation" or something, rather than imposing it of its own right and saying, "It is now compulsory that you do X," but if you say, "As a condition of being part of Y, you've got to bring with you this plan or history of what the livestock has done" or whatever it is, it does seem to get accepted more readily. They say, "It's a bugger, but if that's what I've got to do, that's what I've got to do."

**MR NORTON (WAFF):** Usually it's the women that do it. In the current economic climate out there, the women control the computer and usually they're the ones to do it. And usually, if you can get the women at that level, then they're part of it. They're drivers. They've got no intention of taking off.

**MR GRANGER:** Who'll do the ironing?

**MR NORTON (WAFF):** In this day and age usually the blokes give a hand with it, or it doesn't get done at all.

**MR McMILLAN (WAFF):** I would have thought that the financial sector would have been insisting on farm planning anyway.

**MR GRANGER:** Well, yes.

**MR McMILLAN (WAFF):** I'd be very surprised if there was a farmer out there with an overdraft that didn't have to submit a plan to his bank manager when the overdraft was reviewed.

**COMMISSIONER WOODS:** Yes, but I would have to say that we've been quite surprised at the quality of the plans that are being put up to some of the financial institutions. It's not as strong as I would have anticipated.

**MR HILL (WAFF):** Yes, that's surprising. On that point, the process we're talking about is one that's not dissimilar, I guess, to what irrigators are facing now, where some sort of irrigation or nutrient management plan is going to be a requirement of water licensing, so the document - and the plan itself - has a tangible benefit in that it allows them ongoing access to water. But I wanted to bring that particular point back to one of Mike's opening remarks, about this three-in-seven cap; in that, if we're expecting people to have a valid and accepted farm and business plan, then to be prescriptive about the three-in-seven seems counterproductive.

**COMMISSIONER WOODS:** The point of it is to say, "All right, if you're in need of taxpayer funding to get you through some hard years," at some point in time, you've got to draw a line and say, "Are you going to be viable after X period?" and if not, then you've got to work out whether you're better off realising your assets and going to do something else. We chose three years to draw that line. Ultimately the families would still be eligible for your basic community-wide safety net, so they don't get denied that; but it would cause them to be progressively then running down their equity. And once you do that, the farm failure starts to become inevitable.

As I quite openly admit, it's a judgment call but if you just make this open-ended, then at what point in time do you front up to them and say, "Clearly, you're not producing a viable business here that you're drawing income from and you've got to work out where you're heading. The taxpayer is just not going to keep you there forever."

**MR HILL (WAFF):** No, and I agree, but I would have thought that that would have come out through the discussion with the business and the farm plan.

**DR BYRON:** The process of case management, of continual review after six months would say - you come in the door because the family is in hardship for whatever reason. Then there's a process where the Centrelink staff are actually working with you and saying, "Okay, what can you do, either on the farm or off the farm, to get out of this mess?" Working through that, over a period of time, it may be that the farm recovers or it may be that you come to the conclusion that the farm business isn't going to recover and you need to go somewhere else. That periodic asking the question, "Are we better off this time? Are we better off now than we were six months ago? And if not, what are we going to do about it? How do you get out of this situation?" That's pretty much all I can say.

**COMMISSIONER WOODS:** We'd be happy if you want to put some points in writing to us to just elaborate on how you think some variation on that could work. It is a draft.

**DR BYRON:** Could I raise one thing. This is a completely different line, but you haven't talked about - one of the things that we know has developed in WA and is now starting to spread to other parts of Australia is the joint venture farming, where people in the cities who have got some spare cash and are willing to take risks go into some joint ventures with producers who basically need more capital in order to lay off some of the risk. Do you see that as a useful, positive step forward or are there problems with that? WA still has the most experience with those sorts of cooperative - - -

**MR NORTON (WAFF):** Which programs are you talking about? The AACL

ones?

**DR BYRON:** Yes. I imagine that it's not the only one, but that category of program. AACL is probably the best example of it.

**MR NORTON (WAFF):** Yes. I personally have reservations about the AACL model, but the people that use it swear by it because most of those fellows tend to be a bit highly geared or perhaps in a bit of financial trouble. Some of our blokes run their equity down. That's one way in this very high economic climate to spread your risk and they plant the crop for you. The people that use it sort of swear by it. The people that want to take the risk themselves, I don't know any better than that. It's a horses for courses one.

As we go back to the dairy industry at the moment, because there's a shortage of milk, they're looking for sharemilkers, they're looking for outside investment to come and set up very large dairy operations. But none of them have come to fruition.

**DR BYRON:** One of the implications of that is that the people who are basically putting up most of the money for putting the crop in are the doctors and lawyers of Perth, for example, who don't necessarily own a farm. They're just putting up some of the money for the profit-taking; half of the proceeds. That's one of the interesting twists that has sort of changed the definition of who the farmer is. There's somebody who's investing in agriculture who's not necessarily a land-holder.

**MR NORTON (WAFF):** That's why there's potential to farm. Some of the key drivers sell it a bit more than that. As they get together some very large groups of grain, I think that's going to give them market power.

**DR BYRON:** We're talking to them this afternoon.

**MR NORTON (WAFF):** That will be interesting.

**DR BYRON:** I just wanted to see if your organisation had a perspective on that too.

**MR NORTON (WAFF):** Our previous president got quite close to them. As I said, a lot of our members either love them or are pretty sceptical. It's a personal preference of financing an operation. We don't get too close to it.

**COMMISSIONER WOODS:** It's a presence in the marketplace and they will either accept it or not.

**MR NORTON (WAFF):** It's another package, yes.



**COMMISSIONER WOODS:** Excellent. Are there matters that we haven't covered that you wanted to raise?

**MR McMILLAN (WAFF):** Perhaps just something that our Grains Council has got back on the boil that we had a look at, going back several years ago now - and that is, multi-peril crop insurance. We ran into a brick wall with the federal government at the time, but the files have been brought back out and the grain section has just started having another look at that, given the run of seasons we've had over the years; just so that you're aware of that.

**COMMISSIONER WOODS:** Okay. It's again a matter of whether it can be viable or whether the premiums you end up paying offset any benefits that you get in the hard years. Certainly we've had a close look at experience overseas and we haven't jumped at it as a matter of, "Wow! This is the one single solution to the world." If they are looking at that, we're happy to pick up any information that they generate from it.

**MR NORTON (WAFF):** It works in America but the American agricultural economy is driven by other reasons. You can make systems like that work in America where it's very difficult to make it work here. We looked at it in the cattle industry and the numbers wouldn't justify themselves. I think the only way that you could really make it work here is for the farming community to run their own insurance scheme. By the time you put an investor in there that wants to make a 20 per cent return on investment, the numbers just don't stack up, or the premiums are just too high.

**DR BYRON:** But if it's legally run, you can't really lay off the risk internationally for areas with completely different sort of climate cycles.

**MR NORTON (WAFF):** Yes, it's not an easy one.

**COMMISSIONER WOODS:** Okay, but if they want to let us know where they're heading on that, that would be helpful.

**MR McMILLAN (WAFF):** Is there any information on the Productivity Commission's web site on your investigations earlier on?

**COMMISSIONER WOODS:** In this report we've covered that, so if you have a look at what we've got there and we can talk to you about the background information we gathered in putting that together. If there aren't any other matters, again thank you for the time and effort you have invested. We would appreciate you doing a follow-up with some points. It need not be a major, glossy exercise. What we're interested in is your ideas and the supporting evidence behind it, so if you can gather it up and stable it together and send it to us, that would be excellent.

**MR NORTON (WAFF):** No trouble. Thank you very much for your time.

**COMMISSIONER WOODS:** We'll have a short adjournment for five minutes, thank you.

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**COMMISSIONER WOODS:** Thank you, ladies and gentlemen. Our next participant in this inquiry is the Pastoralists and Graziers Association of Western Australia. For the record could you please state your names, position you hold in the organisation you are representing.

**MR D'ARCY (PGAWA):** Tim D'Arcy, meat section president of the Pastoralists and Graziers Association.

**MR BURBURY (PGAWA):** Alex Burbury, livestock and pastoral policy director, Pastoralists and Graziers Association.

**COMMISSIONER WOODS:** Thank you very much for coming. Do you have an opening statement you wish to make?

**MR D'ARCY (PGAWA):** I don't think so because I think we had our meeting with you guys earlier on and we've made our points at that. So we're sort of open to questions, I guess.

**COMMISSIONER WOODS:** We just had the benefit, in the last few minutes, of a page and a half of points for which we're grateful; a little earlier we would have been even more grateful, but nonetheless. Do you want to just take us through the essential points of those? We've had a chance to just skim through them quickly, but are there any points that you particularly wish to highlight before we work our way through them?

**MR D'ARCY (PGAWA):** I think you're referring to our previous discussions, the points that we discussed there.

**COMMISSIONER WOODS:** Yes.

**MR D'ARCY (PGAWA):** Yes. I think the main issue on that one initially was the fact that we were, as the initiators of the FMD program many years ago now - we believe that the FMD program is still one of the best options for farmers in Australia, albeit, as you pointed out to us, they don't use them at the present time. Maybe that has to be looked at, as to why they don't use them, and maybe consider that they should be using those, as an alternative to government payouts and handouts, but also in consideration of that, we need to look at broadening FMDs so that limited and private companies can be included in FMDs, albeit I realise the difficulty because there could be other interests involved, but if primary production is the major sector of that company then maybe they should be available to use FMDs as well.

**COMMISSIONER WOODS:** You raise the interesting and factual point that a lot of enterprises don't use them or use them only very sparingly. The previous participants made the point which we agree with, that they're also used by a number of people for the tax benefits that they bring and that they can defer payment of tax for a period, carry over into the next tax year or whenever they can then draw down, but we've come out in support of them in our draft report because we see them as a reasonably neutral tool that can be drawn on by farming enterprises. So we have constructed a report that tries to look across the various capital bases of farming in its broadest sense and the natural resource base, the physical infrastructure, the financial capital base, the human capital and the social capital. So we're working our way across those.

On the financial capital terms, I mean, there are some tools available to farmers that are not generally available and FMDs is obviously the prime example. Tax averaging is also available to farming but it is available to some other occupations that have infrequent income and that's entirely appropriate. I guess we'd make the point that FMDs, by having a cap of 400,000, in a practical sense that doesn't seem to be getting in the road of most because the average FMD deposit is about 70,000 anyway, so there aren't too many who are maxing at the cap.

So in the practical sense there's not a lot of pressure for it, and in a policy sense FMDs don't limit farm enterprises to the amount that they can put away as financial capital. They can put in cash management trusts, they can build portfolios, they can buy bonds, they can do a whole range of things. It's just a question of how much is given that tax protection that FMDs provide. So it doesn't limit what a farm enterprise can put aside. It just limits how much is tax protected. So I think in that sense again we felt comfortable at keeping the current cap was appropriate. But in the notes arising out of the 16 July meeting, superannuation is raised there, and it's an open question at this point, but it is possible that some farmers have been accumulating funds and FMDs as a source of future income, post-retirement, and whether the new super laws and the incentives for super would encourage farmers to create a more formal structured super fund, and any views that you have got on whether there are changed behaviours or likely to be changed behaviours by the farming community, because it also comes into that vexed question of succession planning.

At the moment we've got a situation where the second generation coming along get the farm, but they also have an amount of equity deducted from it that they've got to replace by debt because the equity goes to fund retirement and, if retirement had been separately built up as a fund at the same time as running the enterprise, whether they would not be in that difficult position. But I'd be interested in your views on that range of questions.

**MR D'ARCY (PGAWA):** I think we've got to put a line between FMDs and superannuation. The simple reason is that you can't access superannuation until you reach a certain age, and I think if we're going to encourage the use of FMDs as a drought aid, then obviously those requirements of age limits shouldn't apply. What I think there has to be put in place - and I'm not quite sure how you'd do that; that's for people like yourselves and government to look at. The original intention of the FMDs needs to be quantified and people are forced to use that for that purpose as a counter to current EC interest rate subsidies - that type of thing. That's always been our stance on the issue. Unfortunately, it's been bastardised - excuse the terminology - to a degree, and people are using it, as you've explained, for perhaps superannuation reasons and that sort of thing. We don't necessarily agree with that. We think there has to be some way of forcing people to use their FMDs for the purpose it was originally designed for.

Having said that, we have an industry, an agricultural industry - and I think I heard some of your comments earlier that productivity-wise they seem to be doing reasonably well compared to the rest of the industry. But we have to recognise that our economy is driven by a non-sustainable dig it up and flog it off mentality, and that is hitting agriculture very hard, because our cost price and the terms of trade are driving agriculture into the red, and will continue to do so, except that now we have an economic downturn that may change that around. I don't know.

But also we have a responsibility, I believe, in terms of world population. I was at a conference recently which was told that South-East Asian population within the next 20 years is going to increase by 58 per cent, your African nation increasing by 29 per cent. We have a responsibility to provide food. There needs to be some encouragement for agriculture to continue to develop and supply food, particularly as a nation of exporters rather than a nation of domestic users, which most other nations in the world are, such as the US, the EEU and places like that - and Russia.

I think we should have a very different outlook in Australia because we are export-orientated and we've got to compete, from an economy that's probably in the top bracket of the world, with people less able to pay. So government need to recognise that. Are they going to continue to support an agricultural industry that will supply food for not only ourselves but the rest of the populations, or are we going to drive people to go into non-sustainable areas? Our younger people in our industry are doing that. They are getting out of it. You've got an average age in agriculture at the present time of something like 58 years, so that's an issue that I think governments have to look at.

**COMMISSIONER WOODS:** Can I pick up a couple of your points and, if we can FMDs first in that: we have a recommendation in our draft report that says that, if you want to access hardship support programs, in fact you would have to run your liquids down to below 20,000, and that includes your bank balances and your FMDs, so I think we're on common ground there - that if FMDs are a financial tool to be able to put money aside in the good years, then you have to draw them down in the hard years before you access other government support. So I think on that sense our recommendation there would probably align with your views on that issue. So I think that probably wraps that side of it up.

In terms of producing food and fibre for export, we do already export 70 per cent of produce in Australia and, if there are good markets, and there are good markets, then that encourages people, and in fact production has been increasing over the years, even though we've been in some dreadful drought times. But Australia does seem to be responding: it has high productivity in agriculture; production is increasing; exports are strong. So in that sense, the performance is the sort of profile that you're supporting and looking to. I guess what you're painting a picture of is: is that going to continue into the future? Are there issues at stake underneath? You raise the average age of farmers as one example of that, of how we may not continue to perform that way. Are there other sources of evidence that cause you concern; that the trend that we've been having over the last three, four decades at least of increasing production and high levels of exports, that may falter?

We put out a document, called Trends in Agriculture, a couple of years ago, where we examined this in some depth. It's on our web site. Our analysis doesn't paint quite as gloomy a picture as what you may be portraying, but I'd be interested in whether you see this as a future threat rather than a current situation.

**MR D'ARCY (PGAWA):** I do see it as a current situation and a future threat. I think of them both together because myself as a producer, we just see - I think our efficiencies are improving and consequently we've seen this increase in production. But our bottom line is not increasing; if anything, our bottom line is going down. I think, as I explained, it's being driven by the terms of trade in which we're driven into, which is driven by, if you like, the mining industry, and we see it in other sectors. That's why we don't have any manufacturing left in Australia, or effectively no manufacturing, because it's been driven offshore because we can't compete: our costs of standard of living here is increasing far faster than some of our trading partners in years gone by.

So it is a problem as far as we're concerned. I agree: the fact is that our productivity is increasing, and that's driven by efficiencies effectively, that farmers have had to go down the path of, but the net return is certainly not increasing. That's where the problem lies, and that's why we're not seeing young people coming back into our industry. They're highly educated, most young people. A fair percentage of the farming community now is university educated, and they're just not seeing it an attractive enough option to go back in, because they can go for this unsustainable sector of the economy, if you like - driven predominantly by mining and other areas - and the dollar that's spun around through city offices and accountants' firms and all that type of thing is much more attractive to them than going back into farming. So in the long term - and it needs some vision by governments, I think, to look at this sort of thing - how do we address this problem, because there is an end to it all.

**COMMISSIONER WOODS:** In terms of looking through the future, you mentioned at our last meeting the Gascoyne-Murchison strategy.

**MR D'ARCY (PGAWA):** Yes.

**COMMISSIONER WOODS:** Do you have any sort of further updates or views or perspectives on that? Where are the lessons that we should look for? Where are the innovations, the R and D, the policy settings that will provide a continuation of the past strength of agriculture?

**MR D'ARCY (PGAWA):** It's difficult to give you a definitive answer on that. Perhaps I could answer it by highlighting some of the areas where we have a problem. For instance, in Western Australia, the north of Western Australia predominantly now, north of the 26th parallel, the cattle population north of the 26th parallel is now about 65 per cent of the state's cattle population. It used to be fifty-fifty, roughly.

**COMMISSIONER WOODS:** Because it's growing or because down south is diminishing?

**MR D'ARCY (PGAWA):** Exactly. It's diminishing because the cost price squeeze down here is killing it. In the north, we still have access to - and the south do, too, to a degree - live exports. That is absolutely essential for the industry. Having said that, obviously we export out of places like Broome, Port Hedland and Geraldton, but what is happening is that, because the relevant port authorities and other government instrumentalities find that it's more attractive and more financially

beneficial to use those ports for more highly paid areas, such as mining, gas production - that type of thing - the cost of actually exporting animals out of those ports now has increased dramatically. For instance, Broome went from \$4, I think, about eight or nine months ago to \$15 a head, to be able to export out of Broome.

**COMMISSIONER WOODS:** Is that just a handling licence, or is that the - - -

**MR D'ARCY (PGAWA):** It's a handling licence, but it's also driven by the fact that we're considered to be a nuisance now because we're taking up an area of the wharf that the gas industry are able to trade into. It's far more profitable. The gas industry is far more profitable.

**COMMISSIONER WOODS:** How many ships would you get through a year on your cattle trade?

**MR D'ARCY (PGAWA):** I think offhand - figures out of Broome - I reckon they would be somewhere in the order of about 50 to 60 thousand cattle go out of there. Port Hedland it's almost impossible to get a ship into, although we do get the odd ones in. But just to give you an idea: we get a ship into Port Hedland. You have to load within the tide period, and what's happening is, if you don't load within the tide period, that ship has to move out and go and sit out to sea again until he can come back in, and of course consequently ships are leaving - for instance, recently a ship left Port Hedland 300 cattle short on board because it wasn't worth their while to go out, pay demurrage and what have you, and then come back into port and load on the next tide.

This is the type of thing that's costing our industry dearly, but it's an emphasis that I think has to be looked at. How we overcome the problem, I'm not quite sure. It may improve dramatically because we're seeing now what's happening in China, as they cut back on iron ore imports and that type of thing. So that may solve the problem in the short term. The other factor is that there is no processing industry up in those areas. We've been pursuing an avenue where we'd like to see some processing get into the north, but it's never going to be a solution to our industry because of our cost structures. The cost to process in Australia compared to putting an animal on a ship and sending it overseas is non-competitive.

**COMMISSIONER WOODS:** Is Wyndham still an active processor?

**MR D'ARCY (PGAWA):** No, it's not. There are a few - maybe the odd shipload go out of there, but it's very limited. The problem is that it's an antiquated port as well.

**COMMISSIONER WOODS:** Absolutely.



**MR D'ARCY (PGAWA):** That's a problem, as far as the meat industry goes. Here in Western Australia, in the southern half of Western Australia, we see a situation where the price that people have been receiving for their cattle is actually sending people to the wall. We've seen some very good figures on that, which we gave to the ACCC, but they didn't seem to be interested. They weren't looking at anything from a producer's side of things; they were looking at it purely from a consumer's point of view. They weren't terribly interested in the fact that we presented figures by some very reputable producers - in fact, some of the top producers in the state - which highlighted the fact that they were going broke.

**COMMISSIONER WOODS:** So that's a public submission to the ACCC?

**MR D'ARCY (PGAWA):** It was a public submission to the ACCC.

**COMMISSIONER WOODS:** We'll be able to pick it up off their web site.

**MR D'ARCY (PGAWA):** It was very interesting to note that in that submission - we were given what, a week, Alex, I think, wasn't it?

**MR BURBURY (PGAWA):** Yes.

**MR D'ARCY (PGAWA):** To prepare that submission. We asked for a delay, an extension of time. It wasn't offered to us. But we do know that the supermarkets requested a delay and time to extend, and they got their delay and they got their extension. So we question what the intent of the ACCC was in trying to help solve the problem. As a result of that - and you may well have read in the press - we've actually set up our own program in Western Australia, called the Stocktake Program, which is going to review the meat industry, or the beef industry in particular, from basically farm gate to consumer plate, and that is about to get under way. We've been trying to source funding for it for quite some time. The previous government had given us the funding and this incoming government came in and chopped the funding from us, so we've had to go and seek that funding privately and it's delayed the implementation of this program for over 12 months.

**COMMISSIONER WOODS:** Is that to sort of look at a restructure of the industry or to identify where the pressure points are that need to be overcome?

**MR D'ARCY (PGAWA):** It's looking at all facets of the industry, and the consultants that we're engaging, we're requesting them to be an investigative consultancy, not just a paper desktop consultancy, which obviously the ACCC was. So we want to investigate where the problems are at all sectors and, while it is a Western Australian initiative at this stage, we think it probably will have national implications as well.

**COMMISSIONER WOODS:** I presume you do have amongst your membership those involved in the sheep trade as well.

**MR D'ARCY (PGAWA):** Yes, we do.

**COMMISSIONER WOODS:** Because there's a long-term debate about the practice of holding sheep, particularly on the marginal cropping lands, as an alternative during dry years or whatever. Does your industry have a view on whether that is a long-term sustainable approach to dealing with those marginal wheatbelt areas?

**MR D'ARCY (PGAWA):** No, it is not; not a long-term sustainable issue at all, I believe. The thing is that it's an issue that farmers look at on a seasonal basis. You have a situation now where that marginal area that you're talking about is probably going to have the best crop they've had forever and a day.

**COMMISSIONER WOODS:** Yes.

**MR D'ARCY (PGAWA):** So consequently, they're going to be faced with a huge tax bill coming up. This is where I think FMDs are going to be extremely important to them.

**DR BYRON:** That's a good problem to have, isn't it?

**MR D'ARCY (PGAWA):** Well, it's certainly a good problem to have. But, as we know, that's probably one in - I think the last time they had a good one was about five years ago.

**DR BYRON:** Yes.

**MR D'ARCY (PGAWA):** When you look at your cost inputs now - and these guys are on a reasonable sized farm, talking millions of dollars to put a crop in - - -

**COMMISSIONER WOODS:** Yes. One we were talking to out at Northam, but they crop further up north, 1.6 million to put their crop in.

**MR D'ARCY (PGAWA):** Exactly.

**COMMISSIONER WOODS:** That's a big roll of the dice.

**MR D'ARCY (PGAWA):** It is a big roll of the dice. As I've always said, it's a bit like going to the races; you know, you can just about do as well if you've got a good horse in your stable.

**DR BYRON:** Not the horses I put my money on!

**COMMISSIONER WOODS:** But, yes, that is an area where a lot more R and D and extension work seems to me to be done.

**MR D'ARCY (PGAWA):** I think so.

**COMMISSIONER WOODS:** What's your view on the state and fed commitment to RD and E at the moment? Is it enough? Is it well directed? Is there enough going in but not enough coming out? What would you do? Where would you head?

**MR D'ARCY (PGAWA):** The feds actually have been - and I'm speaking about the area that I've got knowledge in, and that's predominantly the meat industry - fairly good as far as that goes. I've got question marks about our state government, though. I think there have been severe cutbacks in R and D over the years, and I think that's very sad, because that's something that I think in this day and age we definitely need.

**COMMISSIONER WOODS:** You could help set up some questions for our next participant.

**MR D'ARCY (PGAWA):** I'm sure they won't disagree with me.

**COMMISSIONER WOODS:** If you could elaborate on that, though. I mean, genuinely it is an area that we've identified in our draft report and that we think it does warrant addressing seriously and for an appropriate level of resources, and probably an increased level of resources, but we also want to make sure that it's well targeted and producing useful outcomes in the paddock. So if you could elaborate on that, that would be helpful.

**MR D'ARCY (PGAWA):** Just further on what I said earlier, I find in our section, the meat industry, that support by the feds has been fairly good. Having said that, of course, we've seen pretty major capex on the CSIRO and I think that's an indication that perhaps there is a trend towards cutting back on R and D even at federal level. At the state level I believe we've seen a fairly major cutback over the last, I don't know, probably five to 10 years, and maybe even longer, and I think that's an area that needs addressing by governments.

**COMMISSIONER WOODS:** But is that basic research or is it more extension work or is it funding industry itself or funding third parties? Where would you direct the attention?

**MR D'ARCY (PGAWA):** I think all areas. But, having said that, I'm probably going to get these fellows onside a bit here. I think there have been major cutbacks in recent times in the department over quite a succession of years now. I guess the problem with this is - and we do see it all the time - that, where you put money out for extension and R and D works, we have to ensure the efficiency is there in procuring that R and D work. Unfortunately, I think in the past some of the R and D work has not been seen to be all that efficient and so consequently government don't need much of an excuse to cut back on funding. I think it's up to all parties involved to ensure that the R and D that they are proposing is highly efficiently geared and progressed.

**COMMISSIONER WOODS:** Do you have some good models that you can point to, either now or in any follow-up material, that we can look at that you'd say, "Yes, this is working, and it's working for these reasons"?

**MR D'ARCY (PGAWA):** I would like to reserve that, if I could, and look at that.

**COMMISSIONER WOODS:** Yes.

**MR D'ARCY (PGAWA):** If you'd make a note of that, Alex, we could have a look at that.

**COMMISSIONER WOODS:** But if you had to sort of pick out the four or five stand-out bits of R and D you need, where you thought, "Hey, they targeted things well. They were practical, they were useful, and industry changed in response to it," and the reason why they were good?

**MR D'ARCY (PGAWA):** In the area that I'm fairly involved in, the federal government have been very strong in supporting us: on research into animal welfare; occupational health and safety; and areas such as a group that I'm involved with called LERDAC, which are 50 per cent funded by government and 50 per cent funded by industry. That has been a very efficient group. You would appreciate the attack that we've been under or that the live export industry has been under continually now, and the improvement that's gone on in the last five to 10 years in that industry is quite amazing, and that's as a result of good R and D.

**COMMISSIONER WOODS:** Excellent.

**MR D'ARCY (PGAWA):** That is the type of thing I think that needs to be looked at in other areas as well, and I'm sure the grain marketers and the grain growers and those sorts of people would agree with me on that. They need to look at some of those areas as well.

**COMMISSIONER WOODS:** We figure that if we can find the success stories and distil what is good about them - so not just replicating them but to try and find out what were the dynamics, what was the participation, commitment, et cetera, that created those - then that will help us to flesh this report out in some more detail.

**MR D'ARCY (PGAWA):** Yes.

**COMMISSIONER WOODS:** Bob, are there things you want to raise?

**MR GRANGER:** I was going to draw you out a bit on your thoughts and ideas about a commercially focused NRM stewardship program as suggested here.

**MR D'ARCY (PGAWA):** I'm not altogether up to date, although my son is involved in some of that, I know, and I think they've considered it to be a big plus for those people who have used it, and used it wisely. There are people in the industry who probably - it's hard to put it, in a way, but it's a program that can be abused, so therefore it needs to be fairly well regulated.

**COMMISSIONER WOODS:** Just another source of funding for them?

**MR D'ARCY (PGAWA):** Yes, it certainly is, but in those areas where I think it has been well used, it certainly has been a big plus for the industry, and I would hate to see that sort of thing ended, because I think that is one of the areas where government can be seen to be a big assistance to industry out there in improving productivity, sustainability, that type of thing.

**COMMISSIONER WOODS:** So not only are you protecting the native resources but you're also building your pastures and helping the industry to be more productive.

**MR D'ARCY (PGAWA):** Yes.

**COMMISSIONER WOODS:** So it's a win-win in that sense - - -

**MR D'ARCY (PGAWA):** Yes.

**COMMISSIONER WOODS:** - - - which is terrific.

**MR D'ARCY (PGAWA):** Having said all that, if I could just add to that. One of the areas that I'm very concerned about, and I think our industry is very concerned about, is this issue of climate change. We are looking at various aspects as to how we overcome it, because it's going to be another cost to our industry - in other words, the animal production industry - that has the potential to make us non-sustainable, albeit we've got some time - under the Garnaut report, till 2015, but it's not that far away.

**COMMISSIONER WOODS:** No.

**MR D'ARCY (PGAWA):** And if we get another cost structure - and that has the potential to be a fairly major cost structure, I would say - then we've got a serious problem. R and D into that area is very important, and very necessary too, because we're seeing all sorts of statements made about what sort of taxes we're going to be levied with and yet we haven't seen the government come up with any quantitative means of measuring the effects that we do have on the climate and what have you. I think that needs to be looked at and perhaps a lot more R and D placed into that area than there currently is.

**DR BYRON:** Can I take a slightly different spin off that same topic. If you go back to the national drought policy in 1992, the second of the three core objectives is to maintain the quality of the agricultural natural resources base during times of extreme drought.

**MR D'ARCY (PGAWA):** Yes.

**DR BYRON:** I've been trying to find evidence that shows that this has either been done or not done, and it's very, very hard to find any evidence at all about whether the way we do drought relief actually prevents land degradation. A lot of people that I've spoken to say anecdotally or off their intuition that the way we've done drought relief may actually make it worse, in the sense that sometimes people have the incentive to hold off de-stocking and that actually exacerbates land degradation rather than preventing it. So, as part of my quest to try and resolve this question about, "Has drought relief prevented land degradation or done the opposite?" have you got any information at all or can you point me in the direction of where I could get some answers on that?

**MR D'ARCY (PGAWA):** It's a difficult one to quantify because in my experience it's an individual thing.

**DR BYRON:** Management is very important.

**MR D'ARCY (PGAWA):** Yes. There are people who are very conscious of that sort of thing and do de-stock and try to maintain their profitability. That's the other factor: there's the old red and black game. You can be very environmentally red if you want to be, but at the end of the day you've still got to pay the bills. So it's a very tricky one.

You've got a sector of industry which are very experienced and have been in the industry forever and a day, and obviously they've been there because they've been successful, but you've got a new element in the industry now that come along and see it as a cash cow, I suppose. We're seeing a bit of that in recent years, where all of a sudden you're getting some of this other sector of industry: the Perth based accountants, doctors, lawyers and everything wanting to invest into the industry. They're not doing that because they want to be good fellows or anything else; they see it as a potential return. As a result of that, I get concerned at times that we're going to see inefficiencies being driven because of the requirement for return on capital.

**COMMISSIONER WOODS:** I guess the specific example I'm thinking of is somebody who has had very conservative stocking rates, who is very conscientious about maintaining pasture and ground cover, makes sure that his pasture responds quickly when it does rain and his topsoil doesn't all blow away; the next-door neighbour who basically flogs the hell out of the country ends up getting the drought relief and the support and the guy who's managed his country much more conservatively, his reward is in heaven. But because he's still got pasture and his

cattle is still in reasonable condition, he doesn't seem to get the support. So the argument that's been put to us is that the way the system decides who to give money to and how much and on what basis actually rewards the ones who have done the wrong thing, rather than rewarding the ones who have done the right thing, in terms of maintaining the quality of the resource base. So I'm seriously trying to get a handle on this because I think it's a pretty important question, but I can't find any evidence yes or no.

**MR D'ARCY (PGAWA):** I don't have an argument with you on that one. I guess you could say it's an embarrassment to industry that that does happen; there's no question of that. I guess that's part of our society, if you like. It happens in all areas of society, doesn't it? Where there are advantages, people take advantage of it. Other people make a conscious effort to try and - I don't quite know what the answer to it is; albeit in our industry, I think FMDs are one of the areas that perhaps help to overcome that. But having said that, you've identified and we understand that people use FMDs for the wrong reasons sometimes. Whether that can be strengthened by government and that sort of thing to force people to use FMDs in the correct manner, that's an area I think that needs to be addressed.

**COMMISSIONER WOODS:** Are there matters that we haven't covered that you think we should spend a bit of time on at this point?

**MR D'ARCY (PGAWA):** Have you got anything, Alex?

**MR BURBURY (PGAWA):** No, I don't think so.

**MR D'ARCY (PGAWA):** I think we've pretty well covered it all, yes.

**COMMISSIONER WOODS:** Thank you for your ongoing participation in this inquiry. We appreciate that it does sort of impose a cost to you to take part, but you have and you've been very helpful to us during the course of it. We're very grateful for that. If there is an easy way in which you can gather together some supplementary points without going to significant effort, we'd appreciate that. We'll also go onto the ACCC web site and pull down your submission to them and we'll go through that material. But if there is anything further that you can contribute that you think would be helpful to us, then please feel free.

**MR D'ARCY (PGAWA):** Certainly, we'll do that. Unfortunately, due to the timing and due to our representation of the farming industry, bearing in mind we represent people from Kununurra to Albany, we probably don't have enough of the people and the issues that we'd like to, because it's very difficult to coordinate all those people together.



**COMMISSIONER WOODS:** We understand that.

**MR D'ARCY (PGAWA):** We do represent a fair sector of the grain industry, albeit the bigger grain growers.

**COMMISSIONER WOODS:** Indeed.

**MR D'ARCY (PGAWA):** Who are, as you know, pushing for GM and all this sort of thing in a big way, and deregulation of the market, which they finally achieved.

**COMMISSIONER WOODS:** Yes.

**MR D'ARCY (PGAWA):** We think that's been a big win as far as our organisation is concerned, albeit they battled for a long, long time.

**COMMISSIONER WOODS:** Yes.

**MR D'ARCY (PGAWA):** Not being a grain grower, I had a great deal of admiration for those guys.

**COMMISSIONER WOODS:** We do understand that your organisation does pick up some of that big end of that industry as well. Thank you very much for your time.

**MR D'ARCY (PGAWA):** Thank you very much.

**COMMISSIONER WOODS:** Our next participants are the Department of Agriculture and Food WA. Could you please, for the record, state your name, the position you hold and the organisation you represent.

**MR O'DWYER (DAFWA):** Yes. Roger O'Dwyer, executive director, industry and rural services, Department of Agriculture and Food Western Australia.

**MR THORPE (DAFWA):** Bruce Thorpe, director of farm business development unit at the Department of Agriculture and Food WA.

**COMMISSIONER WOODS:** Thank you very much for coming and for the assistance that you have given to the inquiry to this point. We'd be delighted to have a submission from you at some stage, and I am sure you are working energetically to that end. But do you have some opening comments that you wish to make to this inquiry?

**MR O'DWYER (DAFWA):** Thanks very much, Mike. I understand you met with our minister yesterday afternoon, and we're working through what parts of the documents we've already supplied can be made public. As commissioners would remember, the last time we made a submission we were in caretaker mode.

**COMMISSIONER WOODS:** Yes, we do understand the situation.

**MR O'DWYER (DAFWA):** But being good public servants, we did everything with a great deal of conservatism.

**COMMISSIONER WOODS:** Absolutely.

**MR O'DWYER (DAFWA):** Thanks for the opportunity. We don't want to add specifically to those documents that you've already received. I would like to make some general comments and Bruce would also like to make some general comments, picking up out of the report. The first thing I'd like to do is give some background to my experience in this area of business. With the Rural Reconstruction Scheme, I can go back to 1971, where as a farm management consultant I actually was submitting applications to the scheme in those days. Then I went to Tasmania and worked for the Agricultural Bank of Tasmania, which administered the scheme, along with war service land settlement at the time, would you believe? From 1984 through to 1990, I was with the Rural Adjustment and Finance Corporation here in WA, and now this area comes under my patch in the Department of Agriculture. So an interesting history in this area, and it's interesting to note some of the changes I believe have occurred.

From your report, there are some issues identified that I just want to pick up on, because I think that they are a good basis for how we drive policy in the future. The fact that 70 per cent of farmers in exceptional circumstance declared areas manage without assistance I think is a key piece of information and, if I remember, I'll pick up on some of the issues that Tim D'Arcy raised there shortly. The fact that 30 per cent of farmers produce 82 per cent of productive value is a very key factor for how we drive policy in the future, and the fact that 50 per cent of farmers produce only 7 per cent of productive value is also a key factor.

An observation in the report was that land values in EC declared areas across Australia had generally risen faster in EC declared areas: our information that we've got in WA doesn't indicate that's the case. It appears, as best we can evaluate through the Department of Valuation figures, that there's been no significant difference between EC areas and non-EC areas, but it's very hard to prove anything one way or the other.

**COMMISSIONER WOODS:** But they are still all rising.

**MR O'DWYER (DAFWA):** Yes, they are still all rising.

**COMMISSIONER WOODS:** Even in the worst drought in - - -

**MR O'DWYER (DAFWA):** Yes. The north-eastern agricultural area is an interesting challenge in itself with climate change in that.

**COMMISSIONER WOODS:** Absolutely.

**MR O'DWYER (DAFWA):** I do want to touch on a couple of things. We support the move away from lines on map in the current declaration issue, but the psychologists and the social workers have told us that the declaration of a zone as exceptional circumstances or drought declared has a psychological lift, even for those that don't even wish to apply for assistance. It's an acknowledgment that their difficulties have a bigger world and not entirely within their control. We probably need to work out how we're going to deal with those psychological and social issues.

**COMMISSIONER WOODS:** We do acknowledge that overtly ourselves in the report.

**MR O'DWYER (DAFWA):** Yes.

**COMMISSIONER WOODS:** So we agree that point. But we don't think that keeping EC, that that's a sufficient reason to do it.

**MR O'DWYER (DAFWA):** No, that's right. But we'll need to deal with the social issues of how we manage that in the follow-up to this. The other bit of analysis that we have - and I'm not sure that we submitted this to you originally - was that the more reliable areas that are less often hit by severe climatic effects seem to manage the problem less well than the areas that are regularly hit. In the very north-eastern wheatbelt fringes - I can go back to 1971 - where it's been a regular event, manage it. The more reliable areas suddenly hit with a severe drought or whatever haven't got the skills, the management or the farm management deposits or whatever to back it up.

**COMMISSIONER WOODS:** Would you have declared that area almost semi-arid in 71 and therefore surprised that they're still farming there?

**MR O'DWYER (DAFWA):** I don't know about in 71, but certainly our view and Rural Adjustment and Finance Corporation in the mid-80s was that the line east of the road that goes through Morawa and Mullewa was a doubtful farming proposition. That touches on something else that I haven't got here. Farming systems have changed significantly. We have an area of the state - the north-eastern and the eastern wheatbelt - which are severe challenges to manage. Yet, in that time, average crop yields have increased. This is a combination of research and farming systems development. Some of that will be managed in the future by opportunistic cropping.

We are keen that short-term forecasting be improved significantly. So on 1 June you can look at the soil moisture, you can look at the forecast three or four weeks out and make a value judgment as to whether you leave the tractor in the shed and your fertiliser and chemicals for next year, or whether you take the punt. Tim is right. There are very high risk management issues with managing farms.

**COMMISSIONER WOODS:** But you've got to have some other source of income then to carry you through, and that might be either a property in a more reliable rainfall area or building up your FMDs and your other financial assets to get through that period. You've got to have a whole strategy if you're doing opportunistic cropping. You can't be a cropper who is marginally viable in the good years out there and that's your sole source of income and then leave your tractor in the shed, or else you'll just go under.

**MR O'DWYER (DAFWA):** I agree, and farmers have adopted strategies of spreading their risk by buying farms in other climatic zones. But in really good years these farms aren't marginal.

**COMMISSIONER WOODS:** Absolutely.

**MR O'DWYER (DAFWA):** They are highly profitable.

**COMMISSIONER WOODS:** Yes.

**MR O'DWYER (DAFWA):** That's one aspect I think that we need to be aware of. The top end of farming in this state, particularly, is highly profitable, highly competitive and has a pretty smart business manager running the operations.

**COMMISSIONER WOODS:** Yes, absolutely.

**MR O'DWYER (DAFWA):** This comes back to the 30 per cent that produce 82 per cent of the production. I want to touch on a couple of things about - we always say WA is different.

**DR BYRON:** It is.

**MR O'DWYER (DAFWA):** It is different. I know, Neil. Some of the issues we see: broadacre farms are generally larger here; WA has the highest usage of farm business consultants of all states.

**COMMISSIONER WOODS:** Commercial?

**MR O'DWYER (DAFWA):** Commercial ones as to financial counsellors. Bruce is very strong on that. There is a consulting profession here that has been long and well established and a very high take-up by farmers. Some farmers use three separate consultants. They will use a general farm business consultant, they will use an agronomy consultant and then they will use a grain marketing consultant. One of the farmers I know well talks of spending \$18,000 on those three and he reckons it's money well spent. 18 grand is cheap to him and it pays off.

So use of consultants. WA is mainly export-focused, certainly in the grains industry, along with South Australia, which makes us a little different to the eastern seaboard. I think we also run to a larger percentage of farm assets. Our figures - and I'm not sure whether Bruce has got them with him - would indicate that our farmers have probably been a greater investor and user of capacity building and risk management courses. Hopefully we see that reflected in what's going on.

Therefore - and I think this was discussed with the minister last night - regional solutions, one size doesn't fit all right across Australia. Ideally, if we can set up policies that can be targeted and a little bit more flexible. Tim D'Arcy raised that \$400,000 limit on farm management deposits for the big growers. They'd like more. Talked about one-point-something million of farm input costs. When I stopped to get petrol in Ravensthorpe earlier in the year a farmer stopped to talk to me. His outlay for specific cropping expenses - fertiliser, fuel, labour, chemicals - was \$4 million.

**COMMISSIONER WOODS:** We had one in Northam yesterday who crops for the north saying \$1.6 million to put in their last year's crop.

**MR O'DWYER (DAFWA):** Yes. So we're talking big figures at the top end.

**COMMISSIONER WOODS:** But they're not constrained by the FMD of \$400,000, that that's the only financial assets they put aside.

**MR O'DWYER (DAFWA):** No.

**COMMISSIONER WOODS:** All that does is put a cap on the tax advantage they get, not that they can - - -

**MR O'DWYER (DAFWA):** They can still make other business decisions that support that and, with off-farm investments, give themselves flexibility there. Most of these top-end businesses are pretty robust and are probably going to do a second very good year in this state, especially south of the Great Eastern Highway. The other thing I want to touch on - and I do know the report touches on that - is the linkage between farming families, farming businesses and the regions.

Productivity gains, reduced employment on farms, is a contributor to difficulties socially in regions. But it's not the solution. The solution has got to be a non-farm driven one. The last meeting I had with my Department of Ag and Food in Canberra counterparts, that causes them some concern, because that then becomes some other agency's issue and area. How we deal with that as a whole-of-government approach is a challenge. But the solutions in the regions are either a range of different enterprises or different to propping up the farming system.

**COMMISSIONER WOODS:** Well, propping up a large number of small farmers with high labour inputs. For the record, we totally support your view on that - that, if you're talking about regional development, you have regional development programs that are targeted and effective, you don't rely on the occasional contribution of drought or keeping small non-viable farmers on farms to provide, as they say, the arms and legs in the regions.

**MR O'DWYER (DAFWA):** Yes. There are a couple of other things I wouldn't mind mentioning. One we discussed in your telephone release of the report. Thanks very much. WA was one of the first states with a hard copy of the report.

**COMMISSIONER WOODS:** We were so pleased.

**MR O'DWYER (DAFWA):** I did raise the issue of the global policy drivers that should set the scene in future. The commission refers to Australia's farming future. I go back to Minister Burke's four key points from his Cairns forum as being a basis for that, which were climate change, drought policy, production enhancement and market access. I wonder whether we shouldn't explore around those as being the key drivers as to what becomes the preparedness replacement for support.

There is a lot of debate across Australia as to what "preparedness" actually means. We've got a couple of pretty good papers on that, which we've tabled at national levels, but everybody has got a different view of just what "preparedness" is. That's going to be the challenge as we go forward.

**COMMISSIONER WOODS:** Have we had access or got access to those papers?

**MR O'DWYER (DAFWA):** Part of it would have been in the reports done by the department and the RBDC.

**COMMISSIONER WOODS:** Okay. They're all there.

**MR O'DWYER (DAFWA):** That almost certainly was in the early one. If it's not - - -

**COMMISSIONER WOODS:** No, there is some - - -

**MR O'DWYER (DAFWA):** Fine. Just before I let Bruce have his say, just back on a couple of things from Tim D'Arcy. Research, development and extension. A couple of general comments there. A lot of the research and development in

Australia now is driven through the R and D corporations, which wasn't the case 15 and 20 years ago. So farmers have a direct say in the priorities there through their groups, and most of it is dollar-for-dollar subsidised by the federal government.

Productivity gains. Figures vary. They talk about half of it coming from research. The other half must therefore come from improved farming systems. It's the view of our farming systems research people that something that's critical to success in the current climate situation is minimum tillage in this state, which is very heavily adopted - the basis of that research was done 15 to 20 years ago. If that hadn't been 15 to 20 years ago, we wouldn't be anywhere near where we are in minimum tillage. So there's the long view stuff as well as the applied research.

**COMMISSIONER WOODS:** Interesting - on the minimum tillage, as you point out, the R and D on that is 15 plus years, but when would you say it was a generally-adopted methodology? Are we perhaps only talking seven or eight years? I'm thinking of the Eyre Peninsula as well as your wheatbelt.

**MR O'DWYER (DAFWA):** I think seven to eight years would be a reasonable thing. The other thing that's changed in that time is the grower groups. We've got the WA No-Till Farmers Association and so on who drives this concept very hard. Mingenew-Irwin Group, the Liebe Group and all those. That's something that wasn't around 15 to 20 years ago when the department had a large extension role, which to a certain extent has been picked up by the private sector and the grower groups now. Our business is to identify the market failure.

We don't believe, in the extension side, there's significant market failure any more when you look at the grower groups which we support and also the farm consultants who we also support. My comment to the development officers, as we call them now, is, they're better to talk to one farm management consultant and in theory they're talking to 40-odd farmers. That's a more efficient way of doing business, rather than trying to talk to 40 farmers.

**MR GRANGER:** Just a quick point: are the grower groups industry specific or are they more regionally focused?

**MR O'DWYER (DAFWA):** They're a bit of both and, let's be honest, agriculture in this state is driven by the wheat and sheep sector. Horticulture is relatively small. The ABS figure is \$600 million a year. We reckon it's about \$1 billion. The pastoral industry is also relatively small and it tends to be driven by the cattle industry in the north. That's another thing I want to touch on.



**COMMISSIONER WOODS:** Can I just go back on the extension side though. One concern I have is that by privatising the E side in part - I mean, you talked about the grower groups and I think that's good. When you talk to the private consultants, is the information that they generate through their trials, plots, surveys and benchmarking, et cetera that they do for their group, to whom they add value but then require a buy-in and premium payment or whatever fee structure they have - does that mean that some of that information gets retained within the group, because that's the model by which they make their money, rather than disseminating out into the broader public? So you're putting public goods in but you're not getting the leakage, the spillovers, the externalities back out?

**MR O'DWYER (DAFWA):** I think I probably didn't make that as clear as I should have. Extension is a range. There's one-on-one farmer extension, there's group extension and then there's mass extension. We're still in the mass and the group stuff. We still put out ag memos, we still do the necessary publicity. The northern ag region this last seeding year developed an electronic newsletter, called AgTactics, which was targeted at specific-to-seeding decisions for that year.

The process was that the team driving it met on a Monday. I think it was 10 o'clock. It was a requirement that each member of that team had to have made an agribusiness sector contact to get feedback on the previous week's newsletter and advice as to what should be in the next edition, and they weren't allowed to use the same person each week. Then this went out electronically on a Wednesday to everybody on our electronic mailing list in the north-eastern ag region. Some of that stuff got - it was immediate, timely, decision-making stuff that related to specific grain growing issues.

There's basically a role for us with very targeted stuff like that, whereas with the generic ag memo stuff we are competing with Elders, Landmark, the consulting firms that do a lot of their stuff by email now. When send out a hard copy of an ag memo, everybody has read about the stuff two and three weeks beforehand and half of it came from us anyway. There's a bit of a juggling act as to where our place fits in the future as opposed to where the private sector fits. The advantage we have is that we're seen to be the independent adviser.

**COMMISSIONER WOODS:** Yes, absolutely.

**MR O'DWYER (DAFWA):** So are consultants; whereas Elders and Landmark? They're trying to sell more chemical or whatever.

**COMMISSIONER WOODS:** That comes through time and time again from the farmers: that they're looking for objective advice but also, where they participate and put in their data, although they want to see anonymity retained, they want to see the benefit of that going out more broadly.

**MR O'DWYER (DAFWA):** Research development and extension: we have a report jointly funded by ourselves and Meat and Livestock Australia looking at the Kimberley beef industry. The basis of that report is that we can have an increase turn-off of 80,000 head up there with no further research. We just need to adopt some current best management practices. The particular problem relates around cull cows. The main practice in the Kimberley at the moment is to let them die in the paddock because of the difficulties of both mustering them and selling them. If we can get that sorted out, which is more a supply chain issue rather than straight research, 80,000 head straightaway.

There are other things that are going on in the Kimberley that can also significantly increase the productivity. We have one station up there - Kilty Station - that has seven centre pivots, irrigated roads, grass. They now have the capacity to finish stock. It gives them flexibility with their pastoral property when things aren't so good and so on, and the benefits - in the last four months, I've shown three different ministers across the Kimberley including Kilty Station and the flexibility it offers. So a lot of it is farming systems and adoption of good practices. Research still needs to be done, but in some areas it's not the critical limiting factor at this stage.

**DR BYRON:** Can I just follow up on that one. When you're talking about the farming systems research, it seems to me that we're living off old investments in knowledge. I was writing on farming systems research 20 years ago. The point is, what's the next big thing and who's doing it? Who's producing the research that's going to change fundamentally agriculture over the next 20 years? We can't keep living off work that was done in the 80s.

**MR O'DWYER (DAFWA):** I understand GRDC identifies 5 per cent of their funding to blue-sky, which is hopefully the long-term stuff. There's no doubt CSIRO used to be a major player there and some of the state departments. Most of our research that we do now is funded by one of the R and D corporations. They set the agenda. We just join the queue for the money and we have to fit in with their agenda. Tim is right. I wouldn't have any figures of where the state investment in research has fallen and so on, but certainly the drivers have come from the research and development corporations. Whether 5 per cent, Neil, is enough for the future minimum tillages is a matter of opinion.

When you look at the structure where we've got a western panel that advises the GRDC on the investment in Western Australia made up mainly of producers, how far out are they looking, or are they looking to solve the immediate problem? We've had some difficulty in getting much traction in funding for very short season wheat varieties, which would fit with a short season. The previous minister Kim Chance used to always say that he wanted a wheat variety that would give a decile 5 yield in a decile 2 year, which is an interesting challenge. That was the focus. Getting funding? GRDC don't want to know about it because, on the feedback I've had, their view is that they won't make enough money out of selling the seed with end point royalties in the long run. So they make a commercial decision as opposed to a long-term strategic decision.

**DR BYRON:** Rather than what's the public good.

**MR O'DWYER (DAFWA):** Yes.

**DR BYRON:** Which was exactly our point earlier: how do you make sure the public-good agenda is pushed through? That's why we're looking to departments such as yourself. But even on that area, we've had the benefit of the viability of farming in the north-east agricultural region report. There are some fundamental things there looking at farm practices and why add nitrogen if your yield is that low? But it's still biting into an awful lot of budgets. Your fallow management programs and the like - there's still a large research agenda but of things that are known about but just need more refinement and then adoption. They're not even in the blue-sky category. These are things that are understood already. They need a bit more work and then they need a bit more adoption. How do you break through that end, let alone worry about the big total blue-sky stuff?

**MR O'DWYER (DAFWA):** I guess it's like everything. There are innovators, early adopters, the majority and then there's the tail. How do you ever adjust the tail? At the end of the day, it's the economic group parameters that drive the change in serious financial years and droughts sort out those that can perform under the conditions. That's a pretty tough way of getting out of it, but that may be the ultimate driver. We can't force people to adopt good practice.

This year was a particularly good one, as you've mentioned. People were putting on urea, nitrogen supplements, which all our models said, "Waste of money". But you've got to be a farmer to understand the way they treat risk. They're hoping for rain always and to a certain extent the later applications paid off because we got a whole lot of late rain; but none of our models were showing it was a good decision at the time.

**MR THORPE (DAFWA):** If I can make a comment about that. I think it's in the - I always see things in terms of content context. I think in content, we tend to focus a lot on production issues and quite obviously that's what has sustained agriculture for the last decade or so, and any of the evidence that shows that's maintained the viability of the business, even though the margins have been squeezed. But I think at the moment that's what's been happening through climate change and the general world demand for how agriculture is produced and a range of other issues, the context is shifting dramatically and I think that's where, I would hope, that if we're looking about this thing called - how are we going to effect change and shift the dollar into a better area - we look at everything from how labour is managed in the situation, how capital is managed in the situation, what legislature we have in place.

I mean, some of the big issues - capacity of individual to effect the change, so we can get either generational shift, not within families but within the way in which agriculture is developed, and the separation of land ownership and farming is something that's happened. I've consulted in other industry sectors long before I came to agriculture for many years and you don't have to own the physical resource to produce the product, and that's a major problem and constraint for farmers here. Most of their capital is locked up because their almost monoculture - pressures have been put on them over the last few years; they've had to go to grain to survive. There's nothing in sheep. That has put huge pressure on if it doesn't rain, so just lost equity out of the sky.

Just picking up on what Roger was saying there I think that's an area that I would hope that, out of your report, emphasis can be made. We made some comments about that earlier on in the document.

**COMMISSIONER WOODS:** We would certainly like to expand our report on the RD and E side in a very practical way, so if there is material that you can point us to or give us guidance on that would be very well received.

**MR THORPE (DAFWA):** I think part of that too is it's a matter of focusing where that goes as well.

**COMMISSIONER WOODS:** Absolutely.

**MR THORPE (DAFWA):** I mean, if you look at some of the estimated value of agricultural output - some figures that we pulled out which are getting a bit old these days - and that's another issue for us, as having proper intelligence about what's going on in the history sectors, is something that not only do we need as agencies,

but the farmers themselves could use a great deal more information of intelligence there. And whilst there's the ABS stuff some years ago, it's now five or six years old the last time a decent survey was accessible to people - it's an important thing.

**COMMISSIONER WOODS:** And loss of your own network in the field?

**MR THORPE (DAFWA):** Not so much - that would have to be, yes; have to agree.

**MR O'DWYER (DAFWA):** I'll come back to that in a minute when Bruce is finished.

**MR THORPE (DAFWA):** Yes. But I think if you have a look at the figures out there that show that there is 150,000 agricultural enterprises as such - I think the term "enterprise" is used very loosely. If we have a look at what I would regard, having consulted across a lot of industry sectors before I came to agriculture and for a gross turnover of half a million dollars a year, to me that would have been a very marginal enterprise. I've been involved in retail industry and if you ran it at that level you wouldn't bother getting out of bed; in fact you wouldn't make any money. Yet in this country what we call our agricultural producers, only 11 per cent of them have an expected or estimated value of agricultural output of over half a million dollars.

That only comes down to nearly 15 and a half thousand enterprises. So when I put my other hat on, apart from looking at what agriculture does, and wonder why then agriculture sometimes gets a bit of short shrift in the system, it may well be that because we supporting the big rump of very small enterprises which if you looked at it purely from a commercial exercise, are difficult to sustain, and I look at the sort of figures that come out of a rural financial counsellor network, for example, and how they're supported - in this state itself, we don't have to rely heavily upon their network at all, whereas in the other states they do, and I fully appreciate that then there is this whole issue that you guys have to wrestle with the economics of agriculture and the social issue and maintenance of communities and viable communities that has to be dealt with.

**COMMISSIONER WOODS:** We're actually trying to separate out those two issues.

**MR THORPE (DAFWA):** I totally agree that's what you must do because I think what's happened with the system that we called exceptional circumstances which has been a bit of a problem to administer, because not only my group actually puts the proposals up, but we also administer the scheme. So we've had our last seven, eight years of experience with this scheme - it's not been a good scheme. It hasn't assisted adjustment. It's helped people to stay behind the farm gate when perhaps it should have been kinder to them to enable them to make a proper adjustment, and they're issues I think about what I call the context that we need to look at.

**COMMISSIONER WOODS:** Yes.

**MR THORPE (DAFWA):** But I appreciate there is this huge tension between providing support to viable economic enterprises and maintaining - I won't call them lifestyle - they're people who are generally interested and concerned about what they're doing in their enterprises, but they're not in a strict commercial sense what I would call substantial businesses.

**COMMISSIONER WOODS:** Yes.

**MR THORPE (DAFWA):** So I would hope that whatever the commission comes up with and what future work occurs in this area, is that we can actually develop it, but it comes back to me believing that we've got to help people to see the picture forward by looking at those issues around the issue of provision of capital into the sector itself. It gets very limited investment outside of the farmer themselves reinvesting, so if you were to examine how much of superannuation funds actually go into agriculture I think you'll find it's a very small percentage.

Every other industry sector has had that happen which probably hasn't been a smart move, just recently I've had to say, but it's certainly something that the sector could benefit from, but it needs to change its structures in a way it delivers, and I'm not talking corporate farms or whatever, but we have - our farmers are fiercely independent small enterprises; small in the sense that there's usually one decision-maker and casual staff around it. So even though they might turn over multiple millions there's still a very small enterprise by that definition.

**COMMISSIONER WOODS:** Although we are starting to see other models come into the market of investors sharing some of the risk.

**MR THORPE (DAFWA):** There is a group here in Western Australia which has done some good work in that area.

**COMMISSIONER WOODS:** Are you talking about AACL?

**MR THORPE (DAFWA):** Yes.

**COMMISSIONER WOODS:** They're coming to present after lunch.

**MR THORPE (DAFWA):** Good. That's good, because we've seen that they originated out of the use of MIS and I think we threw out the baby with the bath water with that particular initiative at the time. I've seen the politicians that we've canvassed with since then; they have said, "Yeah, we didn't really think that one through." It was designed for a specific purpose. It got abused to a degree.

**COMMISSIONER WOODS:** Yes.

**MR THORPE (DAFWA):** But it's something that could be reinvested in in terms of a way forward because it helped to break that nexus between having land ownership and a farming system.

**COMMISSIONER WOODS:** A capital base.

**MR GRANGER:** Bruce, just to cut to the chase, that model that you've made reference to, do you see - just off the top of your head, are there any reasonable areas for government to be involved in assisting that model?

**MR THORPE (DAFWA):** That's why I mentioned MIS. I was a trigger that got the commercial sector interested in the first place. It was the trigger that got the passive investor who didn't want to run the farm but was just happy to put in and get the rate of return off it, and I'm not saying it's perfect by any means, but I think by throwing it or cutting it off completely as we did, we actually missed the opportunity to look at something that might have been a trigger for change; and effected a reasonable adjustment process. But this particular company, now you've mentioned AACL, they've actually got a couple of elements which I'm sure they'll explain this afternoon which we watch, because they are seen to me as being innovative in this sector of adjustment as opposed to the bureaucrats and government trying to be clever about how that might happen.

It has to happen commercially and if people get some lead and support to do that, I think that's what should be encouraged. So I'd hate to think we invented another EC scheme which involved the sorts of things that we did with the last one - so if we can reinvest our money smarter in looking at these alternatives and how we can take agriculture forward on a longer-term picture, rather than just trying to sustain the status quo.

**COMMISSIONER WOODS:** Roger, you wanted to come back on - - -

**MR O'DWYER (DAFWA):** Yes, just touching on Bruce's point. I think the dairy industry is probably one of the leading ones of spreading the assets where you've got fifty-fifty share milkers who own the cows and the plant and equipment, and that spreads the risk, spreads the capital injection and someone else owns the land for 50 per cent income. Bruce touched on lack of relevant up-to-date information. ABARE and BRS no longer do the detail premium surveys they do. We capitalise though on the fact that we've got such a significant consulting industry in this state and I've currently got a guy working with Farmanco and Planfarm, two of the biggest firms.

We gave you a summary of the Farmanco figures, seven pages of figures. Both parties have that level of detail. We're looking at, if we can access their databases, for a common database; pick up three of the major firms - we'll end up with somewhere between 1000 and 1500 broadacre farmers in this state where annually we will have details from climate area to productivity to return on capital cost and returns per hectare, which from a point of view of developing policy, would be very handy.

**COMMISSIONER WOODS:** I mean, we totally support it and that was our earlier concern, that by moving to a private sector model a lot of that data gets kept within the group because that's how they have their value and attract premiums or fees, but if you can - clearly you've got to compensate in some way, but having done that, if that information can get onto the public record and be used by researchers, policy advisers, Productivity Commission - we're all going to be much better off to have that data.

**MR THORPE (DAFWA):** One of the things I might mention: there was some opportunity through the development of the National Agricultural Monitoring System - NAMS.

**COMMISSIONER WOODS:** Yes.

**MR THORPE (DAFWA):** Roger and I have been involved on the national committee associated with its development. Certainly I think both Roger and I have thought beyond it just being a tool to declare EC.



**MR O'DWYER (DAFWA):** It's much more than that.

**MR THORPE (DAFWA):** It was never more than that in my head to start with. That was a very limited use of its capacity. I'm not saying it's by any means a good solution at the moment, but what it was endeavouring to do, I believe, was to be able to bring together the massive amounts of intelligence that exists there, into a format where a farmer can put it down to a paddock level. That's what I think is important. I think the fact that we've invested in FarmBis over a decade now, certainly in this state here there's clear evidence that those that have invested in their training are the ones that haven't been qualifying for EC because they've been able to manage the situation. But they still lack good intelligence about what the markets are. But we're close to perhaps in one of the course we're running at the moment - they're looking for their options for investment and that's one of the most active courses we have under our state training support scheme at the moment. So they're looking at other ways to put their money.

Picking up on Roger's comment earlier, and some of the members of the panel here have said about WA - is it different or isn't it different? There are some distinctions between us and the other states that are relevant. Just a couple of things here in terms of farm financial position and cash flow against the Australian average: our farm capital is 30 per cent more than the average, so we're about four and a half million dollars, or thereabouts. Our farm debts are nearly 78 per cent more than the farm average. The average national is about 436,000; ours is about 780,000. Our farm equity - that's not particularly relevant in this circumstance.

**COMMISSIONER WOODS:** Still around 80 per cent?

**MR THORPE (DAFWA):** We're about 22 per cent more than what they've got, and it's around about 80 per cent, yes. Well, 72 is the latest figure I've got here in fact of businesses that we have been dealing with through EC. That brings up another small point: I think there's some mining that could be done in terms of some of the data that exists within the states and the Commonwealth in relation to what's been collated over EC, aside from just the activity statistics. There's a lot of other data that could be mined out of that, and also if you link that to what's happened under FarmBis and brought that data together, you can actually get a really interesting picture of what's going on, and perhaps that's an area where it could be recommended that some work be done, because there's a long history there, a bit of longitudinal study.

Unfortunately, when it was set up, it wasn't set up appropriately to do that, but some states have done it. We've maintained records since it started, and there's some interesting data we're able to pull out for our own uses. I think that sort of level of activity by government is very helpful to the farming sector.

**COMMISSIONER WOODS:** Yes. Certainly FarmBis - we've supported the best elements of FarmBis being resurrected in our report, but we are very keen to identify the administrative data, as you could almost describe it, but ways of having it put together so that you can actually build up a longitudinal picture of farm behaviour, and use that for research and policy.

**MR O'DWYER (DAFWA):** Just another thing.

**COMMISSIONER WOODS:** Yes, please, carry on.

**MR O'DWYER (DAFWA):** I can't remember whether it was Neil or Bob that asked a question about the impact of overstocking going into drought and so on and how we deal with that. I used to joke when I worked for the Rural Adjustment and Finance Corporation that if we could identify the best farmers in each district we wouldn't need a drought declaration process, because as soon as they started destocking, selling stock - - -

**DR BYRON:** There's your signal.

**MR O'DWYER (DAFWA):** - - - that's your signal. As for evidence, my recollection is that Graham Peart, a farm consultant in New South Wales, presented a paper to an ABARE conference, outlook conference, I think it was in 2004 or thereabouts, that actually detailed how much money his really good clients had made by being able to sell fat stock because they either acted early or they had additional feed, and how much money the poorer end had suffered, and the damage done by leaving their decisions too late. It was a pretty good example from his clients of just the impact and how once again the really smart "with-it" ones made money out of going into drought whereas two-thirds of the growers got poor. And we have this environmental risk: once you overstock, stock lose condition and it's all bad news, all the way.

**COMMISSIONER WOODS:** And then there's pressure for fodder subsidies and a lot of the transfers - - -

**MR O'DWYER (DAFWA):** And additional social pressure on people because they know they're in trouble and they don't have the money to deal with it, and it's a pretty tough time all round. But that was pretty well all I had, thanks very much, Mike.

**MR THORPE (DAFWA):** Just one other point I would make on that social side you picked up: I think our experience has been with the state packages we've put together that perhaps the area that's been received best has, firstly, been some recognition that people have an issue has done a lot to help the communities to settle down. So if the state says, or somebody says, "We've got a drought," or, "It's a really severe issue," the individual doesn't feel that personal loss out of the process. The other thing has been out of our state packages we've provided funds to communities to be able to do activities to enable them to bind together, and I'd have to - having administered the EC process now in this state for about the last 10 years, I'd have to say that the best money we've spent has been on giving that money to communities and enabling them to meet together to share the common issues that they've got and to deal with it in other ways. There's that and also the money we've provided for, I'll call it, the men's health program. Those sorts of exercises have been very, very valuable.

The issue is enabling people to be able to think rationally during times of great stress about what they can do best to resolve their situation - not leave the destocking too late or to throw the keys in the shed if the season is not coming up well and not put the crop in. They're the ones that we need to help them with to make those decisions.

**DR BYRON:** I agree with all that, Bruce. But is there a sort of inconsistency, on the one hand saying that the EC declaration is like the government saying, "It's not really your fault that you're in this mess and it's an act of God and we think it's very exceptional, so there's no need to take it personally," and yet what we were just talking about two minutes ago is that there is a difference between the really good managers. I've seen in all states, dozens of times, on a property boundary, one guy burning his pasture like this and the next-door neighbour looks like a lunar landscape. It comes back to management. They've had the same rainfall, the same sunshine, the same soil types. To a certain extent, if somebody has turned his farm into sand dunes and the next-door neighbour has still got pasture and cattle - - -

**MR THORPE (DAFWA):** What's the difference?

**DR BYRON:** - - - then, to a certain extent, "It is your fault, mate."

**MR THORPE (DAFWA):** Yes.

**DR BYRON:** I'm not trying to be pejorative or anything. But on the one hand we're saying - if you can get the average or the below-average managers up to the standard of the best managers now, we'd have a huge improvement environmentally, we wouldn't have the enormous financial and social pressures that come from having flogged the country and being in a deep financial mess and so on. So do we want to be able to be giving the signal that says sort of, "There, there, it's not really your fault you're in a mess," because to a certain extent it may be? I'm asking you a question, not making a statement.

**MR O'DWYER (DAFWA):** I think that's the hub of the whole thing: how do we balance the economic drivers up with the social issues. That's government's challenge: where are you in the continuum? You've got people's health on one end, and then you've got the efficiency and effectiveness of the business on the other end. They don't coincide. You talk about bringing the bottom-end farmers up to the skills of the other end. We've recently run two farm input workshops with Western Australian farmers, pastoralists and graziers, a group of farm consultants and some of our scientists. It was interesting to listen to the debate between the consultants and WA farmers about what we do with the bottom end, the poorer farmers. It was the consultants' view that there's always going to be a tail and some people - one consultant's words were that he had one client who was always the last one to put his crop in and it didn't matter what he told him, what he did with him, how he managed him, he would always continue to be the last one, and that was a fact of life. So the solution is that we need to get him to see whether he's better suited in some other enterprise.

**COMMISSIONER WOODS:** But don't prop him up to keep him staying there.

**MR O'DWYER (DAFWA):** Don't prop him up. That's right. This comes back to what I see: the overall economic driver of all this is that we need to be - our agricultural industries need to be competitive in the world sector because we're part of the global trading entity now, and that's got to be the driver. At the end of the day, we've got to be competitive in the world market, or we lose our industry.

**DR BYRON:** But we've also still got to look after those very important social considerations, the rural development things, and many of us are passionately concerned about little country towns where we lived as kids and so on. So there is this chasm that needs to be straddled, isn't there?

**MR THORPE (DAFWA):** That's why I think you need different strategies for it, though. We've had the one size fits all called EC and it didn't do it. It's supposed to trickle down from the farmer's pocket to the small business in town and all that. There's no real evidence of that occurring. It certainly helps farmers. I won't say that the money that farmers have got hasn't been useful. I'd like \$100,000 interest subsidy for my business. It's rather pleasant.

**COMMISSIONER WOODS:** With no strings attached.

**MR THORPE (DAFWA):** With no strings attached and it doesn't matter what I spend it on either. So it's rather a generous gesture. But I think we could work a lot better and perhaps recognise this distinction in the marketplace between top ends - those that have perhaps managed their businesses better and then don't qualify, because you've got a system that rewards you for having debt. To work that thing through a lot smarter would be a good outcome.

**COMMISSIONER WOODS:** So to the extent that our strategy has got several parts, one is that you put in place a farm household hardship scheme as a flaw, irrespective.

**MR THORPE (DAFWA):** Absolutely.

**COMMISSIONER WOODS:** You don't need EC, it's not drought related.

**MR THORPE (DAFWA):** No.

**COMMISSIONER WOODS:** It's whatever happens, if they are in need, is a flaw.

**MR O'DWYER (DAFWA):** Society has an obligation to people who have fallen upon hard times, whatever the reason.

**COMMISSIONER WOODS:** And that farmers are special, but only for a period of time. You know, you give them three seasons to turn themselves around.

**MR THORPE (DAFWA):** The experience we've had here from our own data from the EC is that what you could call net equity - which is what I always measure a business by - of the average of our farmers is well over a million dollars in this state for people who have been through this. So if you look at any other business sector, I'm not sure you'd be able to convince the taxpayer to provide funds to them.

**COMMISSIONER WOODS:** Not if you had the million bucks, no. In this case we are saying, "All right. If you've brought your net equity down to a million or half a million, you're not going to get yourself back up, if you're a major cereal grower or pastoralist."

**MR THORPE (DAFWA):** No.

**COMMISSIONER WOODS:** So you do get a period of grace and we've put that in and, presumably, your submission made comment on the appropriateness. I need to come back to whether you're going to update your material to reflect on our draft, or separately reflect on our draft, or want to do that today.

**MR O'DWYER (DAFWA):** When we know what the minister is cleared to release to you, we can work on that. It's a bit presumptuous of me to say it, but really we were here to endorse the general thrust of the report. We thought it was a great basis to move forward in how we deal with and the policy drivers for the agriculture sector, and it's the basis of a long-term approach that we believe will be better than the past one.

**COMMISSIONER WOODS:** So abolishing the EC process, the general safety net, the getting rid of the interest rate subsidy, the focus on R and D - all those things are in general terms. So it will be for you and the minister to resolve, but it would be helpful if - whereas some of this was speculative on what might happen, that now we have a draft out, if that could be firmed up and said, "You've proposed this. We agree either fully or to the extent that, but suggest that you modify it this way or that way."

**MR O'DWYER (DAFWA):** Yes, we're currently working on a draft paper of how we see the replacement of EC should be.

**COMMISSIONER WOODS:** It would be helpful if you tied it into our draft so that we didn't have two parallel processes happening.

**MR O'DWYER (DAFWA):** We'll work on that, Mike.

**COMMISSIONER WOODS:** But quite seriously.

**MR O'DWYER (DAFWA):** I know.

**COMMISSIONER WOODS:** If all states come to the table with their own variations on a theme, rather than input to us so that we can help collectively craft a single one, we're going to be a lot better off.

**MR O'DWYER (DAFWA):** And that's the hub of the history, isn't it, that all states have their own solution and want to do it their own way.

**COMMISSIONER WOODS:** We recognise you need state specific and indeed region specific strategies, but I don't think you need state specific policy frameworks.

**MR O'DWYER (DAFWA):** That's right.

**COMMISSIONER WOODS:** What we'd like to get in place is a national policy framework, and then how you do your RD and E and those sorts of things has to fit your circumstance.

**MR O'DWYER (DAFWA):** Flows from that.

**COMMISSIONER WOODS:** But let's not have seven or eight policy frameworks and have them built up in isolation to our process. You don't need me to rave on about that, but it would be helpful.

**MR O'DWYER (DAFWA):** It's nice to see you raving instead of us.

**COMMISSIONER WOODS:** One does get passionate. So if you could. Is there a point in further teasing you out on particular views, or is that blanket statement probably as useful at this point?

**MR O'DWYER (DAFWA):** Only if you want to tease us out. We'll see where we go. But I think we're generally in agreement as to where we're all going. There's not much doubt about that.

**MR GRANGER:** I've got a quick one. Do you think that period of grace that Mike referred to is okay or generous or too short?

**MR O'DWYER (DAFWA):** Three years?

**COMMISSIONER WOODS:** Three in seven.

**MR O'DWYER (DAFWA):** I think that's very generous.

**MR THORPE (DAFWA):** You're taking a punt on next year being a good season too, aren't you? It's just going to drag otherwise.

**COMMISSIONER WOODS:** Yes.

**MR THORPE (DAFWA):** You're going to get that social pressure. It surprises us, when we look at the map of EC declarations, that two of the major states are almost fully coloured with EC and you've got to say, "Where the hell does this word 'exceptional' come from?"

**COMMISSIONER WOODS:** Yes.

**MR THORPE (DAFWA):** It has got a bit lost.

**COMMISSIONER WOODS:** It's not even slightly unusual, let alone exceptional.

**MR THORPE (DAFWA):** No. Less than norm.

**MR O'DWYER (DAFWA):** I went to Rockhampton with two ministers while I was working in Queensland and listened to 12 shire mayors, as they were called, to get up and tell us how they had eight droughts out of 12 years. I'm trying to think, "Where's the one in 20 here?"

**COMMISSIONER WOODS:** Yes.

**MR O'DWYER (DAFWA):** What is a drought? We've lost the plot somewhere.

**COMMISSIONER WOODS:** So our proposal to make that whole debate go away is - - -

**MR O'DWYER (DAFWA):** A good move. Very helpful.

**COMMISSIONER WOODS:** We would like to bring the states collectively together to try and get everything encapsulated in our final report, if you can keep that in mind as a target.

**MR O'DWYER (DAFWA):** As I sit on the Primary Industry Standing Committee drought task force, I have the same wish, but I have no great hope.



**COMMISSIONER WOODS:** We have copped some flack, to put it colloquially, on the transition period and the federal minister, let alone some state ministers, have said that, while ever there's an EC process, that those in it will continue to be able to access programs. We're looking at that in the context of would it be possible to (a) ensure that ENRAC's processes and others rigorously enforce how you define EC, to go back to its original base, so that, when those current EC areas are reviewed, they are rigorously reviewed as to whether EC declaration continues; and (b) for those who are on those programs, whether a case management approach would help them or quickly resolve whether they are viable or potentially viable or not and that they are better off making other decisions. Do you have any comment on that?

**MR O'DWYER (DAFWA):** Yes, I'll make some comment. I'll stick my neck right out here on this one.

**COMMISSIONER WOODS:** Remembering you are on public record and you have a long-defined public service career.

**MR O'DWYER (DAFWA):** Which is coming close to the end anyway.

**MR THORPE (DAFWA):** That's why they sent both of us along.

**MR O'DWYER (DAFWA):** My concern about a transition process is that transition processes tend to become permanent. It would be nice if we could work to a solution where we have a new system and, as soon as any region or state comes out of predominantly EC declared, they move into the system.

**COMMISSIONER WOODS:** Yes.

**MR O'DWYER (DAFWA):** Which will mean there will be a transition across Australia over some years, rather than putting in a transition process that waits for everybody to be ready at the same time, which will never happen. So somewhere someone has got to bite the bullet and say, "That's the finish. You're now on the new system."

**COMMISSIONER WOODS:** The new system is in two parts. One is the new system on household relief, which we think can start anyway. It's suggested middle of next year, and it doesn't matter whether you're in an EC area or are not in an EC area. If you're in EC and you're eligible for hardship relief and that EC area continues, well, you stay on that one. But everyone else, if they fall into hardship for whatever reason, gets access to the new scheme. So that can start anyway.

There really is no other region-specific new system, because the emphasis on RD and E and business training and all of those things is just agriculture-wide anyway and you wouldn't exclude people who are in an EC area, saying, "You can't have access to that until you've finished your EC."

**MR O'DWYER (DAFWA):** As I said, the social support system isn't significantly different, apart from the cap coming in. My question there - and I have no problem with there being a means test or a cap, but it is possible for farmers with a significant amount of assets to suddenly have no cash, particularly towards the end of the growing season when they're waiting for harvest. Now, whether in fact there's a grey area that they're still eligible for assistance, but if they exceed the means test they may have to repay it, but they might get three months, six months' assistance to tide them over, is something that perhaps we need to explore. The other comment I'd make: all going well, the agricultural area of WA will be out of EC March-April.

**MR THORPE (DAFWA):** Yes, this coming year.

**MR O'DWYER (DAFWA):** That may be an opportunity for the first step into the new replacement of the interest support system. Now, we would hope that the pastoral area also comes out, but that's a little bit of a grey area and depends a little bit on ENRAC - - -

**MR THORPE (DAFWA):** ENRAC next week

**COMMISSIONER WOODS:** Wandering along the margins.

**MR O'DWYER (DAFWA):** But if we say we're going to do it on a regional basis, you can quite legitimately separate the agricultural area in WA from the pastoral area. This may be the opportunity to move into the new without a transition arrangement.

**COMMISSIONER WOODS:** Yes.

**MR THORPE (DAFWA):** Speaking on that, we attended the meeting up in the north-east agricultural region where a collection of 11 shires had gathered themselves together to have a north-east agricultural regional strategy.

**COMMISSIONER WOODS:** Yes.

**MR THORPE (DAFWA):** And the basic message that was coming out of that, in front of the new minister too, so they weren't trying to grandstand, was, "We're sick of EC. We like this idea of preparedness and we want to get on with it." Now, these are the farmers that have been probably the hardest hit over the last seven or eight years.

**COMMISSIONER WOODS:** Yes.

**MR THORPE (DAFWA):** They don't see that it works for their community, for them as individuals. Some individuals would have had a benefit, there's no question of that, but across the industry sector they just think it's not achieving what it was intended to and they're very keen to move to the sorts of things that have been hinted at. It's not just FMDs that drive it. The FMDs have got a tax incentive thing even by the consulting profession, but there is evidence though that there is movement in and out of it. I'm not saying we throw it away, but by the same token I said, no, we shouldn't have thrown away MIS either. It should have been thought of as a smarter tool to effect change in the sector.

**COMMISSIONER WOODS:** All right. Thank you very much for your time.

**MR THORPE (DAFWA):** Thank you.

**COMMISSIONER WOODS:** Now before we adjourn for lunch, Prof Daniela Stehlik is going to come forward and make a contribution. If you could please for the record state your name and the position you hold in the organisation you represent.

**PROF STEHLIK (CUT):** Yes. My name is Prof Daniela Stehlik. I work at Curtin University of Technology in Perth and my interest for today's presentation is particularly around two critical and interrelated issues: the question of intergenerational change in Australia's farming and the question of RD and E. I'd like to particularly focus on those two things.

**COMMISSIONER WOODS:** Please.

**PROF STEHLIK (CUT):** Thank you very much for the opportunity to address you on this. I think your report is silent on both those critical issues associated with the development of policy into the future.

**COMMISSIONER WOODS:** RD and E? You make your statement and then we'll - - -

**PROF STEHLIK (CUT):** On the question of universities' place in RD and E - perhaps I could say that more specifically.

**COMMISSIONER WOODS:** Thank you.

**PROF STEHLIK (CUT):** But if we bear in mind that we are at the tail end of the drought policy of 1992, we're actually experiencing the last gasp of that particular policy at the moment. We could all agree on that. That means that whatever we develop now has at least a decade, perhaps even a decade and a half, in which it will impact on Australian society. That's our experience from the previous review. So what I'd like to suggest then is, as we heard this morning, the question of the change in generations is a critical one for the policy of the next 15 years. We keep hearing constantly about the average age of the average farmer. I've heard that now for 15 years, so that's not a new thing. But what is new is that there will be a generation that will pass away where we've not had that generation pass away before. I'm talking now about our own generation, gentlemen, the generation of the baby boomers.

No-one has ever done research on the correlation between the 20 per cent that you keep referring to and the age range of that 20 per cent, but I do know that in Western Australia a large proportion of our younger farmers are graduates from universities. A large portion of our older farmers are not. So that is where I see these two things as being absolutely critically interrelated. If we go one step further

on this hypothesis and say that some of the attitudes of the older generation will die with them, but what we need to do is invest in the younger farmers, and we need to invest in policy that encourages their contribution to Australia's sustainable future, rather than spending more money trying to encourage people who are quite clearly at the end of their life span and are really not there for any other reason other than that is what they do. That is what they do, that is what their identity is, and that is all that they can do.

So having made that statement - which I hope I can get the transcript of, because it actually sounded quite good - I wouldn't mind exploring that a bit further. Where your report is silent though in your R and D area, apart from the cooperative research centre thing that you talk about, is on the role of universities and on the education of the next generation of farmers, and indeed on this generation of younger farmers. As I move around Western Australia and talk to younger farmers, the majority of them are graduates at Curtin University, particularly of the Muresk Agricultural Institute there. That is also undergoing some fairly major change at the moment, as are most universities who teach into this particular area.

I think you made the point earlier about agriculture being right up there with medicine and dentistry a generation ago. It is now no longer sexy at all - at all - and as a result, instead of investing at this very important point, we are actually seeing the diminution of investment in the universities that actually promote this area, and I don't see anything in your report that encourages the government to think outside of its little silo and say, "We need some investment in the education, the tertiary education, at a couple of levels." One would be, I would say immediately, in the area of scholarships, specific scholarships associated with undertaking agriculture, and agriculture should be broadened.

Curtin has made a decision to provide agriculture and environment within the same school because it is clearly interlinked, and in some cases young people are passionate about wanting to change the world for the better, and they see the pathway through environment rather than through agriculture. So we're trying to grab both areas. So some support of scholarships; but more importantly, I think, some message to the Bradley review, which is going at the moment, that it should not ignore rural Australia in its thinking. There is a tendency in tertiary education at the moment for the G8 to demand that they be the only ones that do R and D. When they talk about R and D, they're not talking about agriculture.

You would all be very familiar with the way - the very cynical way - that the University of Sydney took federal government money a decade ago, set something up in Orange because it was available, and then withdrew. It was a very cynical exercise. So the G8 are not interested in this area at all. But for the universities of technology and the regional universities this is our core business, and we get no

recognition of that at all in the way in which the DEST money is provided. So I would encourage you to think about how that question of intergenerational change, the development of policy for the next 15 years for Australia, and the way that we have to encourage young people to come back into the sector; how your report can encourage government, federal government, to think about that.

A couple of other minor points to do with the report - and forgive me if you do touch on it somewhere, but I haven't seen it kind of hit me in the face - we don't actually know the level of poverty in agriculture in Australia. We have no idea about that. Centrelink can't tell us. The way they gather data, it doesn't work. Since the Henderson inquiry in the 70s we've never really done a review of poverty. We don't know, for example, just how serious life is for some people on-farm. So it would be good if there could be some way that you could recommend some R and D in that particular area.

I guess the other is really just a minor thing about the weight that you put on one particular piece of research which, in the end, I think will be found to be rather flawed: so I am saying to you just to be a little bit cautious about the Institute of Family Studies' research firstly because it's not in the public domain yet. It hasn't had any kind of peer review yet and secondly because what I did hear about it in a seminar in Melbourne in July concerned me a great deal. While they talk about 8000, the actual numbers that they're speaking to who were in drought is very minimal, in the way that they've cut and sliced their samples. So I would just say: a little bit of caution of about that one.

**COMMISSIONER WOODS:** We're happy to go back through and look at that.

**PROF STEHLIK (CUT):** Thank you very much for letting me get that off my chest.

**COMMISSIONER WOODS:** While you're here I'd like to reinforce that the commission has very much appreciated that you did with the social panel. We went through your report in detail and met with the social panel in person and our staff shadowed around various functions. We have tried to draw on that material where it was relevant to our own terms of reference, so we're very grateful for that work that was done and hopefully we've made good use of it. We've certainly tried to. Your commentary today adds some areas that we will pursue. Certainly the tertiary sector contribution to education in agriculture is something that we can quite easily incorporate into this. The other matters that you raised, we'll take them on notice and work our way through them.

**DR BYRON:** I'd particularly like to draw you out a little bit more on one point. The distinction that we're making between the younger farmers - who are, I think,

exceptional; there are some incredibly bright, innovative people - and at the other end of the spectrum there are some people who are probably a bit set in their ways. We've been changing the emphasis from doing humanitarian, charitable relief during the exceptional drought to being much better prepared.

We're relying on the strategy of research and development and extension and communication and helping everybody out there prepare during the good times for the inevitable droughts and other hardships that will follow. The point about extension is, I think, that it's very difficult to change the behaviour of some of those older men in particular, because we're mainly talking about men, who have been doing what they've been doing for the last 40 or 50 years.

**PROF STEHLIK (CUT):** Roger's little example is an absolute classic: this is how I've always done it, this is how it always will be.

**DR BYRON:** Are we being overly naive in thinking that more and better RD and E is actually going to help some of those people who are the rump, the tail, to become better prepared, or is the reality that no matter what happens in terms of extension and outreach communication, it's going to be very hard to actually change some of those behaviours? If our strategy is relying on much better information, communication and encouragement to prepare, but there are people out there who, you're telling us, are not going to listen. They're not going to take any notice, they're going to keep doing what they've been doing. That suggests that when the next drought comes, there'll still be people there who are seriously under-prepared who will still need all the emergency relief.

**PROF STEHLIK (CUT):** That's the conundrum for us: the climate variability impact is such that it's likely to be exceptional all the time rather than exceptional once every 25 years. So you're absolutely right, that is the difficulty that we face. We can't ignore the fact that we have been trying since the post-War to change attitudes. I've worked in the sugar industry, for example, which would have to be one of the toughest ones to get any kind of attitudinal change going. I can remember in the 1990s speaking to Central Queensland graziers and they were saying, "When the drought is over, we're out of here." They didn't go, because there is something - this is what we struggled with in our discussions. There is something much, much deeper about the human psyche than simply the economic drivers. That's the challenge always.

But what I'm saying is, when we invest new money - there will always be money in Australia, thank heavens for the safety net - we should be investing in strategies that give permission to that generation, that younger generation which they currently don't have. They don't have that permission to do things differently. We've heard, and I'm sure that Bruce and Roger have similar examples here in Western Australia, where the patriarch determines and everyone else in the family, including

the younger generation of males, has to agree. So our policies shouldn't be supporting the patriarch any more.

Bruce is absolutely right: if we did an analysis of FarmBis, we would find that the women took it up mostly. So the tragedy is that we threw out a really powerful way of changing behaviour through women when we threw out FarmBis. So whatever we can do in the reports that we put to the government, we need to say, "We don't have to start a whole new leadership development. We did all of that in the 90s." We just need to say, "Some things works really well, and let's support the things that work really well." That was a terrific way of both supporting women, because they're often the front line in the finances on the farm, in their activity while at the same time giving them courage to actually come forward and say, "Why don't we try this particular approach? Look, here's a way of doing things better."

**COMMISSIONER WOODS:** So in that sense you're supportive of our recommendation that the best elements of FarmBis should be resurrected and reformulated.

**PROF STEHLIK (CUT):** Absolutely. We've heard, and I'm sure you have too, that we don't have to always throw out policy just because it belonged to somebody else or whatever. That is one way that we can continue to support - and out of those FarmBis opportunities, a lot of those groups that we heard about in Western Australia sprang up; and a lot of those groups are being led by very, very clever women.

**COMMISSIONER WOODS:** And also our policy of separating out the hardship issue and just putting a floor in place for that, even though there's some debate about bits and pieces of it; but as a general principle, putting that floor in and then concentrating on the business as a different approach, separating it out from - - -

**PROF STEHLIK (CUT):** Yes, I agree with that because one of the things that really struck me when we did our visiting and talking to people is the stigma that is associated with welfare. If we can make it so it isn't about drought and welfare, it's about, "You're an Australian citizen, this is what all Australian citizens are entitled to. This is what you're entitled to," there's no stigma associated with it.

**COMMISSIONER WOODS:** No, it's just a basic floor.

**PROF STEHLIK (CUT):** If we can separate that, that would be a huge step forward.

**MR GRANGER:** Just picking up on your call for moving away from policies that turn around the patriarch of the family - I'm just wondering are there some societies



where we could take some lessons? I'm thinking of Ireland. It's always described as a very strong matriarchal society. What would they have that we haven't got here?

**PROF STEHLIK (CUT):** Do you know what they have that we don't have? In Ireland, they have a European statement on the countryside. We don't have it. We don't have any statement in Australia about the value of the countryside to the nation.

**MR GRANGER:** I'm probably reaching further back than that to try and find what makes that an essential - you know, a society where the essential difference is - - -

**PROF STEHLIK (CUT):** I believe that would be a huge step forward, and it would also go some way to relieve this thing about agriculture not being sexy. Over the last 25 to 30 years in Australia, we've shifted the balance of where we live. We've all moved to the coast, we're all living in cities, et cetera. As a result, we have cast the countryside into this sort of other space. It's where funny people live and do funny things. It's not where the rest of us live.

So the European statement on the countryside - which was actually declared in Cork, which is why, when you said about Ireland - is a really important statement about the place of the countryside - and I use the countryside rather than agriculture - in each European nation's agenda. It isn't a debate in Europe about the value of it, whereas in Australia we're still at this point of saying, "You know, those rural people, they're a bit weird, aren't they? Why would they want to live out there?" What we should be saying is, "Thank heavens they want to and how can we support them to do so?"

**COMMISSIONER WOODS:** Anything else arise? Okay.

**PROF STEHLIK (CUT):** Thank you.

**COMMISSIONER WOODS:** We much appreciate you coming forward.

**PROF STEHLIK (CUT):** It's better than psychology.

**COMMISSIONER WOODS:** We will adjourn now until 2.30 when we will meet with the Rural Business Development Corporation.

(Luncheon adjournment)

**COMMISSIONER WOODS:** We're resuming the Productivity Commission's inquiry into government assistance for drought events. Our next participants are the Rural Business Development Corporation. For the record, could you please state your names, the positions that you hold in the organisation that you are representing.

**MRS GOOCH (RBDC):** Maree Gooch, director of the Rural Business Development Corporation.

**MR DAVIES (RBDC):** Dexter Davies, director of the Rural Business Development Corporation.

**COMMISSIONER WOODS:** Welcome to this hearing, and we greatly appreciate the contribution you have made to date. We're aware that you have prepared supporting material which is going through a process, given the hiatus of the election period, and presumably that will emerge - - -

**MRS GOOCH (RBDC):** Soon.

**COMMISSIONER WOODS:** - - - in due but hopefully soon course. Do you have opening statements you wish to make?

**MRS GOOCH (RBDC):** I do. I'd like to congratulate you on this document - all of it - and so would all of the RBDC. That's a unanimous vote of confidence, and we think you've obviously spent a great deal of time sourcing the information and putting it together, and we can see that obviously you have done lots of checks and balances across the way, which we really appreciate. May I go on with some of the points that we'd like to comment on.

**COMMISSIONER WOODS:** Yes.

**MRS GOOCH (RBDC):** And please, Dexter, you comment as you see fit. We think it's important to keep the politics out of it, as you have done, so that farmers can avail themselves of the best advice available - whether that be notional, business; all sorts of aspects there. We think it's a good policy shift. We would like to ensure the foundations cannot be eroded, and this is a generational opportunity for that huge shift. So we think it has been positive and proactive, and that's what the RBDC is all about in Western Australia, instead of being reactive. We'd like, if possible, for triggers to be available to all farmers, not just those in EC areas, even though EC is going to be out in 2009 or 2010. Please feel free to ask questions. I've got a list of things here, so if there's something that you would like - - -

**COMMISSIONER WOODS:** Well, can we start at that first one: it raises the question of a trigger for what? Perhaps if we keep the discussion separated between household relief and business support and adjustment and assistance. Our proposal on household relief, without going on for too long, is basically an "always there", so whatever situation causes that hardship is somewhat irrelevant. So it's not drought-related, it's not terms of trade related, it's not poor management related. It's just that if they are in hardship and they have a low level of assets - and we've suggested two million, tapering to three million base - then they would be eligible for it if they meet the income criteria. So we don't think that that requires a trigger, other than they are in hardship and they front up and get assessed for eligibility.

On the business side, we're talking about RD and E, and the old FarmBis type programs, et cetera, and they don't require a trigger either. They just require expenditure and focus and appropriate processes. I'm not quite sure where "trigger" comes into it.

**MRS GOOCH (RBDC):** I guess like you're saying, when a household is in hardship, so that it's available to everybody. I guess it's just an interpretation of - - -

**COMMISSIONER WOODS:** Okay, that's fine.

**MR DAVIES (RBDC):** That covers that one, Maree. The point we'd make about that - and we'll provide some more detail and numbers to back this up - is that two to three million in WA would probably mean that you'd only have about three clients.

**COMMISSIONER WOODS:** Is that a problem?

**MR DAVIES (RBDC):** It depends how you value that in terms of whether you think they are viable businesses. So if you've got a \$3 million base - - -

**COMMISSIONER WOODS:** We're talking net assets, not gross?

**MR DAVIES (RBDC):** Yes. Out of all the EC applicants that we've had in Western Australia, they've had a 2.7 million asset base up until now, so we had it too, and we just need to work our way through that. One of the reasons why we think that - and it's probably not from a business point of view, but if you reflect back to Maree's opening statement of keeping the politics out of it, there's going to be a time when it gets tough, and if we expect the politicians to hold the line, it's going to have to be a realistic base. I don't know what that realistic base is, but if you set it too low, it prevents that.

**DR BYRON:** We've had a lot of discussion about this, as you might expect, but we are required to take an economy-wide, society-wide perspective, and we've had a few criticisms from people saying, "Why should someone who's got over two million in net assets be getting 17,000 a year from the taxpayer through Centrelink?" If we were to say, "Well, let's make that four million or five million," the question becomes even more so, "Why should people who are struggling to bring up four kids in the western suburbs of Sydney, Melbourne or Brisbane or wherever, be paying taxes - the panel beaters or hairdressers or whatever - to give relief to someone who's sitting on \$4 million in assets? If they've got \$4 million in assets, surely they can afford to finance their own 17,000 a year rather than falling on the taxpayers, through running up the overdraft or selling off other assets."

**MRS GOOCH (RBDC):** We ask ourselves that question often.

**DR BYRON:** That's the catch we're in. I fully appreciate how WA farmers are bigger and basically have a much stronger capital base than most other farmers in Australia, but even if you say, "Well, okay, we'll have a threshold of two million or three million or something for the rest of Australia and in WA it will be five million," that raises the question of equity across the Commonwealth. So that's how we came to that number.

**COMMISSIONER WOODS:** Is somebody on two million, tapering out at three million, not able to raise 17,000 a year by extending their overdraft? It depends where their net equity is, and things. If they're down below 50 per cent - - -

**MRS GOOCH (RBDC):** With that example, it was in the low 60s - 62 per cent.

**COMMISSIONER WOODS:** 62 per cent is starting to get - - -

**MRS GOOCH (RBDC):** That's an average across the board.

**COMMISSIONER WOODS:** - - - more than marginal in terms of - - -

**MRS GOOCH (RBDC):** It's not 80, as in - - -

**COMMISSIONER WOODS:** Yes.

**MR DAVIES (RBDC):** There probably needs to be more work on it. I suspect the story that was just related by the commissioner might have been related to him by me in the first place - the man from Balga! I totally agree.

**DR BYRON:** I'd actually forgotten about that. But there have been others.

**MR DAVIES (RBDC):** Yes, and it's the issue of trying to provide Centrelink-type assistance to people that are asset-rich, which is basically, in this particular case, farmers. That problem is recognised. I think it probably has created the biggest angst across the board, and we're simply saying that, whatever that number is, it needs to fit somehow equitably. We had some examples where we had people that were qualifying with the two million asset rate, down to as low as 62 per cent equity. My judgment is that that is probably low enough in equity; they're probably in strife. It depends how you measure equity. If there was a way, I'd try and measure a business by its profitability rather than its equity. I think it would give you a lot better understanding, but then you get into all sorts of other problems.

**COMMISSIONER WOODS:** And also it's starting to cross over between business support and household support. The point of the business is that it generates income for the household.

**MR DAVIES (RBDC):** Yes.

**COMMISSIONER WOODS:** And if the household is not getting income from that business, is there any other source of income they have - all those issues - or are there any other assets that they could sell, and so it goes on. We're certainly open to receiving more information, but it does become a very difficult argument to make, on household relief grounds, that somebody with more than three million would still be getting - - -

**MR DAVIES (RBDC):** We agree, and in principle we totally support the philosophy behind it, as Maree said, as we have done with everything there.

**COMMISSIONER WOODS:** What we were trying to do in part there was to put a floor in on the household relief side so that when times are tough, governments weren't then sort of looking around for something to do. They could say, "This program is in place. It's already there. We don't need to initiate anything else. We've got a platform for the farm households. If they do fall into strife, this is there and they can access it," so trying to take that reactive component out of the policy agenda. As I say, give us more figures, but it would be a hard sell to move beyond that.

**MR DAVIES (RBDC):** Yes, and we accept that principle because we think that's how you take the politics out of it. All of a sudden, a standover time has been what's really killed any movement forward. When the crunch comes, politicians being politicians, from any side, will bow to that pressure and nobody has actually walked through that barrier yet, and if we can create a system that allows that to happen I think it will be doing everybody a service.

**COMMISSIONER WOODS:** We do seem to be edging towards it, I have to say, without being overly optimistic.

**DR BYRON:** We interrupted you.

**MRS GOOCH (RBDC):** No, it's all about chatting. The minister of agriculture and food in Western Australia would actually like to comment after tomorrow. The submission that we did was in confidence because it was in a caretaker mode of government. I've had it from one of his officers this morning that he would like to comment in the next week or so, after tomorrow. He's meeting with our chairman tomorrow. He supports it. However, he just wants to follow through a couple of things. So that's a very good positive from that side.

**COMMISSIONER WOODS:** Yes.

**MRS GOOCH (RBDC):** As Dexter said, we'd like to give some detailed suggestions from a WA perspective. I've got them here, but they're probably easier for you to read afterwards. They're in the general gist of the whole thing, but it's just a few more detailed ways of tweaking it possibly for Western Australia if it's going to go on a state-by-state scenario.

**COMMISSIONER WOODS:** On that, what we're trying to do is twofold: create a national policy framework, and the household relief program would be nationwide, but that the business support side, the farm management training, the RD and E in that, would be crafted to meet the specific circumstances of the individual states, and even regions within the states, so what happens for your wheatbelt is different from what happens to your pastoral country, your wheatbelt is very different to the mixed wheat-sheep scenarios in New South Wales and all of those things. You'd have a common policy framework on business but you wouldn't have a common program. We'd like to flesh out in much more detail in this draft report the sort of business program that needs to be implemented. To that extent, your extensive experience in this field, for which we are very grateful, and some of the material that we're aware that you're compiling, is going to be very helpful in that respect.

**MR DAVIES (RBDC):** Is it the intention that EC is terminated in its present definition altogether?

**COMMISSIONER WOODS:** Yes. They've made drought go away!

**MR DAVIES (RBDC):** Yes. Are we going to talk about "dryness" from now on?

**COMMISSIONER WOODS:** No.

**MR DAVIES (RBDC):** In that context it's obviously going to draw a comparison to natural disasters, which is still going to be there for people to draw a line or comparison with. Has any thought been given to what type of natural disaster might qualify under something of this nature?

**COMMISSIONER WOODS:** We're very conscious of that issue because a cyclone is such a definable event and it has not only a front, a start point, but it usually has a reasonably definable end point or a frost or a locust plague, or whatever it is, whereas drought, as you well know, doesn't fit those characteristics. But, yes, there will come, from time to time, severe and in some cases extended periods again. We're trying to resist a natural disaster definition for that, which is why we're trying to put in place - get the welfare program there and operational, irrespective of circumstance.

But if there was some guidance you could give us on what sort of business programs could be rolled out more intensively during periods of extended drought or something, but without requiring a trigger that it is now defined as a drought and generating all the political expectations that that does, and then people having incentives to be in the drought area, not on the border, on the outside of the drought area - all of that problem that happens - if there was some way of being able to ramp up programs in those situations but without boundaries and borders and declarations and things, it would be helpful. I don't have the answer.

**MR DAVIES (RBDC):** Yes. My view is that it's probably not to do it in those times. Preventative medicine is obviously far better.

**COMMISSIONER WOODS:** Precisely; absolutely.

**MR DAVIES (RBDC):** And I'd be very supportive of increasing any assistance that is going to be out there into things, the equivalent of what used to be FarmBis or an upgraded FarmBis, business management and a full understanding of that, across the board. In fact I'd be very supportive of increasing those programs rather than decreasing them.

**MRS GOOCH (RBDC):** Is that like property management and scenario planning?

**MR DAVIES (RBDC):** Everything - all business management. In discussions that we've had about primary industry - and in another life that we've had about the fishing industry - it is just absolutely obvious that people that have prepared, from a business point of view, and understand those basic principles and aren't relying just on the goodwill of primary industry to just provide a wonderful life and think it's going to happen forever; the people that actually understand and have gone through those processes and planned - the percentage of those people that are surviving, as opposed to the percentage in the other group, is just staggering.

When you look people in the eye and try and say that it gets a bit tough, but if you step back and look, the stats are staggering as to how much benefit that educational process - and maybe that's where we should be focusing, as to how we communicate that, and how we get that to people without them feeling like we're being condescending to them, because that's a big - you're dealing with very proud people and their natural reaction will be to tell you that that's rubbish and they've got to where they are very nicely, thank you very much, and it will never happen to them. But it's really a communication process and how we deliver that to those people and allow them to participate in training at a very high level. I might be a bit careful here because I know the rural financial counsellors are a different breed in the eastern states.

**COMMISSIONER WOODS:** Yes, different.

**MR DAVIES (RBDC):** But it tends to be that the people most in need are accessing a level of advice probably at the lower end of the scale, as opposed to the people that are doing very well are accessing the best advice. Those people at the lower end of the scale probably need the wherewithal capacity to access that very good advice. I think if we can even do that to some extent that would contribute enormously to the reduction in the need for these sorts of programs.

**COMMISSIONER WOODS:** Our report is going to do the same. We try and resurrect the good old FarmBis and suggest that there be more expenditure in that area and you'd be supportive of that.

**MRS GOOCH (RBDC):** The RBDC has put a bit of time into looking at R and D in agencies, government agencies - CSIRO, Bureau of Meteorology, NAMS as you have - and there seem to be a few parallels. We believe that the education of primary producers on how to actually access, and then utilise and implement the information available is the most paramount. So there's a lot information out there - don't reinvent the wheel. If you need to spend the money, access it, which we're all



saying. But the education of actual interpretation of the models and strategies is almost like pulling it up, sort of thing. Instead of learning like that, they're actually pulling it up, and in here it is suggested reassessment, compliance and acquittal of any form of assistance. I think that would be a fantastic starting point for this scenario and property management planning, whatever you want to call it.

It may be a grant, but it's a hoop that you have to jump through to get to the next stage, and if you don't actually have that hoop many people will not get there. There are the top 25 per cent who will just go there anyway because they're driven and motivated, but there's the next 25 to 50 who just need that little urge, and the last bottom 25 per cent will be kicking and screaming but they will actually get there because they - I believe that is quite powerful.

**COMMISSIONER WOODS:** Good.

**MRS GOOCH (RBDC):** So we're sort of thinking along the same lines. However, the \$1500 cap on courses, most decent courses these days are about \$500 each per person. You know the Australian Institute of Company Directors, for example, is \$700 per whatever. Here in Western Australia, we, through what was FarmBis and we've continued it with our state support as well, we ask people to pay 50 per cent because we believe that people need to have some - - -

**DR BYRON:** Skin in the game.

**MRS GOOCH (RBDC):** Yes. I think to make sure that they're actually going to finish the job, sort of thing. So just that \$1500 cap, I think, maybe there's leeway for others.

**COMMISSIONER WOODS:** Yes.

**MRS GOOCH (RBDC):** Also if it's per business, that's three people done and dusted for the years, whereas you would hope they would be taking on an ongoing learning scenario.

**COMMISSIONER WOODS:** Yes.

**MRS GOOCH (RBDC):** We have a line item in our budget of \$2000 each minimum per year, and that's my husband and I.

**COMMISSIONER WOODS:** Yes.

**MRS GOOCH (RBDC):** And usually it goes over that. That's just a choice thing.

**COMMISSIONER WOODS:** No, that's a good point.

**MRS GOOCH (RBDC):** That's just an observation.

**COMMISSIONER WOODS:** Can I go back to the skin in the game, to quote my learned colleague.

**DR BYRON:** Technical term.

**COMMISSIONER WOODS:** Technical term. As a principle we support that quite strongly and we've built that into our draft report. We have heard elsewhere, however, that some organisations sort of take the 50 per cent contribution from whatever is the direct program and then sort of scurry around trying to find the other 50 per cent funding from other sources because that way they can get the farmers to turn up. The question is: is 50 per cent too big a hurdle and would 25 still achieve what you're trying to do of getting them to commit their own resources and to value it themselves, but more likely to get them in if they think that they're getting a good deal on a three-to-one basis?

**MRS GOOCH (RBDC):** You mean the primary producer pays 25 per cent?

**COMMISSIONER WOODS:** Yes, rather than 50 per cent, or are we just talking pedantics and fiddling around the edges?

**MRS GOOCH (RBDC):** I think you will probably get the lower 50 to 25 per cent coming up, but a lot of it may be production based. I don't know if it will be the management side of things. This is just historically - - -

**COMMISSIONER WOODS:** Yes.

**MRS GOOCH (RBDC):** I think we also need to be very, very careful of the providers and making sure they don't make the window big, which is already - - -

**COMMISSIONER WOODS:** A bit of rent-seeking on the way through, you mean, yes.

**MR DAVIES (RBDC):** That doesn't happen.

**COMMISSIONER WOODS:** A well-known pathway.

**MR DAVIES (RBDC):** Maree, if I could, I think it's a psychological issue here. It's not a money thing. If you're talking about a \$3 million business before you actually qualify, and you can't find 500 bucks for something that's probably the most important thing, we've failed in that educational process that I was talking about before.

**COMMISSIONER WOODS:** True.

**MR DAVIES (RBDC):** I think if you're going to put a lot of money aside, rather than give them the money, it would be better to spend it on an educational and communication process that demonstrates why it's important, as opposed to that. Because it's fresh in my mind, I can give you an example out of the fishing industry, where they can still clearly afford to do occupational health and safety courses as a requirement for their licence every year. We advertise it, we run it, we organise it in every port up and down the coast. We had none apply.

At a board meeting two weeks ago, we made it down from \$50 to free, and we got 200 applicants within a week, because it was nothing. \$50, and those are guys that have got four and five million dollar businesses. So it's clearly psychological; it's got nothing to do with capacity to pay, and I think that process, if we spent the money, try to get over that barrier because I don't think you'll trick enough into - just by paying half. As you say, they go off looking for other ways to not pay it. We need to educate them about the worth of the courses that we're trying to get them to do.

**COMMISSIONER WOODS:** That's even in a situation where with OH and S it's a sort of mandatory element of their licensing anyway.

**MR DAVIES (RBDC):** I don't know what it is. It's just a psychological barrier.

**COMMISSIONER WOODS:** How do you assess the relative weights of actually getting them there to get the information to them versus getting them committed to being there by putting in some money? Where does that balance come out?

**MRS GOOCH (RBDC):** If they really want to do it, they'll do it.

**COMMISSIONER WOODS:** True. But if you go from between zero and 200 people, the 200 people you educate if you offer it for free is better than not having any by offering it for 50 bucks.

**MR DAVIES (RBDC):** I don't know how you go about it. But I just think it's an interesting dynamic. It doesn't appear to be related to the cost or the capacity to pay; it's a psychological thing - "Well, I'm not going to do it if I have to pay." Yet they're probably still in a position to go out and buy a brand-new landcruiser, and probably have done the day before. I mean, that's not across the board.

**MR GRANGER:** Some people even want to be paid to be there.

**MR DAVIES (RBDC):** That's right.

**COMMISSIONER WOODS:** What about the argument that people value it for what it has cost them and, if they get it free, they don't value or take as much notice as if they'd had to fork out real money for that information.

**MR DAVIES (RBDC):** Absolutely. I think that's absolutely real. People go for the social experience when it's free, and maybe that's good. But in terms of value, my view is that it should be 50 per cent, and more money should be spent on a promotional and communication program to demonstrate the value that you would get out of it, so people understand. Unless we get that through, we've actually missed the point altogether.

**COMMISSIONER WOODS:** We're talking about programs that not only could save the farm business enormous amounts of money but in some cases be the difference between surviving and not surviving, and yet you've still got to basically hit people about the head to get them to come along?

**MR DAVIES (RBDC):** Yes. In these recent times since 2000, the most successful state program that was provided was exactly that: it was a \$5000 grant that people could take, and we gave them the money on the condition that they sought advice from their choice of farm adviser, and we had a group in the original one of an accountant, a farm adviser and a social worker. Not all of them worked well, but one group around the Moora district worked extremely well and had an extraordinary success rate in restructuring businesses, in succession planning the first time around that shifted people from believing that they were totally gone, finished, and by some very simple restructure they realised that they were actually doing fairly well. But they actually believed that, simply because they'd had a couple of bad seasons, the whole thing was over for them; some very simple restructures and a discussion with independent people that they had approached, and they're very viable farmers now. It was just a glaring example.

**COMMISSIONER WOODS:** Is there some way that that's been captured and that we could get that documentation? We know what the theory is and we know what in principle we'd like to achieve, but we also want the outcome and if how we're structuring things isn't achieving the outcome, then perhaps we need to swallow our theories and - - -

**MR DAVIES (RBDC):** A lot of this - and you've got a pretty constant theme from me - that advice, as opposed to rural financial counselling type advice, and that's where that's coming from.

**COMMISSIONER WOODS:** We separate the two, yes.

**MRS GOOCH (RBDC):** Historically, the RBDC has - in a previous FarmBis, it was 75 per cent that was covered, and there was a lot of usage of it. Then the rules changed a bit and there was 50 per cent covered. Really, the uptake was fairly similar.

**COMMISSIONER WOODS:** Okay.

**MRS GOOCH (RBDC):** I suppose a certain percentage were taking it up, but they're the ones that for themselves required the ongoing learning. You actually might catch that other percentage if you are going to offer it for free, so that may be the positive. But we'll certainly get some information of that example.

**COMMISSIONER WOODS:** Yes, whatever you can give us on that, because the theory is well trodden, but if it's not producing the outcomes we want - - -

**DR BYRON:** We need examples of successful programs that have actually worked well.

**COMMISSIONER WOODS:** And tell us what is their contributory structure and things, so that we can look at them. It's not one size fits all, but we need whatever examples there are.

**MRS GOOCH (RBDC):** One of the tweakings that we have got in this is that the interpretation of available information is going to be on a region-by-region basis. You mentioned that as well, but that was just reiteration. There is a lot of information out there. Maybe, instead of collecting the data again, agencies need to be aware and need to think a bit more laterally about things; not reinvent the wheel. There are a lot of papers on a lot of bookshelves that people have spent a lot of time, effort, money having done; maybe if we can all talk to each other a little bit more, finding out that that information is there, and not having to reinvent wheels.

**COMMISSIONER WOODS:** Could we get your views on that. One of the trends over the last decade or so has been for the DPIs to withdraw from the on-ground involvement, the ag departments, and for the financial consultants to be operating in this space. Is the public availability of the data that they generate as readily available as the days when it was the extension officers who helped with the field trials and the analyses and that, or is there some way of getting or of ensuring that the data that is generated is still in the public domain and is drawn on, so we're not reinventing wheels. You know, we have a common database that then everyone can benefit from and analyse and research.

**MRS GOOCH (RBDC):** I think a common database would be a fabulous idea. I think the information is there if you as Joe Farmer would like to access it. The extension still does go on to a point with the crop trials and so on. I have been an active farmer for the last 20 years and I believe that, if you want that information, you can go and get it quite easily, and the information is up to date and quite detailed. But if you don't know what you're looking for, where do you go? You may start at your local DPI office, but that information may be in a city library, city office library of the DPI. If someone is new, they don't realise. It's all about communication. So maybe to have such a database would be quite worthwhile.

**COMMISSIONER WOODS:** And electronic and available.

**MRS GOOCH (RBDC):** Yes.

**COMMISSIONER WOODS:** And also for somebody to be interpreting it regularly. There was mention this morning of a weekly email update of the situation in the field if you might be in, say, the north-eastern ag region: "All right, here's a weekly update on what the season is doing, what's happening next."

**MRS GOOCH (RBDC):** They come out monthly now and they're available on the web site if people want to access it, but not everybody does that, I suppose, depending on ages and stages of things.

**MR DAVIES (RBDC):** I think that's good and I think it needs to be developed. I'm a huge fan of the continuation of the development of NAMS - one, because I've been actually involved in it since the start. A bit of a free plug! But I just think, yes, databases and general databases and access to the information, online information, online benchmarking, is an untapped area in Australia that I've seen in other countries around the world, where there is an opportunity for people to actually access that. I don't think we've done it very well; certainly in Western Australia. The critical thing is having up-to-date information. If you rely on ABARE, it's a bit like relying on your accountant; it's good historical information to file away. But the

capacity is there, and I think NAMS could only still be considered as very much a prototype with enormous potential.

**DR BYRON:** Yes, much more potential than just determining what specific areas. It's far more powerful than that.

**MR DAVIES (RBDC):** We got lost in using the drought as an excuse to get the funding for it, rather than developing NAMS for what it should have been developed for, quite frankly.

**COMMISSIONER WOODS:** So if we were to write a few pages on up-to-date benchmarking with live data in that, you'd throw in some paragraphs to help us?

**MRS GOOCH (RBDC):** Absolutely.

**MR DAVIES (RBDC):** I think it's critical and one of the things that's been untapped, in my view.

**COMMISSIONER WOODS:** Could you give that some thought seriously? We'd like to put something in our final report on benchmarking. We don't mean "last year" and "by analysis". We mean: what are the best farmers doing this week in this region in these rainfall circumstances on these soils, and then have a live update benchmarking.

**MR DAVIES (RBDC):** People say it's too hard, but I can't imagine why you couldn't have at least four farmers from every shire in Australia updating that information online once a month, which would just give a spectacular database.

**COMMISSIONER WOODS:** And they be given some payment and recognition. It doesn't have to be much money, but just enough to say, "Look, we value what you're doing."

**MR DAVIES (RBDC):** Yes.

**COMMISSIONER WOODS:** "You're important to us. Here's a contribution to your effort."

**MR DAVIES (RBDC):** For service providers it would be spectacular. I've tried to get it for a long time, along with Bruce Thorpe and RBDC. I just think it's an untapped area.

**COMMISSIONER WOODS:** I could envisage a model starting to come about where we do put out to tender, in effect, to say, "All right, we want this bit covered. You put in a proposal to us. We'll pick out the best four. What you've got to do every week is put up a diary, in effect, of what you have done and what results you're seeing. What's your rainfall? What's the temperature? What have you sown? What have you crutched? What weed seeds and pests have you got and how have you treated them?"

**MRS GOOCH (RBDC):** Friday night at the pub.

**COMMISSIONER WOODS:** They do do it at the pub, but I'm talking about public information.

**MR DAVIES (RBDC):** Yes, a bit more sophisticated and modern-day. It's what we used to get the rainfall guys to do. They'd ring in with that; these days you log in. It would be exactly that: once a week, fill in probably a list of 10 critical things. It would build a very powerful database in a very short period of time.

**COMMISSIONER WOODS:** If you could tell us what those 10 or five or 15 critical things you think should be and how you would tie it into your embryonic NAMS database - so you'd have the coordinates and things with it - I can see a very powerful little section happening in our report. That can be a follow-up to the release of this.

**MRS GOOCH (RBDC):** I do have a comment. If EC is going to be finalised for 2009-2010, I think the word needs to be out there fairly soon so that people are preparing. This is almost a catalyst for preparedness and I'm sure it's not far away. I've just recently had an eight-month journey around Australia with my family and I've been back about two weeks. I was recently in Victoria. We visited farmers quite a lot around the place, and a farmer we were with sort of woke up one morning and thought, "Ooh, I think I qualify for EC" - dryland farming in an irrigation area, doing quite fine, thank you - but, "Ooh, I might qualify, so I think I'll just go to the rural financial counsellor and she'll fill the forms in for me, because it's all too hard for me." This is a 35-year-old smart person. I had to go outside; I just had to walk away. I just think it's an opportunity for people to start thinking and getting in their hands the adaptive processes that are going to be required now for down the track. It will be a shock and there will be, I'm sure, a huge fallout, but they've got to get their heads around it, so enough lead time I think is very important.



**COMMISSIONER WOODS:** On that lead time, we are conscious that Minister Burke and some of the state ministers have reiterated that they won't be pulling the plug on EC as a concept straightaway, that those areas that are in EC can still be eligible for review and renewal of their EC declaration if they fit the circumstance. So what we're looking at are some ways of ensuring that the EC criteria are rigorously applied and that those who are eligible get actively case-managed so that they either do get pulled up and find themselves viable or that they realise that there isn't a future in farming for them and they stop writing down their equity to a point where they really should have gone earlier, to try and bring it to a close as quickly as possible, and we agree that the sooner that information and that understanding gets out the better.

**MR DAVIES (RBDC):** This is probably a Dexter Davies statement rather than an RBDC one. There is a concern in this short time frame that obviously the Murray-Darling Basin is not going to get out of its current situation by 2009-10, and there are going to be a lot of people in there that think that's an exceptional circumstance and it will get exceptional treatment, where the rest of the country might be seen to be able to cope without EC. That's something that you might want to put your minds to in terms of equity across the state, because, regardless of whether it's being eastern-state-centric or otherwise, the Murray-Darling Basin is a huge problem and it will be associated with drought as the cause of it. Whether it's entirely the drought's fault or not is probably debatable, but it probably is, and that will add complications as to how you make that transition, I think.

**COMMISSIONER WOODS:** Yes. Good point.

**MRS GOOCH (RBDC):** But anyone has just got to go to the Coorong and see the consequences.

**COMMISSIONER WOODS:** I know. It's not pretty. We take that on board. Thank you.

**MRS GOOCH (RBDC):** Interestingly, when I was in Cooma - - -

**COMMISSIONER WOODS:** The Monaro Plains now. If you want permanent drought, go to the Monaro Plains.

**MRS GOOCH (RBDC):** It is an interesting place. New South Wales legislation until 2009 says that the seed rain study that they are doing can only fall in the form of snow. I believe it's silver iodide that is used for the seed rain. Because there was no snow, or not much, last year - I think there's a bit more this year - is that a consequence of the flows of the Murray-Darling? This is way down the track, but is there something - the six-year study finishes at the end of next year. Is there something there as a possibility for going to using seed rain? Can it come in the form of rain, not snow, so you don't have to wait for it to melt before it comes down? Are we tweaking too much with nature? That's a question we must ask. But that was just one thing that hit me when I was standing in the Snowy hydro building. But it is New South Wales legislation, so it's not federal legislation.

**COMMISSIONER WOODS:** No, although we do span state as well as federal.

**MRS GOOCH (RBDC):** The only other thing is, I think you should charge more for water. Water should be charged more. It's a mere \$3 for a three-month period of everyone having 15-minute showers. If it was \$1000 it wouldn't happen. Do you have much more to add, Dexter?

**MR DAVIES (RBDC):** No. I conclude my statements. I think you've incorporated the issues that we found peculiar to WA very well, and thanks for that. It's not been as easy as that for the last eight years, I can say. I think the direction is right. I have got some concerns, as everybody has always had, in terms of the transition, and obviously that's always been the rider: when it's all fixed up and it's rained and we've got some good conditions, we'll start off on the new journey.

Unfortunately, the good conditions haven't turned up for eight years in a row, which has prevented the new journey from starting in a lot of areas, which has probably been, in hindsight, a mistake. But the effects of the social impact I think in the regional areas right across Australia - I don't think peculiarly to any one state - are enormous, and I think that's the biggest effect of droughts or exceptional circumstances, or what anybody wants to put on it, over and above the business effects.

I think we've got a very sophisticated financial system. It can be a bit harsh on individuals at certain times, but that's no different for farmers than it is for small business people, or for anybody. I think the water does find its own level in regard to the financial system, but the social structure in regional Australia will find itself in new territory as a consequence of the last six to eight years, without well-proven systems or studies, because there is a complete lack of that understanding across

Australia. I think we need to be very careful as go forward as to how those people - the people and the communities - cope, as opposed to the financial issues in their own right, and how we manage that transition.

**DR BYRON:** Roger O'Dwyer this morning, I think it was, suggested that a lot of the solutions to rural communities may lie in something other than agriculture, and the point we were trying to make in the draft report is that a trickle of money coming in in drought relief during droughts, which are hopefully one year in three, five or seven, doesn't prevent all the out-migration from little country towns that happens even in the good years. So if you actually want to stabilise or make rural communities interesting, dynamic, viable, vibrant places that people want to live in, it might require something other than just agriculture.

**MRS GOOCH (RBDC):** I wholeheartedly support that.

**MR DAVIES (RBDC):** Absolutely, and we'd support money actually, if you going to put it in there, to allow the opportunity for something to do it a different way. Even if it is agriculture, it needs to be - well, the line that I use is that there might be farming in those areas in 20 years' time, but it won't be the same way as it is now, the same as it's progressed - and probably the requirement for that to exponentially move on to the next way that it's going to be farmed or that there are going to be businesses or opportunities, that needs to be promoted as well in terms of creating a viable community, because, if anything, there is probably evidence to say any endeavours to be very supportive have probably slowed that process over time by maintaining some of the practices that probably weren't as good as they should have been. So we support new ways of doing it there. We are very supportive of any investment to create new opportunities in regional areas.

**MRS GOOCH (RBDC):** In the draft inquiry report, page 28, XXVIII - - -

**COMMISSIONER WOODS:** Roman 28.

**MRS GOOCH (RBDC):** I just wanted to clarify - - -

**COMMISSIONER WOODS:** "Assessment of current programs"?

**MR DAVIES (RBDC):** Yes. It says Western Australia didn't pursue "any new".

**MRS GOOCH (RBDC):** The third paragraph.

**MR DAVIES (RBDC):** That might be right in terms of "new", but we had applications in.

**MRS GOOCH (RBDC):** Extensions of application.

**MR DAVIES (RBDC):** I'd be surprised if that is the case, because I've been employed continuously for six years.

**COMMISSIONER WOODS:** This is in relation to the interim declaration.

**MR DAVIES (RBDC):** Yes, the famous September - - -

**COMMISSIONER WOODS:** September 07.

**MR DAVIES (RBDC):** Yes, whenever it was.

**COMMISSIONER WOODS:** Did some of those interim declaration areas proceed to full declaration?

**MRS GOOCH (RBDC):** They were continuations.

**MR DAVIES (RBDC):** No, because the only areas that were going to be in EC ever in WA were already in a process. The interim ones, in my view - for instance, Dowerin qualified for it, where they had about a two-tonne crop, and Trayning, which was 40 kilometres to the east, where it was absolutely dead bare, didn't qualify under the interim situation. That interim announcement was probably one of the biggest debacles in the whole scenario.

**COMMISSIONER WOODS:** I think it helped seal the fate of the system.

**MR DAVIES (RBDC):** At least it was very clear that it was a stupid way of doing it.

**COMMISSIONER WOODS:** We want to get it exactly right.

**MR DAVIES (RBDC):** I think everybody saw that for what it was, without putting too fine a point on it.

**COMMISSIONER WOODS:** The Tasmanian minister for agriculture very clearly expressed his views on it.

**MR DAVIES (RBDC):** And from a business support point of view, I think we've still only had, in WA, 12 altogether, yet that would have taken up, in the time that I've been doing this - and public meetings; it would have taken up 20 per cent of the time at every meeting how you've got to get business support because they were missing out, and simply by saying businesses can qualify now, everybody said, "That's fantastic."

**MRS GOOCH (RBDC):** Three applied.

**MR DAVIES (RBDC):** Three applied and nobody talked about it again. So you'd have to wonder whether it was really an issue, other than a philosophical issue.

**COMMISSIONER WOODS:** "Philosophical" broadly defined.

**MR DAVIES (RBDC):** Very broadly.

**MRS GOOCH (RBDC):** Did you have any questions, apart from the notes that we've written down, of anything that we could provide for you?

**COMMISSIONER WOODS:** We have certainly trawled quite extensively, and I have to say we thoroughly enjoyed reading the preliminary material that we have before us, so we're looking forward to that reaching its final conclusion. I know mine is scribbled all over. From my point of view I'm satisfied (a) to get this, (b) to have your additional notes, but also those couple of follow-up areas that we've talked about today. Neil, have you got others?

**DR BYRON:** I guess my only question was: did you think of anything important that we'd left out or overlooked?

**MRS GOOCH (RBDC):** Only our comments. I spoke to the chairman this morning and spoke to a couple of the other directors as well. Dexter is here, and myself, and as I said in the beginning, we think you've done a jolly good job of being all-encompassing, and if there is any way we can support you, we would like to do that.

**MR DAVIES (RBDC):** I think one of the issues that you might spend some time trying to explain clearly is - and it's quite difficult - you would have heard a number of people around Australia and in Western Australia say how important that business support was to them in the time of drought, and with real passion.

**COMMISSIONER WOODS:** What do you mean? The interest rate subsidy?

**MR DAVIES (RBDC):** The interest rate subsidy.

**COMMISSIONER WOODS:** Yes.

**MR DAVIES (RBDC):** And I'm sure there probably are a number - not a huge number, but a number where it was important. You might need to just explore whether that was the reason why they got through or whether they might have survived anyway, and whether that's what the public funds should have been used for or whether those public funds should have been directed to some of the other things we've talked about in terms of community and the people involved, rather than the businesses.

**COMMISSIONER WOODS:** We could look to phrases like, "Significant liquidity injections into vulnerable farm businesses facing drought may be a contributory factor to them continuing in farming, where the best business decision is maybe to realise their assets and reinvest elsewhere," or some other sorts of phrases if they were to come onto a public record. I think that would be very helpful. I look forward to being able to quote such things.

**MRS GOOCH (RBDC):** I'm sure we'll know more after tomorrow. But thank you very much for your time.

**COMMISSIONER WOODS:** Bob, did you have one?

**MR GRANGER:** No. I just appreciate the effort that's gone into it and also, for the purpose of the public record, thank Dexter personally for his escort duties and the wise counsel we received en route.

**COMMISSIONER WOODS:** The support individually and collectively you have given us has been very helpful, and there is a wealth of material, and as I say, well pored through. Thank you very much.

**MR DAVIES (RBDC):** Thank you.

**COMMISSIONER WOODS:** We will have a brief adjournment and then we will call our next participant.

**COMMISSIONER WOODS:** Our next participant at this hearing is AACL. Could you please state your name, the position you hold and the organisation you are representing.

**MR McBAIN (AACL):** Yes, Andrew McBain, managing director, AACL.

**COMMISSIONER WOODS:** Thank you very much. You've supplied us with some background information, but perhaps you could make an opening statement to outline the points you wish to make to this inquiry.

**MR McBAIN (AACL):** Sure. I appreciate your time. I only actually heard about it yesterday which is funny, given that we're the only product in Australia that provides multi-peril insurance to farmers.

**COMMISSIONER WOODS:** We heard about you six months ago.

**MR McBAIN (AACL):** I just found out. I just saw there was a bit of a paragraph in the report. We've spent a fair bit of time travelling across to Canberra and seeing the previous federal government about the model. I haven't been to see Minister Burke, as yet. I thought I'd let the dust settle, let the grey marketing issues get out of the way, and that sort of thing.

Basically, AACL is one of a number of companies of a group. We look at ourselves as a funds manager, agricultural investment business. AACL started in 1997. It came out of an accounting practice that I was involved with, with my father in Perth. My mum is from Wyalkatchem and my grandfather was a wheat farmer. So I grew up in the city because Mum went on to be a nurse - that's the normal sort of thing that happens - but I used to go up pretty much every holidays. I think it's in your blood and you get into that. My background is accounting. My father was pretty passionate about agriculture. We had a number of agricultural clients and looked after a business called Anna Plains Cattle Co, which is a million-acre station out of Broome.

It started off with theorising, you know, with a beer on a Friday afternoon sort of thing, about issues facing agriculture. The two biggest that we saw were production risk, which we don't have a mechanism to protect in Australia, and access to capital. I think access to capital is actually probably the biggest issue facing farmers, more so than drought, because limited access to capital makes people do things that they probably shouldn't do on their own. I'll go into that shortly. So we looked at different models, and we looked at corporate farming and all that sort of thing, and we came to the conclusion that corporate farming - and even currently it's

our philosophy - for grain anyway simply doesn't work in Australia. We still think that the best people to operate a farm is a family operation, so we've gone about developing products about the family farmer.

After a couple of years of work, we decided that a sharefarming scenario - an extension to sharefarming was the best way to get a fair result for investor and farmer, and it would also do some other things: it would keep the farmer on the land and it would access that huge amount of expertise that they've got. So from 1999 through to 2004 we tested a model, whereby we got some of our clients together and put some money together, and we went out to farmers. They provided the land, the equipment, the input and the expertise; our investors provided the capital for the cropping on a defined area of the farm. The investors bore 100 per cent of the risk on that area of the farm. If the crop failed, the farmer didn't pay the money back. It's not a loan.

So we developed that for about five years and then in 2004 I decided that accounting really had knobs on it and I wanted to focus on this business. So I got some money together and, with family, friends and associates - it was basically myself, and from then to today, so since 2004, we've now got about 50-odd people, mainly in Western Australia but we've just expanded into the eastern states. So we now have about eight people regionally in eastern Australia, and we have an office in Melbourne. Our main operation is in Perth.

Our main product is what we call the Grain Co-Production, which is the idea of raising investor funds and placing it with farmers. It's been a bit of a journey to get that model to work. It's fair to say that farmers and investors probably want opposite things: farmers want to be paid more, investors want to pay less. You've got to strike that balance of risk return. That's where most of our time has gone into developing that model. It's not perfect and it never will be, but it's getting pretty close to being where we want it. The key for us is getting size and diversification because, although the investors wear the risk on an individual area of the farm, what we do is we pool every location and then we manage and market that pool of grain, and the investor and the farmer shares in that outcome.

The base-level return we're looking to achieve to investors is about 8 per cent. That over the last few years is not a terrific return, but it's looking pretty good at the moment. So the key for us is to get size - - -

**COMMISSIONER WOODS:** Is there an upside on that 8 per cent, though?



**MR McBAIN (AACL):** There is some upside, yes; possibly up to 12, 13, 14 per cent. There's not a huge upside because of the way that we've developed the model, but we've got a level of protection on the downside. Effectively, the farmer gets 90 per cent of everything above a value. We work on values, not on yields, because yield doesn't tell the full story.

**COMMISSIONER WOODS:** This is a financial product.

**MR McBAIN (AACL):** Let's compare it to what the bank does. This year we raised \$65 million and placed it with farmers to grow crops. All of that capital was unsecured and non-recourse, meaning that we did not take a lien or a mortgage from the farmer - we advanced them, in some cases, three or four million dollars for them to provide land, put the crop in, manage it, harvest it, and deliver it into our grower count. Again, it's unsecured and it's non-recourse, so if the crop fails they don't pay the money back.

With the bank, the farmer accesses an amount of capital. He will secure it against his assets. When he secures those input costs against his assets, he can't do anything else. It's coming back to this restriction of capital issue. With the bank, as his crop is coming off, he's paying off his capital. He pays off his interest and, hopefully, there's something above that, and that's his profit. On our side, the same thing: we advance an amount of capital. Hopefully he's paying that off as the grain comes in. There's an interest cost which is effectively the investor return, and then the farmer earns above that. The key difference with ours is that we don't tie up his assets for him to access that capital and, if he only gets that much back, he doesn't pay the balance back.

We've had two droughts here in Western Australia, the last two years, and we've still managed to achieve a positive return to the investor. It's a combination of good management and probably a little bit of luck - the smaller you are the more exposed you are to those sorts of things, but we've come through that. We're looking at a pretty good year this year. We're probably around a 10 per cent plus return.

**COMMISSIONER WOODS:** So that's 10 per cent plus to the investor, plus - - -

**MR McBAIN (AACL):** To the investor.

**COMMISSIONER WOODS:** - - - upside?

**MR McBAIN (AACL):** No. That will pretty much be their return.

**COMMISSIONER WOODS:** That will be their take.

**MR McBAIN (AACL):** It will pretty much be their return. Then the farmers of course will get whatever is above that for themselves.

**COMMISSIONER WOODS:** Sorry. That was the upside bit I was talking about. Will there be much additional return to farmers over and above that - - -

**MR McBAIN (AACL):** For most of them, yes, they'll have a significant return above that. If you look at it from a return on capital basis, which is how businesses should look at things, whilst on a cash flow perspective - perhaps if you turn to this, it will help to best illustrate it. If you turn to that document there, you'll see - what our model does is that it's an insurance policy. It's not supposed to be something that is going to make the farmer extra money. It's a bit like farmers who hedge, thinking they're going to make extra money. It's not a profit-making instrument; it's a hedge instrument.

The same thing occurs here. All Grain Co-Production simply does is that it costs the farmer a little bit more in an average or above average year. In a bad year, he's got a little bit of downside but he hasn't got all the downside; the investor wears that. But we have an investor pool. The pool hopefully absorbs those individual losses, because hopefully we've been good enough to spread our pool across a big enough area, and of course our investors in our pool aren't in agriculture. It's just an investment to them. It doesn't have the same impact to them if we have a poor season because they've got other incomes, other assets - all the rest of it. It has a big impact on an individual farmer.

I've heard the NFF and I've met all these groups before and they're sort of toothless tigers in a way. They talk about: "We need a system that the farmer puts a little bit away each year so that he's got a pool withdraw fund in drought." This is exactly what this model is doing. He's giving up a little bit in a good season; in a poor season, he's spread that risk to a pool of people spread across potentially the whole country - we're now into Bali in canola, as well, and it's with parties who aren't - in a poor agricultural season, it's unlikely it's going to correlate with other things that they're actually involved in, because investors aren't from agriculture.

We've grown rapidly. I didn't have much time to prepare that document, but in 2004 we had four farmers and we invested about 550,000. That's on page 1 of the document you might have seen come through last night. That's just rapidly grown. The actual restriction for us has been farmers as opposed to capital to date, although capital potentially is going to become quite hard. There are two reasons for that: one we know is the financial crisis - that's life. The other one is that our avenue to our

traditional market to raise capital is being cut off at the knees. We raise money from the agricultural MIS sector. Okay? Most farmers don't like agricultural MIS; I'm not a particular fan of most of the products either.

What I can say about our product is - turning to our background document - that there is a letter of support for our model from every farm organisation in Australia. So I've met them all; been to various committees, explained the model, explained it's an MIS, but explained the differences; the key differences being that we don't grow any more of the produce that's already been grown - the farmer is going to grow it anyway - and we don't replace the farm, and effectively we're just sharing the risk, sharing the wool. Because of that, I think that's a real model for agricultural non-forestry MIS.

There's an ATO test case occurring on that at the moment, so we're going to wait to see how that goes as far as what we do in that market. But certainly it's an important market for us because it's been the only market that raised capital in Australia. I've caught up with various politicians - Bill Heffernan on all those sorts of things. He says, "I like your project but I don't like it being an MIS. Go and raise money from superannuation funds."

**DR BYRON:** Does it need to be an MIS?

**MR McBAIN (AACL):** It's just the legal structure. This is the thing I've explained to people. MIS is not created for agriculture. Agriculture is a tiny bit of it. MIS covers property trusts, it covers bonds, it covers interest funds; it covers all sorts of things. Agricultural MIS is a tiny, tiny part of it.

**DR BYRON:** Perhaps the most controversial part of it.

**MR McBAIN (AACL):** Absolutely - market distortions and things.

**DR BYRON:** Not only through agriculture but also the forestry MIS's which are still there by the way.

**MR McBAIN (AACL):** Sure.

**DR BYRON:** That's what brought MIS into the headlines, so to speak.

**MR McBAIN (AACL):** Yes.

**DR BYRON:** Not the other non-agricultural - - -

**MR McBAIN (AACL):** Sure. Perhaps if I could also draw your attention to the other differences. When you go into a forestry MIS, the investors get an up-front tax deduction to income that won't occur for 15 or 20 years. We're just a sharefarming arrangement. In fact, I can go out and go Grain Co as an individual with any farmer. There's no law stopping me from doing that. All I'm paying is his input costs. Sharefarming is not new, right?

**DR BYRON:** Sharefarming has been going on for a couple of thousand years.

**MR McBAIN (AACL):** If I do it with less than 20 parties, I can run Grain Co-Production in the same model. If I do it with 21 parties, it's an MIS and I can't do it. So it's ridiculous. The other thing as well is that the investment that the investors make only goes into input costs and, because of the short-term nature of growing crops, within six or seven months we've got income coming in. So we invest, the investor gets a tax deduction. That money that we invest for the farmer is income, so the matching principle for tax is observed.

In six months' time, the income comes out to the investor as crop proceeds. Guess what? Farmers have averaging, FMDs, family trust structures. They don't pay tax on their grain - not many of them do; not a lot. Investors don't have FMDs, averaging, so when our income comes through to our investor, which does in a very short amount of time, they pay - for most of them - the top marginal tax rate on that wheat income.

**DR BYRON:** So that the joint venture, or the sharefarming, actually increases the overall tax revenues - - -

**MR McBAIN (AACL):** Yes.

**DR BYRON:** - - - because there's no increase in deductions but there's an increase in tax liability, tax payments.

**MR McBAIN (AACL):** Yes, absolutely, because you're getting guys off the FMDs - they're not putting that money into FMDs and I think it's because the investors have now got that income and they're paying a higher rate for it. At the very worst it's revenue-neutral, it's more than likely revenue-positive. I would have thought that Treasury should want as many investors growing grain as possible.

**DR BYRON:** But it is very different to the sort of MIS's that we see in nuts and - - -

**MR McBAIN (AACL):** Massively different: no market distortion - - -

**COMMISSIONER WOODS:** No front-loading of management fees.

**MR McBAIN (AACL):** If you look at our costs, 95 per cent of the money we raise goes into the ground in actual input costs. Our commissions: we pay advisers at 4 per cent, not 12, 15. There are not big margins in grain and, because we've got two parties - most MIS's also have one manager where they've bought all the land, they've gotten rid of the traditional owner; they're doing the whole lot. We can't do it as well as a farm. We couldn't employ as many managers to do it. So we've got a farmer that we have to each season be judged from and an investor we're judged from. So it actually works very well. And I've got great support across both sides of politics, but I've been waiting to see how the ATO test case is going to come out.

But we all move on and raise money from other areas over time, and when I first went to institutions and that sort of thing they said, "Look, we love the concept but you haven't got any size, you haven't got any track record, you haven't got any liquidity. Go away and get it." So that's what we've done. So we're now four years as a public offer; we haven't made a loss, even though we've had some pretty terrible losses from individual farmers in the north of WA in the last couple of years. We've now got size: we're the largest grain production business in Australia by a long way; we'll produce 350,000 tonnes of grain this year; next year, if we can raise the money, it will go to about 550.

This was actually from another paper that I put in a while ago, because when I heard about it yesterday I scrambled around looking for something I'd already written. What we'd like is that, rather than having - I don't believe in EC, because no-one puts a gun to someone's head and says they should farm.

**COMMISSIONER WOODS:** No. Quite true.

**MR McBAIN (AACL):** I think there's a market solution. The market solution is that, if you can attract investors for a model like our model and if there's support for our model other people will come into the market - there's no doubt about that. We don't want the whole market. What we do is that each offer to the farmer is priced differently, according to their volatility, to their records, to all sorts of thing. But, equally, if the house keeps burning down, like any insurance product, it gets more expensive, and if it gets to the point where a farmer is blatantly not able to manage or just happened to be in the wrong area now for growing grain, the market decides whether there should be a farmer or not because they don't get access to the product.

**COMMISSIONER WOODS:** Same with the banks.

**MR McBAIN (AACL):** Exactly.

**COMMISSIONER WOODS:** Will they get funding or not?

**MR McBAIN (AACL):** So what do we need to continue to do that? Well, the tax deduction is not why the investors are in it. You know, if you want a tax deduction, don't own the charity. They're in it to make a return. The tax deduction helps them get past the mental images that we see of agriculture every day, which is farmers talking about drought, kicking dead sheep - all that sort of thing. The tax deduction at this point in our cycle is important to us, but in another five years' time when we've got substantial size and more of a track record and we're able to raise money from platforms and superannuation funds and institutions, it's probably not going to be. In fact, MIS is quite expensive for us to manage with individual investors and that sort of thing, but it's our way of getting to the next stage. It's just so important to us at the moment. So we'll continue to go because we have capital, but our projects at the moment only run for three years; we'd like to run 10 and 15-year projects, structure the products differently to farmers, for long-term underwriting capital for them. We would like to hang onto that deductibility.

The second thing is that we've already demonstrated in a short period of time that if you've got your pool managed right, with the right level of risk or right level of premium attached to each farmer, as a pool model, you can actually achieve - we haven't lost capital yet. We can't go out there and promise blue-sky returns because they're not there. We can promise maybe an 8 to 10 per cent return - is what we're aiming for. That's not a huge return but it's a solid return. If we could get an underwriting mechanism for our pools, whereby we pay a commercial insurance rate to cover just the first 10 per cent of capital loss and then beyond that, that's our risk or we try and offload that risk with - a bit like the way it works in the States, in that the government takes the first amount - they actually take the first amount of a loss of income as opposed to loss of capital, from my understanding, and then private industry comes in, like a mezzanine-type thing underneath it.

We're interested in developing a multi-peril model for our pools. It's unlikely that it's going to be called on if you've got the right spread, but it gives the investors more confidence to take the 8 per cent return because their perception is, "8 per cent. Agriculture is risky. I want 15," and I've spoken to groups like Macquarie. They're expecting to get 15 per cent out of their agricultural funds. I've said I think they're dreaming.

**COMMISSIONER WOODS:** It's called the risk premium.

**MR McBAIN (AACL):** So that's really what we require. That's the charter of our company. We've got other funds management business in there. We've now got a grain marketing arm. Just out of interest, let's say the average cost of our product to a farmer in an average to good year - let's say it's 10, 12 dollars a tonne - well, markets have been moving in \$25 a tonne things over the last 18 months. Option costs \$40 a tonne, just to protect your price - and higher. It's about not one season; it's about what the model does over a period of time.

But this year, for instance, our grain marketing pools - and it's something that we're getting better and better at, and we're partnering with bigger partners to help us with it, as we're getting size - that we've run for our farmers in the project are probably \$20 a tonne ahead of the market at the moment. If you add back that \$20 a tonne premium that we've got for our farmers who've participated in our project this year, they just got their insurance for free. So they got multi-peril insurance for nothing this year. Does that make sense? Because we've outperformed what they would have done themselves, there's an extra \$20 a tonne they're getting because we've got the time, the focus, the expertise to get those prices. You add that back to the cost of being in the project; they're actually in front, a lot of them. So that's a key to the development of the model.

The other thing we're doing is that we're using our size to negotiate input costs, so again it's about reducing their costs at one end by using size. It's creating value at the other end, with the grain marketing, and it's about sharing the risk at an individual level with other people who aren't involved in agriculture, through the grain product. We're trying to develop a land fund. We almost got it away this year, but the market has beaten us. Again, the idea of that land fund is that we buy land off farmers, lease it, 15-year terms. They actually leave some capital in the farm at 15 per cent and for that they get a share of the capital growth. What that model is that it frees up their capital to invest out of farming. So you combine that with the Grain Co model - one of the biggest issues with farming at the moment is the cost to get into it, or to continue to stay in it. We've got a model where they can leave a minimal amount of capital at risk, continue farming. They give up something, sure, in a good season, but they don't have all that downside protection.

The last point to consider is that we've got a carbon business that we listed in May called Carbon Conscious, and that's planting native trees on agricultural land that is not conducive to growing crops.

**COMMISSIONER WOODS:** Go back to the mallee.

**MR McBAIN (AACL):** Back to the mallee, or we're looking at pongamia and we're looking at all sorts of future biofuel crops, et cetera. I'd love it if we could put some money into a TT mustard. There's TT canola, which means you can spray atrazine and - I can't think of the other one. You can't do that with mustard, therefore farmers won't grow it. Mustard is a potential fantastic crop for biofuel.

But with the carbon program we're actually freeing up dollars for the farmer, so they're now going to their worst paddocks, which happen to be the best paddocks for growing mallees, and we effectively buy that land off them. We're raising capital from large emitters. The farmer has a number of options. We can either, effectively, buy it off, plant it. He's freed up a heap of capital to go and buy some better-producing land, to go and invest off farm. Or we have a model where he can vend his land in, we'll pay the plantings and we share the carbon in a joint venture. That just gives you a bit of a brief overview of the things that we're doing.

We do need some assistance on the Grain Co model, because non-forestry - the previous government just put a line in the sand and said, "Everything on this side, forestry. Well, that sounds good. That'll keep the greenies happy. On the other side, it doesn't matter what you're doing, whether you're viable or not, whether you're a good idea or not, you're out," and that has an impact on a productive basis.

**COMMISSIONER WOODS:** Could I go back to one of your first statements. What you were saying was that a lot of Australian farmers are seriously undercapitalised and that's what makes them very vulnerable to any sort of external shock like black rain. What Grain Co-Production seems to be doing is bringing together urban investors who have both the capital and the appetite for risk with people who are undercapitalised and would like to lay off some of the risk, so that seems like a pretty natural fit to me.

**MR McBAIN (AACL):** And it's been working well.

**COMMISSIONER WOODS:** What I didn't understand from the information we got last night was why you needed some sort of government involvement in this at all, given your spectacular growth over the last few years and the natural logic of it.

**MR McBAIN (AACL):** As I said, the next issue for us is going to be access to capital ourselves. We're getting to a size where the retail market is not big enough and we need to go to larger institutional investors, but institutional investors, especially in Australia, have a real issue with agriculture. They call it an alternative



asset, which is quite interesting. So what we have been trying to develop is an underwriting mechanism, a capital protection mechanism for the pool, to justify the lower return that we can generate.

**COMMISSIONER WOODS:** But if you were trying to structure that underwriting on a commercial basis, presuming that government wouldn't want to be in it other than on a commercial basis, then why should government be in it anyway? Why wouldn't you develop that product separately commercially?

**MR McBAIN (AACL):** Well, we're trying. We're trying, but my point is that you're outlaying a billion dollars a year. For a product like ours, I could see us funding anywhere up to a billion dollars in crop productions or models like ours - funding - whether it's ours or not, and what I'm saying to you is that we pay a commercial rate for an underwriting mechanism that only covers the first 10 per cent of the loss, so your maximum cost in any one season is known as opposed to being endless, and it's unlikely it will be triggered in most years. You should be generating a revenue like a normal insurance company.

**COMMISSIONER WOODS:** But why therefore government? Government doesn't get involved in commercial deals because government is not good at doing commercial things.

**MR McBAIN (AACL):** Because it's in your interest to. Because it's a cheaper mechanism than what you're doing now. And what it allows you to do is, it allows us to go out there as the market and decide who should be farming and who shouldn't, because the market will decide if that land or if that farmer is viable.

**COMMISSIONER WOODS:** Absolutely.

**MR McBAIN (AACL):** That was just a paper that we threw out there a while ago. We'll continue looking for our own insurance mechanism.

**COMMISSIONER WOODS:** The model you've got is impressive, I have to say, and it will live or die according to whether people are getting the returns they want from it, but you are developing a quite neat fit between your investors and the farmers and their capital shortage, so we are quite supportive of that. We are just having trouble understanding - - -

**MR McBAIN (AACL):** As I said, this was a paper that I was asked to put together. I only found out about coming here yesterday. I grabbed it, looked at it and thought, "Oh, yeah, I'll chuck that in." But the bigger issue for us is hanging onto the tax deductibility for the planting costs. Over time we'll get our own underwriting model. That was just an idea.

**COMMISSIONER WOODS:** Yes, okay. We'll put that onto - - -

**MR McBAIN (AACL):** We've already had an MI sector, and it may well lose a test case, but there's plenty of evidence to show that you can be a sharefarmer and contribute by contributing to the cost of production. There are no capital costs in our project, we're not asking for pre-payment, and an income comes around in six, seven months and it's going to have tax on it at a higher rate than the farmer. If we can continue with that scenario, then we can continue to grow at the exponential pace that we're growing at now and we can continue offering the model to more farmers. If we can't have that, we'll still keep going, but we certainly won't be rolled out and we certainly will have less appetite for risk. So what we'll do is focus on farmers who are lower-risk and who want to access our cash flow to grow their business, and the guys who are a bit higher-risk, we'll probably stay out of those areas. That's just the reality of it.

**COMMISSIONER WOODS:** That's probably not a bad commercial approach.

**MR McBAIN (AACL):** But the thing is, those guys in the lower - it's assist insurance. You charge different insurance levels for different types of risks.

**COMMISSIONER WOODS:** Yes, different premiums.

**MR McBAIN (AACL):** And in some years, like a year like this, we make a lot more. We might make 18 per cent out of a certain farmer this year. We might lose 20 per cent another year. Hopefully, over a period of five, seven, 10 years, we come out at, on a pool basis, our 8 to 10 per cent return. That's the idea.

**COMMISSIONER WOODS:** And the incentives of both parties seem in this particular model to be reasonably well aligned - that both have an interest to maximise the outcome - and there presumably isn't much opportunity for the farmer redirecting their interests into where they have 100 per cent upside, because they will still get some upside.

**MR McBAIN (AACL):** It's not in their interest to, because the benchmark that's set is quite reasonable and they get pretty much - and going forward, it may be 100 per cent of everything above that mark. The reason that's like that is that it's a moral hazard issue, and that's the issue with your crop insurance. You only get the guys who really need it to use it. The other guys say, "Look, it's not necessary for me." By incentivising the farmer like that, then you've got a better chance of getting a better outcome. If we're providing cheaper input, which is the plan, we're helping with their grain marketing, we're providing other - maybe with carbon, maybe it's the land. It's about creating value, because you can never get past the fact that we can't

stand there with a shotgun looking at every load of grain that comes in. That's a risk. Most farmers are honest. You always get - but you weed those guys out and you absorb them in the pool.

**DR BYRON:** There must be a fair bit of work involved in working out the package that you put to each individual farmer, but presumably that's part of your intellectual property that you know how to do that.

**MR McBAIN (AACL):** We've got a model like an actuarial model that's continually evolving, and what we do is access the farmer's data, we verify it with delivery records. In WA it's quite simple. We're actually able to log into their CBH records via the farmer. We then put all that information into a model and we basically have some pretty smart guys that know how to value these things, basically from their experience of valuing derivatives and things like that, and we come back to the farmer with a scenario. How we pay them is based on the outlook for the price in a season and based on their production volatility, and then we'll advance them an amount of capital against that, and then we'll do our best to protect that price with advance against.

We can't do much about production volatility or the management. You just hope that you've done your research well. We do verify it with in-ground assessments from contracted agronomists. We go out two or three times during the year, we do harvest assessments, and we are building more satellite technology as we go forward to improve our monitoring of the crops. The idea is, at the moment it's very much a hands-off approach to the management of the crop. We just say to the farmer, "Treat it like it's your own," and we have some guys go out to make sure that there is a crop being planted.

**PROF WOOD:** Because he's the expert in that.

**MR McBAIN (AACL):** Exactly. It's too costly if we try to do that. But over time, with size, then you would get involved with - you provided an agronomic service that actually was a bit more hands-on and said, "How about we take on these practices?" Because everything we can do to improve the farmer's return, improves the investor's risk. You're both going down and that lessens our risk as a business. So all parties are incentivised to achieve a result. That's why I think the answer to improving agriculture is capital and outside investment, because it's hungry. It won't accept inefficiency, it won't accept people rolling the dice, sort of thing.

**COMMISSIONER WOODS:** It's not interested in lifestyle.

**MR McBAIN (AACL):** No. If you want lifestyle, you have to do it off your own bat.

**DR BYRON:** I'm not sure how to ask this question, but is there a bit of a bias among the type of farmers that come to you for the Grain Co-Production in the sense that those who may be those who are in maybe very secure rainfall zones think, "Well, I don't have a lot of volatility in my productional income, so I don't really need the service that this provides." Or if they are well capitalised they say, "I don't need to bring in urban investors." So is there an element of self-selection in that some types of farmers don't want to get involved in this or they don't see the need to be involved?

**MR McBAIN (AACL):** I don't think you can ever have a product that everyone wants to use.

**DR BYRON:** But there is a profile.

**MR McBAIN (AACL):** It's fair to say the points that you've made are true, but people don't like new people coming into their sector. The 65 million that we advanced this year, where did that come from previously? From the bank. Our plan is to provide half a billion to 1 billion dollars for input, so that's coming straight out of - overdraft is where banks make their cream, so we're not the bank's favourite. We should be, because we're underwriting their custom. But people would be very surprised - I hear that often, "It's just struggling farmers." It's not.

We're not going to take on a guy - his balance sheet is not as important because, if he's got the equipment, he's got the expertise and he's got enough to cover the things that we're not covering - we'll take a view with some of those guys. Most of our guys have no problems accessing capital. They tend to be larger, expanding farmers, young farmers. It helps your succession planning, so mum and dad are leaving the farm, don't want to cripple the farm. Okay, they can now get some money out of the farm and we can help them continue their cropping program at lower risk. So the product is evolving.

The other thing is we're getting really good at pricing the product now. For instance, because we want a blend of risk, there'll be guys in the project this year who are paying 1 per cent above their overdraft for unsecured, non-recourse capital. So why wouldn't you do it? I don't care how much money you've got, why wouldn't you access that capital? So we can actually structure a product to a farmer where, even in the most secure guys, it's just about how much you pay them. You just pay closer to what their ability to make a loss is, for it to be worthwhile for them.

There are some guys who will never get across the line, but as I said, if you were to run through - there are some farmer-type things there - - -

**COMMISSIONER WOODS:** Yes, we saw that.

**MR McBAIN (AACL):** - - - and some pretty good farmers. Trevor Stoney is a 70,000-acre farmer. We do all of his grain - wheat - with this program. We'll do all of his wheat and canola next year. They just are using that to do a couple of things: (1) to grow the business more efficiently without tying all the capital up and (2) because the sons are taking over, so the idea of having a bit more cash flow so they can have a smoother transition is appealing to them.

But, yes, we do get guys who say, "I don't need it." But if you can price it to guys at a per cent above their overdraft rate, it's only a matter of time before those guys start saying, "Why the hell am I risking all my money when I pay a little premium and I've now freed up my cash to go - instead of investing in inputs, I'll invest it in an income-producing asset." It's just a time and education thing.

The eastern states are more volatile than WA. That's certainly going to be interesting for us, but the reception we're getting over there is fantastic. Even though the farmers are larger in Western Australia and all that, I find a lot of the - people seem to take agriculture more seriously over there I'm finding as well, and they have a different attitude to risk. The Western Australian farmers, a lot of them seem to want all the upside and they don't mind - they'll just take all the downside. But that sort of gung-ho attitude isn't going to last too much longer with the cost of inputs, volatile prices, financial issues. The margins that used to be there are not there. You could have bought a farm back in the day and had a couple of droughts, conserve your costs, had one year, paid the farm off. It doesn't happen any more. The margins are tighter.

Again coming back to this restraint on capital thing, the guys out in the eastern wheat belt or in those marginal areas - yes, you can make some good money out there one in every four, so why try and plant it every year? You've got to plant - it's horses for courses. To be able to do that, you've got to have capital. You've got to be able to be prepared to sit on the land for two seasons and basically put nothing on there for that season where you get optimum growing conditions. That's a function of capital.

**MR GRANGER:** Can you profile your average customer, whatever that means?

**MR McBAIN (AACL):** Younger. Young - so, 30, 40 years old, quite often a generational farmer, keen to stay in agriculture, looking to expand their business, looking to buy mum and dad out, looking to buy the neighbours out is probably the major profile. Then you have guys who are older, who have just said, "I'm two years away from handing the farm over. If I have two bad seasons, I've wiped out a big chunk of my super, so why take the risk? Underwrite that side."

We have guys who are struggling for capital come and see us. That's just a fact. You're always going to have those sort of low-hanging fruit. Some we take, some we don't. As a small, growing business, early on you take some people that maybe in a few years' time you wouldn't, if that makes sense. But, yes, typically they're younger and guys who are keen to be in the industry because you've got to have economy of scale.

**DR BYRON:** Do you have any competitors?

**MR McBAIN (AACL):** No.

**DR BYRON:** I hadn't heard of any, but - - -

**MR McBAIN (AACL):** I know there's a group called Grass Farms in the eastern states. I've read their stuff and I'm going to catch up with them. But I've read their stuff and it's where we were thinking about eight years ago. It's not until you do it and make mistakes and lose money and all that sort of - when you lose money on crops, you soon work out your systems, and what works and what doesn't work.

**COMMISSIONER WOODS:** We notice you trialled a few contracts first.

**MR McBAIN (AACL):** Yes, for 99 to 04 we trialled one-year trials, lost money some years and did okay in other years. But it wasn't until we raised capital ourselves and I devoted all of my time and then started getting people on board - to give you an idea, when we started a mate of mine was working in the financial industry and he was saying, "I'd love to get involved with something like you. You know, you can be passionate about it and all the rest of it." I said, "How about you come and get paid a lot less and come and work with me then?" So he did and then he said, "There's another guy that we should get involved on the sales side." Our grand idea with the three of us was that I'd handle the corporate side, he'd handle sales and the other guy would handle marketing. We'd deal with the farmers over the phone and, great, we'll do 200,000 tonnes. It doesn't happen that way.

You've got to be out on the ground, you've got to have regional - we knew we had a product. We weren't exactly sure how it would work for the farmer or the investor, or whether we could make money. It's just been over time that we've developed the system. I brought in a group who were fund managers and they pulled the model apart, put it back together and helped us get the required research ratings to get our tax rulings to raise money basically. We were on AXA Australia's recommended list for the last three years. We're the only non-forestry product and the only unlisted product on their list.

And we rate very highly with the research guys because they just like the - you know, you can go into an olive project on land that's never grown olives before with no certainty of offtake or you can go into a grain market with 100 years of production history, all the infrastructure in place, futures markets, multiple buyers domestic and international: no-brainer for the investor. Much better product.

**COMMISSIONER WOODS:** I totally agree. That's excellent. We hear you on the tax side. We certainly didn't jump at the opportunity for the government to become an underwriter.

**MR McBAIN (AACL):** Thought I'd throw it out there and see what happens.

**COMMISSIONER WOODS:** Probably doesn't come as a huge surprise to you.

**MR McBAIN (AACL):** No.

**COMMISSIONER WOODS:** But, yes, I think that's an excellent model. The incentives seem to be lined up, the moral hazard seems to be contained and you'll live or die by whether the market sees that as a useful product.

**MR McBAIN (AACL):** We have to get both parties focused on longer-term, longer than one year, and that's a real issue. Farmers, their advisers, their banks, can't see past the end of the bonnet. Investors are very focused on, especially in Australia, what happens next week, next month.

**COMMISSIONER WOODS:** And they're a bit nervous at the moment.

**MR McBAIN (AACL):** Right, and we've got to get both parties thinking about, "Look, we're going to have some losses at times. Hopefully, if we've got it right, we'll end up with a good return over a 10-year period. You'll both get what you want."

**COMMISSIONER WOODS:** And you keep the margins tight in the middle.

**MR McBAIN (AACL):** Yes.

**DR BYRON:** One of the things that we've spent a lot of time talking about today is how do you get greater expertise in strategic thinking out in the farming practice. Particularly we have been talking a lot about extension, and there are some people who have got the bit between their teeth and they're taking off, but there's a rump at the other end of people who basically don't want to learn new things. It seems that

people who become involved with the Co-Production scheme, whether they want to or not are required to take their management to a new level of professionalism. Is that it, or am I reading to much into it?

**MR McBAIN (AACL):** No, you're absolutely right, because they have to submit to us a monthly report. It's a very basic: rainfall, what you've applied, what the crop is looking like. They have the agronomist coming out there two, three times a year, and they have our regional guys coming out there. If they're not performing to a level - and that could include just by not communicating - then a couple of things are going to happen. Either the product is going to be more expensive to them - and also, when we frame the offer: how up to date are their financials? Are they keeping it in electronic format? All those sort of things count to the offer. The better they do those things the cheaper the product is for them.

**DR BYRON:** And the more they see they're getting from it.

**MR McBAIN (AACL):** Absolutely. We've got a significant agronomy team, et cetera, and part of building the land - - -

**COMMISSIONER WOODS:** Are they subcontracted to you to do other things or do you bring them in-house?

**MR McBAIN (AACL):** We've got seven in-house agronomic staff - ag scientists, agronomists, mapping, all that - but externally we also contract another 35 regional agronomists who do the in-field work. Our guys in the head office are monitoring. They're doing reports, they're analysing, all that sort of thing. As I said, the big picture for me is to get it to a point where we assist them to cheapen their costs, because that's a big part of the issue - their costs - and farmers don't hedge their fuel, for instance. With the right people and with a big enough size, which we have, you can work on hedging your costs. You can use your size to get cheaper costs; managing your grain offtake. And then of course, in-field, if we're big enough and we've got relationships that are strong enough, then you start spending time on your agronomists assisting, doing more hands-on advisory stuff, because it's completely in your interests to get the absolute maximum return.

**DR BYRON:** But you also get the farmers starting to think about marketing too. We've been told quite a few times that they're so focused on their production activity that they're not thinking about where and how to part with their product and they're occasionally missing out on significant opportunities there, too.

**MR McBAIN (AACL):** They certainly have to bring their knowledge up to speed to understand, but an individual farmer pricing grain on his own is a punter. Right?



**DR BYRON:** Yes.

**MR McBAIN (AACL):** Unless they've got a domestic market right next door to them. Groups that we're dealing with who are assisting us to build our grain market expertise - there's one group that's 90 years old. Its balance sheet is bigger than the four Australian companies. It's privately owned. It's in every major company. It owns ports, ships. They have 90 traders worldwide. Are farmers going to know more about the market than those guys? So we've got those guys helping us to manage the price risk for the farmers in our project, and thus we're ahead of the pack. You know, it may not happen every year, but we've got a better chance than the farmer does. So our project pool motto is, "You grow it, we'll price it."

We've both got the same interests because we're trying to get the best price for the farmer and the investor. I can't say we'll get the best price every year, but when we see value we're going to do it. We actually offered farmers the ability to price it themselves this year as well, and they were like a kangaroo in the spotlight. Most of them haven't done anything. And the market has fallen \$100.

If I need tax advice, if I've got a tax issue, I don't go and get a TaxPack and try and do it myself. I go and see a tax lawyer or a tax expert. Selling a complex product like grain into an international market: why would an individual think that they can do that better than a professional organisation? That doesn't mean they shouldn't know how it works, because they should; they should know exactly. We're trying to educate our guys, because when we do come under someone else who might jag the market, has called it differently to us and got a better result, we need our customers to understand why and understand, "Well, it's not a big deal. It's a good price. I was happy with it. I've made money." But everyone wants the top of the market. It never happens. Or if they do, they sell it and they got 100 tonnes away and the other 2000 tonnes, they don't talk about that, because, "Oh, I got \$400 a tonne."

**COMMISSIONER WOODS:** Yes, not the 250 for the rest of it.

**MR McBAIN (AACL):** Is this going back to the minister, this information, or this report?

**COMMISSIONER WOODS:** Yes, this report goes to - - -

**MR McBAIN (AACL):** What sort of action do you see coming from it?

**COMMISSIONER WOODS:** The report will go to the federal and all state ministers and they, as a ministerial council, will make decisions on it and they will make those decisions public. This will be a public report and the ministers will publicly announce the decisions. They met as a forum recently and agreed on a set of principles which, in large part, line up with the draft recommendations in this report anyway. So there's momentum building for reform in this area. We will put in our final report to government at the end of February and they will respond soon after that.

**MR McBAIN (AACL):** Keeping unviable operators is a much bigger distortion than forestry, and it makes it difficult for other people to do the normal things that happen in a market, and move on.

**COMMISSIONER WOODS:** Yes, like take over assets and be more productive.

**MR McBAIN (AACL):** And be more efficient.

**COMMISSIONER WOODS:** Yes. We think that, on the basis of evidence to date and government announcements to date, there is an appetite for change.

**MR McBAIN (AACL):** I think there was 150 grand offered and people were saying it's not enough. Why not? If the corner deli was offered 150 grand on top of whatever, they'd say, "Thank you, Father Christmas." Why does someone in agriculture have a right to get that? I don't understand why they have that right.

**COMMISSIONER WOODS:** Yes, the panel beater, the florist, the deli.

**DR BYRON:** 100,000 retailers went broke last year. None of them got an exit payment.

**MR McBAIN (AACL):** No. Just one other last point, and this is again to reiterate: the Geraldton zone is traditionally a very secure zone. In 06 and 07 we copped an absolute bath up there. We lost a heap of money. 08, we should have had our door being knocked down by farmers and we didn't. So why not?

**COMMISSIONER WOODS:** And?

**MR McBAIN (AACL):** Well, I don't know. Why not?

**DR BYRON:** They have a big appetite for risk themselves.

**MR McBAIN (AACL):** If there are commercial products available that help them offset risk and they're not prepared to take them, then why should they get that sort of assistance? And don't get me wrong; I'm not trying to be negative. If I didn't believe in and wasn't very bullish in agriculture in Australia and the potential, we wouldn't be here. I'd be doing mining or something.

**COMMISSIONER WOODS:** Look, the best farmers are doing very well. They've got strong balance sheets, are very competent and they produce most of the food and fibre that we produce. The top 30 per cent produce 80 per cent of the product. Yes, they do have good balance sheets. They're very professional operators. But there is an awful long tail.

**MR McBAIN (AACL):** Absolutely, and it's probably magnified on the eastern seaboard where there are a lot more farmers.

**COMMISSIONER WOODS:** Yes.

**MR McBAIN (AACL):** I've had some German guys out, because we're talking to various German investors, and one of them was saying in his home town where he's from, they've got one of the biggest farms in the district. It's 400 hectares. We took them up to see the Stoney's property in Dongara and he said, "What's your fixed costs per hectare?" and they said, "It's probably, don't know, 100 bucks, \$150." He said, "Ours is 1800 euro per hectare," because they've all got tractors, they've all got - and they get \$400 a hectare from the government for turning up.

**COMMISSIONER WOODS:** And standing at the fence post waving at the tourists who drive by.

**MR McBAIN (AACL):** So the problem is just not Australia. To qualify all that discussion, we're not on a level playing field either.

**COMMISSIONER WOODS:** That's absolutely true. Mind you, we have had a number of people who have given us evidence saying that they'd like the French system of agriculture to come to Australia. We haven't been persuaded.

**MR McBAIN (AACL):** Really?

**COMMISSIONER WOODS:** Thank you very much.

**MR McBAIN (AACL):** Thanks.

**COMMISSIONER WOODS:** And good luck. That concludes our hearings for today. We will resume in Port Lincoln.

AT 4.31 PM THE INQUIRY WAS ADJOURNED UNTIL  
FRIDAY, 28 NOVEMBER 2008