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PRODUCTIVITY COMMISSION

INQUIRY INTO GOVERNMENT DROUGHT SUPPORT

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

TRANSCRIPT OF PROCEEDINGS

AT SYDNEY ON MONDAY, 15 DECEMBER 2008, AT 10.03 AM

Continued from 9/12/08 in Melbourne

INDEX

	<u>Page</u>
NEW SOUTH WALES IRRIGATORS COUNCIL: ANDREW GREGSON MARK MOORE	540-560
LOCAL GOVERNMENT AND SHIRES ASSOCIATION OF NEW SOUTH WALES: SHAUN McBRIDE LIZ GEMES	561-575
NSW SOUTH WALES FARMERS ASSOCIATION: JOCK LAURIE ANGUS GIDLEY BAIRD	576-597
COUNTRY WOMEN'S ASSOCIATION OF NEW SOUTH WALES: MARGARET BROWN	598-612

PROF WOODS: Ladies and gentlemen, welcome to the Sydney public hearings for the Productivity Commission inquiry into government assistance for drought relief. I am Mike Woods, I am the presiding commissioner for this inquiry and I am 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 holding 81 meetings with a wide cross-section of people and organisations. We received 109 submissions from interested parties prior to releasing our draft report. I would like to express our thanks and those of the staff for the courtesy extended to us in our travels and deliberations so far and for the thoughtful contributions that so many have made already in the course of this inquiry.

These hearings represent the next stage of the inquiry with an opportunity to make any final submissions by 19 December, which rapidly approaches. The final report will be completed by 27 February 09. I would like these hearings to be conducted in a reasonably informal manner but remind all participants that a full transcript will be taken and made available to all interested parties. I welcome our first participants, the New South Wales Irrigators Council. Gentleman, could you, for the record, please give your names, the positions you hold and the organisation that you represent?

MR GREGSON (NSWIC): Good morning. My name is Andrew Gregson. I'm the chief executive officer of New South Wales Irrigators Council.

MR MOORE (NSWIC): Good morning. Mark Moore from New South Wales Irrigators Council, policy analyst.

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

MR GREGSON (NSWIC): Yes, we do, if we may. Good morning, and thank you very much for the opportunity to address you this morning, gentlemen. Can I say, given the amount of policy change that is in process at both the state and Commonwealth level that affects the agriculture sector at the moment that we are

delighted with the opportunity to speak with you and would like to take the opportunity also to congratulate the Productivity Commission on the level of consultation which it has undertaken. It is a level that we greatly appreciate and one that we would like to see similar organisations undertaking as well in a process of policy change.

New South Wales Irrigators Council represents more than 12,000 irrigation farmers right across New South Wales in both coastal and inland areas. We represent regulated, unregulated and also groundwater irrigators. It is important to recognise the difference between irrigated agriculture and dryland farming. We do not represent nor do we pretend to represent all of agriculture. Our constituents are solely those that are irrigators. Our membership includes valley water user associations, that is, regional groups, food and fibre groups, irrigation corporations and commodity groups ranging from rice to cotton, dairy and horticultural industries; that is, we cover the entire spectrum of irrigated agriculture in this state.

I should note that I am also the acting chief executive officer of the newly-formed National Irrigators Council. The submission that we lodged and the comments that we make today are not necessarily endorsed by that organisation. They didn't have the opportunity to make a submission given the recency of their farming.

Perhaps the most important thing that we can say to the commission is that we would like you to recognise that irrigated agriculture is a completely different beast to dryland agriculture. It is characterised by very high levels of infrastructure and that infrastructure is designed to combat climate variability and therefore in and of itself to approach the self-reliance that the commission has identified as something which should be achieved within agriculture.

PROF WOODS: Drought-proofing the farms.

MR GREGSON (NSWIC): Exactly. To make available water in times when water is not available naturally. That said, irrigators can approach self-reliance from short circumstances of drought, from normal droughts, as it were. Where consecutive years of drought occur, where extreme events occur, that's where self-reliance as an irrigator is no longer possible. In those instances what we seek is that there be specific forms of assistance for irrigated agriculture as opposed to the one-size-fits-all approach to the policy of drought support. That not only addresses irrigators in terms of getting through the drought but also then encourages them towards one of those other key objectives of the national drought policy, that is, early recovery.

As you would appreciate with high levels of infrastructure the overhead fixed

costs that continue to affect irrigators even in time of zero revenue mean that their cash flows are dramatically drained in prolonged instances of drought. In order to recover quickly they need to be able to maintain some of those cash flow reserves in order to, at its very base level, plant crops again when water does become available.

One of the things that we would ask the commission to specifically address is the applicability of assistance equally across jurisdictions. You would be well aware that there is a rapidly developing market in water and that the Commonwealth are very keen to see that market developed more rapidly. In order for that market to be equivalent across state borders then forms of government intervention, such as drought support, need to be equivalent across jurisdictions.

As an example, at the moment the New South Wales government has not seen fit to provide any assistance to irrigators from fixed charges yet in Victoria that government has seen fit. We would obviously encourage New South Wales to follow the lead of Victoria as opposed to the other way round but I'm sure the commission would appreciate that there cannot be a competitively neutral market where one state government is providing assistance and another is not.

The other key point that I would like to make is that just because irrigators do not necessarily support the range of drought relief measures that are in place at the moment does not mean that we do not support drought relief per se. What we would like to see is the development of some drought relief policy specifically targeted at irrigators recognising the nature of their operations. With that, that's our brief opening statement made.

PROF WOODS: Thank you very much. We have appreciated the input: you have provided an earlier submission, and coming along again today and we have had the benefit of some notes that you have made to assist in today's presentation. So we do appreciate that effort and support for this inquiry, if not necessarily for all of its outcomes, certainly by way of inputs, so thank you for that.

You have seen our draft report and we can go through some of the various issues there. It may be best to track through them in terms of looking at household issues and then business issues, so wandering through our proposal for household hardship support and then going through the various business-related issues - the interest rate subsidies, FMDs et cetera.

But just to put the discussion into some context - and we have recently been in Mildura and earlier we were down the Riverland et cetera and we were at Dubbo last week where again irrigators come up from the south of New South Wales. If you could sort of look at it from a southern New South Wales or indeed from a sort of slightly more holistic point of view where do irrigators see the future of the small

irrigation blocks that form such a large part of the farming population at the moment right down to the Riverland and further upstream through the Murray? Do you have a view on where that is all headed into the future?

MR GREGSON (NSWIC): It's an interesting question. It's difficult to ask us to give a regional-centric view. In the first instance obviously we don't cover the Riverland, given that it's in South Australia.

PROF WOODS: No.

MR GREGSON (NSWIC): Obviously our irrigators are in northern and coastal New South Wales as well the south.

PROF WOODS: Yes.

MR GREGSON (NSWIC): That said, I suppose the question is what is the future for those irrigators that are operating primarily within the irrigation corporation areas on the Murray and the Murrumbidgee.

PROF WOODS: Yes.

MR GREGSON (NSWIC): We have stated in response to other areas of government policy that we don't believe it's the role of government to tell any business, particularly in irrigated agriculture operation, first of all, what they should grow or how they should go about growing it.

PROF WOODS: True.

MR GREGSON (NSWIC): We believe that that's entirely at their discretion. The nature of those blocks within the irrigation corporation areas or even some of the direct diverters in that part of the world are such that they are smaller in terms of size and scale, and particularly the operations in northern New South Wales. At the same time their level of production on any method that you choose to calculate it, be that in terms of volume or dollar value or gross tonnage of product or even in supported regional communities, does indeed equal that of other irrigated agriculture areas.

The very nature of irrigation is that productivity on an area basis is significantly higher than it would be on a dryland basis. We don't believe that any of those businesses in that region are unviable on any basis other than the lack of water at the moment; that is, their viability at the moment is threatened not by their own operations, not by world markets, not by the value of the dollar but solely by the lack of availability of water. That's not something that can be fixed by aggregating farms or changing their size or volume.

PROF WOODS: I would like to explore that a bit. What prompted my question is that in your notes supporting today's presentation under the heading, Structural Adjustment, you have this phrase, that farmers want to keep farming, they don't all want to be retrained to move to the cities or work in the mines. From the Productivity Commission point of view if farmers want to keep farming we are not saying you can or can't or that government should say, "Sorry, you're not to farm any more," but government can and properly should target where it provides support. So if the farmer wants to keep farming that's perfectly fine. But if they can only do that on the basis of government support that's a totally separate question, so just to clarify our viewpoint there.

But the question is - on viability you made the statement that there aren't significant scale economies. That's an interesting perspective but certainly some evidence we have had from some irrigation operations suggest that there are some scale economies, and whether if you were painting that picture for the purpose of broad discussion rather than being absolute in that statement?

MR GREGSON (NSWIC): There are, of course, some economies of scale to be had in any operation and irrigation is certainly not separate from that. In terms of whether the answer for sustainability is aggregation of entities or not, my initial reaction would be to say that the economies of scale are not sufficient to ensure the survival of aggregated businesses. It's very difficult in an agriculture context to separate the family from the business. I am sure that you probably had that repeated to you across Australia.

PROF WOODS: Yes, and we understand that point.

MR GREGSON (NSWIC): But at its basis level is the answer for one family to buy the farm next to them and hence to have one family remaining and the other to have left the area? I would suggest that the answer is not anywhere near that simple solely because of what I said earlier. Their viability is not based on their size. Their viability is based on the availability of water in this instance.

What we are talking about at the moment is not a normal set of circumstances, as you would appreciate, particularly in that area of southern New South Wales that you referred to. There are irrigators down there facing three consecutive years of zero or pretty close to allocations; and the Murray at the moment in New South Wales it's 2 per cent, might as well be zero. In the Lachlan, for instance, I think they are now up to their fifth year of less than 2 per cent. So the size of an entity under those circumstances makes no difference.

PROF WOODS: Yes. Okay, it does raise then that broader question of regional

communities. From our point of view we see those as two interrelated - questions that probably should be answered through different mechanisms, that providing drought support assistance to farmers during drought times or water shortage times or whatever doesn't seem to us to be the most efficient or effective means of tackling questions of regional development. They are intermittent payments and they go directly to people who then can choose how and when and where they spend that money; appropriately.

But that, to me, doesn't seem therefore the best way to have a targeted policy and related programs that deal with the question of regional development. That should be a separate policy that says, "We want these areas to not fall below X," or, "We can see some advantage in this area expanding," or whatever is the right policy; which includes recognition that some small country towns not only are declining now but have been declining for the last 100 years. Some are already out of existence and others will be, no matter what you do. That's just the economic reality of how communications, transport, markets, everything else operates. To try and resist that would be throwing good money after bad.

So we would like to keep the question of regional development separate from "Is drought a good mechanism to keep people on their farms and therefore in country towns?" Do you have any reaction to that way of looking at these matters?

MR GREGSON (NSWIC): Again, I think it comes back to the distinction between irrigated agriculture and dryland agriculture, and that is the nature of the infrastructure investment that irrigators have made. If, as you have done, you consider the economies of these regional centres, I note you've been to Dubbo, if you look as far as Wentworth near Mildura right up to Moree and even Goondiwindi up around the Queensland border - - -

PROF WOODS: We have been to Moree and we have been to Mildura and we have been - - -

MR GREGSON (NSWIC): I'm sure you have enjoyed each and every one of those visits.

PROF WOODS: Some great towns.

MR GREGSON (NSWIC): You will have noticed that whilst the main industry supporting that town is agriculture and in particular irrigated agriculture for some of these centres, the main industry within the town is support for the infrastructure that irrigators operate. So I certainly agree with you in terms of regional development being separated from income support for family farms or farm businesses. But I don't think that same simple distinction can be made in contemplating the economic

drivers that irrigated agriculture provides.

When an irrigator shuts down after consecutive periods of drought then the contractors who take care of laser levelling, maintenance of farm machinery, and so on and so forth, also find that their income dries up completely. As I say, these are some of the fixed costs that irrigators face. It comes back again to that key point that the commission has made in quick recovery from drought, if you don't maintain your infrastructure quick recovery is not possible.

PROF WOODS: Yes, and we understand that. Anything else on those broader issues?

DR BYRON: Well, the very general point you made at the beginning that, okay, we recognise that irrigation farming is very different from dryland. You said and therefore we need a different system that caters for the unique features. I would just like you to elaborate a bit more on the features of that different system. In what way would drought support for irrigators be quite distinct from what is provided or should be provided for dryland?

MR GREGSON (NSWIC): I suppose we would need to look at it then in two categories; first of all, the farm family, as it were, which is in exactly the same position as any other agriculture operator, and then the business of irrigation. So in terms of the farm family, as it were, the assistance mechanisms for agriculture overall suit that particular unit. They are, by nature of their operations, unlikely to have to take advantage of it as regularly as a dryland farmer because they have got the opportunity to use regulated or groundwater, as we see at the moment.

In terms then of their business operations, the targeted assistance that we would envisage would be to assist with being able to keep up with those fixed overhead costs that they face, be that equipment, maintenance or their primary expense at the moment, government charges; that is, fixed charges against their water entitlements that they are currently not receiving. That does not necessarily mean that in those times we are seeking a handout. You will notice in our submission that we gave very strong support to the farm management deposits as a fashion to ensure that those fixed charges can be met as well as providing some cash flow regulation to ensure rapid recovery from drought.

DR BYRON: Yes. Well, you would notice that we have endorsed the system of farm management deposits, much to the surprise of some others. But the question of fixed charges, I mean, I was thinking about other businesses, other industries, where people perhaps take a lease on a site or a facility or a warehouse or something for 10 years or whatever and their business plan includes a very explicit recognition that every year you are going to have to meet certain fixed charges no matter what your

turnover is. Can you just explain to us why an irrigator wouldn't sort of build into their long-term plans, including risk management and budget, the fact that, "Okay, every year, whether I get water allocation or not, whether I take the tractor out of the shed or not, there are fixed charges I am going to have to pay for the water just like rates and insurance"?

MR GREGSON (NSWIC): Yes. It comes back to the extreme nature or circumstances. It is only in consecutive years, such as we are facing at the moment, that that level of assistance is both warranted and requested by our sector. We certainly recognise that there will be years of variability and we are more than prepared to cover those years of variability. It's when it proceeds to extreme circumstances - and you will notice that we annexed to our submission a policy that our organisation has adopted in that respect, two years, two consecutive years of one in 20 low influx.

So we would suggest that in terms of that business planning model that you have referred to, that that policy more than covers the adequacy of say a 10-year business plan. At the same time I would urge the commission to recognise that the fixed charges, particularly in respect of water access licences, are government charges. So as an example you wouldn't expect for the driver of a taxi to continue paying their licence charges despite the fact that they were unable to pick up passengers for a year. So I would urge you to make that distinction between normal business operating costs and government charges.

PROF WOODS: Well, government only in the sense that government happens to sort of be the owner of that infrastructure, but it could equally be another supplier of that infrastructure.

MR GREGSON (NSWIC): Fixed charges in New South Wales take two forms: first is to State Water, as you recognise it's government-owned but it is a private operator. We recognise the legitimacy of that charge. There is also a charge levied by the Department of Water.

PROF WOODS: So you're distinguishing between those two bits?

MR GREGSON (NSWIC): We are seeking assistance - assistance, not necessarily full payment - with both of them.

PROF WOODS: Well, that's why I was a bit confused, because I didn't know quite how you were interpreting "government".

MR GREGSON (NSWIC): Yes.

PROF WOODS: Between government as the operator of the infrastructure and government in a more generic sense. So your proposal covers both but you do recognise the difference between the two?

MR GREGSON (NSWIC): Yes, we do.

PROF WOODS: Can I then wander back. We might as well tick off a few things as we go through. So if we look at the household relief proposal in our draft submission, do I take it from your earlier comments that that sort of broadly meets the needs of the irrigator families where - just to summarise - the key elements are that there be a household support payment for 17-odd grand for those who have no income, can demonstrate that they are in hardship; that it be available three years out of seven; that it be available if your assets come down to two million, tapering out at three million. That doesn't meet your top end of the world but it does meet an awful lot of your middle to bottom end of irrigators. Also by having it as three years, of course, you would expect households to be basically self-reliant to cope with a bad year and maybe struggle through a second year. So this would be cutting in sort of year 3 of a bad trot and taking you out to year 5 type of thing. Just for the record, do you have a view on it in general and on the constituent parts of such a scheme?

MR GREGSON (NSWIC): Yes. Two specific points. The first is that we would prefer, as with current schemes, that assets tests be limited to off-farm assets.

PROF WOODS: I'm sure you would.

MR GREGSON (NSWIC): Again it comes back to the infrastructure nature of an irrigator. They are likely to have significant assets on farm. But again, without water, the value of those assets is indeterminate, as you can probably see along the Murray and some parts of the Murrumbidgee at the moment and particularly the Lachlan. The value of land and infrastructure without the water associated with it is effectively nil.

PROF WOODS: It does come, on that point, to a broader community debate about whether somebody who has got - and we're talking net assets, not gross assets - net assets of five million or even out to 10 million, why they then should be picking up 17 grand a year from the taxpayer and also whether the banks realistically - if somebody has got five mill net, whether realistically they wouldn't be able to extend their overdraft by 17,000 a year, because they would see that would take the net assets from five million to 4,983,000 minimum impact.

MR GREGSON (NSWIC): I understand.

PROF WOODS: So that's a judgment question. We are not saying that there is a

particular level of science to the two to three million but we are trying to strike a reasonable balance in this proposal.

MR GREGSON (NSWIC): Yes, we understand, and a reasonable balance is obviously something that the Productivity Commission should be pursuing. But as I say, it would remain our position that it should be off-farm assets that are looked at because the value of those on-farm assets in the first instance is very difficult to determine and in the second instance is likely to be rapidly depreciating in a period of consecutive years of drought. As I say, that infrastructure is worth nothing without the water that is associated - - -

PROF WOODS: So land values have been falling in your area significantly in one of the worst three droughts for dryland and certainly the most significant drought for irrigators?

MR GREGSON (NSWIC): As I say, we represent irrigators right across the state and there is obviously some dramatic variance in what is happening with land values. But for land that either has water taken off it or is in an area where water allocations are at record lows that land is not worth very much at all.

PROF WOODS: On the market. So you could go in and you could buy those farms very cheaply at the moment?

MR GREGSON (NSWIC): If they have been de-watered. That's our understanding.

PROF WOODS: Well, yes, if they have sold their water licence that's a different thing. But if they have got a water licence but their allocations are 2 per cent and have been for the last two or three years, what is happening to their land values as such though?

MR GREGSON (NSWIC): Look, I'm afraid we just don't have that understanding.

PROF WOODS: Would you take a guess that they actually haven't been dropping too far?

MR GREGSON (NSWIC): I would take a guess that the value of their water assets, particularly in the last three years, and this is as a result of government intervention in the market - the value of their water assets has increased and hence the overall value of the asset has increased. In terms of the value of the land asset I would not be reticent to say that it hasn't greatly appreciated.

PROF WOODS: Yes, okay. Now, you said there was a second point. We have

dealt with the asset level.

MR GREGSON (NSWIC): We have, and there was a second point.

PROF WOODS: If you think of it again come back to us.

MR GREGSON (NSWIC): We should have a look at the transcript, it's probably there.

PROF WOODS: But if not, that's all right, we can come back to it as it strikes you. So then let us go through the various business programs. As Neil was saying, we have come up with support, ongoing support, for FMDs. Your submission, I suspect, would prefer that FMDs be more than 400,000. You can clarify your views on that. We take the view that people can put away as much money as they want into any form of liquid assets, of which FMDs are but one, and all FMDs do is constrain how much is tax deferred, not put a limit on what liquids people put aside for future contingencies. But do you have a view on our approach on FMDs?

MR GREGSON (NSWIC): You correctly suggest that we would like to see the value of them increased. Again it comes back to the very nature of irrigated agriculture. If in this instance we consider some of the larger irrigation entities, particularly in northern New South Wales, there's some that you're talking about - doesn't even approach the fixed costs of some of these operations. Those fixed costs do not necessarily include interest. There are some of them that we are well aware of whose fixed water charge, without any of the other fixed costs, is well in excess of \$100,000 per annum. So you can see that their fixed costs are significantly higher than that sum on an annualised basis. Whilst we recognise that what farm management deposits achieve is deferral of a tax liability, that's exactly what they are meant to achieve.

PROF WOODS: Yes.

MR GREGSON (NSWIC): To enable the evening-out of cash flow.

PROF WOODS: Yes. No, we agree with that and we support that. But it doesn't prevent farm entities from putting even more money aside in liquids. It is just, again, achieving a balance between the cost to the general community, which is 75, 76 million a year of the tax deferrals, against the benefit of that for the farm community. So there's, as with many of these things, a judgment issue there. It's just how far to extend that. But it doesn't prevent households from putting aside more liquids to cope with other issues.

MR GREGSON (NSWIC): No, it does not.

MR GRANGER: The average amount in FMDs is about \$70,000, which is a long way from the maximum cap now. Do you see irrigators becoming a lot more interested in FMDs?

MR GREGSON (NSWIC): Look, with all due respect, we think that averages are a little meaningless in this respect given the dramatically differing size and scope of the operations that we're looking at. Do we see irrigators being further interested in FMDs? Yes, we do. As I have mentioned, irrigators are able to deal very well with climate variability. If the future of climate change holds that that variability is going to be even more extended, then any mechanism to even out the peaks and troughs of the cash flow will most certainly be interesting to them.

PROF WOODS: Do we want to talk about interest rate subsidies then? You have seen our draft report?

MR GREGSON (NSWIC): We have.

PROF WOODS: Our view is that they are not the most appropriately designed instrument to assist farms to increase their productivity and to improve their self-reliance; some of the issues being: why would you choose debt as an indicator of and a means of calculating support to businesses? At the moment it's related to lines on maps, and you have got to be in an EC area to be able to achieve that; that there are no mutual obligations relating to it. Once you have passed your viability test then you get the payment for as long as you have applied and accepted into that scheme. So we have a number of concerns about it. Do you want to give us your views on our draft report?

MR GREGSON (NSWIC): Yes, absolutely. Let me again try to split this into two areas, first of all, the process of declaring exceptional circumstances. We think that you have highlighted what is the key weakness of that system, lines on maps and so on and so forth. Exceptional circumstances in an irrigated agriculture environment are much easier to determine than they are in a dryland environment.

PROF WOODS: Yes.

MR GREGSON (NSWIC): It all comes down to the availability of water. So we would again encourage the commission to recognise that distinct difference between irrigated and non-irrigated. The determinant obviously is not necessarily the single year allocation of water but it comes back again to that consecutive nature of record low allocations or influx. I am just quickly scanning back through the notes that we have made. Interest rate subsidies are of importance to irrigated agriculture but would be of greater importance if it were recognised as separate to dryland and that

the process of determining exceptional circumstances was clearly different.

PROF WOODS: Okay.

MR GREGSON (NSWIC): We noted in our submission that, particularly the limits of off-farm income ought be increased, because it again comes back to the concept of self-sustainability. If a farmer or an irrigator in particular is willing to work off-farm to ensure the continued wellbeing of their family then that really ought be recognised as them doing their best towards self-sustainability.

PROF WOODS: I guess. I mean we agree that the program has some perverse incentives. We come to different solutions: suggest that the program go away and you suggest redesign the program to overcome the perverse incentives. But at least we agree on the middle bit.

MR GREGSON (NSWIC): We may be in furious agreement with one another.

PROF WOODS: Only on that bit.

MR GREGSON (NSWIC): At a time where the Commonwealth government - and indeed state governments - are encouraging infrastructure investment in water efficiency, effectively at this time the government then is encouraging there to be a certain element of debt incurred by irrigation entities, particularly given that their cash flow has been so low in recent years. Then that level of both asset and off-farm income really ought to be considered in terms of interest rate subsidies for exceptional events.

DR BYRON: But the sorts of things you have been talking about I guess require a trigger for when support measures would become available for irrigated agriculture. If I am hearing you correctly it would be something like if allocation is less than X per cent for two or more seasons then something would happen?

MR GREGSON (NSWIC): Yes.

DR BYRON: What we have been talking about more generally is measures that don't actually require a trigger but are simply there all the time. I guess that comes back to unique features of irrigated agriculture that you made in your opening comments.

MR GREGSON (NSWIC): We can see that there is those clear different approaches. But again, it is the policy of our organisation that a trigger mechanism not only is appropriate but we have actually provided what that trigger mechanism would be.

DR BYRON: Yes.

PROF WOODS: Yes, and thank you for spelling that out. Looking at the question of exit grants and support payments - actually, no, before we do if I can go back one step to the irrigation management grants. They seem to be an amazingly efficient means of getting a payment to irrigators in a very short space of time with not a lot of strings attached. Do you have a view on whether that's good program design or not?

MR GREGSON (NSWIC): The industry was obviously in support of the irrigation management grant and the industry strongly encouraged the then Commonwealth government to make that grant applicable to fixed charges. I don't think I would be breaching any confidences to say that the addition of fixed charges as a legitimate expense for the irrigation management grant didn't appear in the initial policy. It was through the concerted efforts of representatives of irrigators that it did actually appear there. So the vehicle of irrigation management grants in itself - we note the comments that the commission has made, but the ends to which it was put, the assistance with fixed charges - meets entirely what it is that we have been requesting in terms of drought support for several years, and particularly as embodied within our submission to the commission.

PROF WOODS: But do you have views on our comments, putting aside what the money is used for, but as a public policy tool and program design do you sort of have any fundamental objection to the commission's concerns?

MR GREGSON (NSWIC): As a longer-term solution to the drought support requirements of industry we could see that there would be a better program design to be made.

PROF WOODS: Thank you.

MR GRANGER: Can I ask a question that is just teasing me all the time. I hear your message on fixed charges, right, just take me through it. If there is relief in bad times for fixed charges do you have a policy position on where the fixed charges go in good times, do they double or treble, do they catch up or are they forgiven?

MR GREGSON (NSWIC): The New South Wales government has advanced to our organisation the prospect of some sort of levelling tool in terms of government fixed charges. When I'm talking about fixed charges I probably led you astray there. I'm talking about the fixed costs of operating. The fixed charges levied by government and state water are but two of those fixed costs of operation. Should the fixed charges levied by government and state water increase during good times? That's something that the New South Wales state government has put to us and our

response has been that now is not an appropriate time to consider it when we're at the bottom of a cycle. The appropriate time to consider it is at the middle of a cycle and it's something that our council has yet to engage in discussion over.

PROF WOODS: I think we would argue that this is probably the perfect time to get agreement on both the good and the bad times, but we understand why you would come to your position.

MR GREGSON (NSWIC): In terms of getting agreement, yes, it's a discussion that we are prepared to have. In terms of commencing some sort of a scheme we would suggest that this is not the time.

PROF WOODS: Yes. If the recovery payments are triggered by good times well then, yes, they are not going to be triggered yet.

MR GREGSON (NSWIC): Particularly from the government's perspective I imagine that entering into a negotiation with an industry that is on its knees now is probably an excellent time for them to do it, but we wouldn't necessarily agree with that.

PROF WOODS: No, separate question. The exit grants. They have been successfully under-utilised, certainly spectacularly so. The federal government has announced a variation on that scheme, particularly for the small blocks, allowing people to stay in their homes, and payments to clear the vines or trees or whatever. Is that an improvement? Is that just a variation on a theme? You talk about infrastructure and how much is invested in these areas. I mean if the farm is taken over by the farm next door, or the farmer next door, and the water rights haven't been sold, or not all of them sold, then that infrastructure is not lost. The channels are still there, the drip irrigation is still there. It would be capitalised into whatever value is negotiated between the two parties. So to some extent you're not losing the infrastructure. But what is your view on exit payments, what is available now, what has been announced. Where would you go? What would you do?

MR GREGSON (NSWIC): Again, our council hasn't specifically considered the small block exit grant that is available at the moment. But our understanding of it is that it is pursuing a separate government aim, that is, having people being encouraged to sell their water to government to retire a number of licenses or return that water to environmental use. We certainly don't object to that small block exit package. To be perfectly honest and completely blunt it is only at the conclusion of that scheme with the opportunity to review it in hindsight that will determine if it was successful or not. But as I understand it from the number of applications, particularly in the Riverland in South Australia, from a broader government policy perspective that would be seen, I would think, to be a successful program.

PROF WOODS: Yes, okay. Now, a number of irrigators, particularly in dairy and those who had rice but have options of putting lambs on or going back to dryland, there is some movement by some irrigators who can do so to have the option of either operating their farm as dryland and bringing in livestock fodder or operating as an irrigated pasture. Is that something that you can see as a trend happening into the future? I mean even some of the very large cotton farms still can convert into other operations at time. So can you see a trend, and in fact one of the risk management practices, that a lot of irrigators would look to, that in times of low or nil water allocations that they have plans that allow them to move into a dryland mode of operation?

MR GREGSON (NSWIC): Absolutely. It is not, as I'm sure you will appreciate, either a new or emerging trend.

PROF WOODS: No.

MR GREGSON (NSWIC): It is something that irrigators have been engaged in for quite some time. To go back to when we had consecutive wet periods where a great deal of rice was grown as a summer crop, you would have then noticed a winter crop on exactly those same fields being grown as wheat.

PROF WOODS: Yes.

MR GREGSON (NSWIC): Using the residual moisture in the soil to grow that wheat crop. Particularly around the New South Wales Murray region over the course of winter this year there was an awful lot of wheat that was planted as a dryland crop into rice farms. Unfortunately a great deal of that failed as a dryland crop, as did other dryland crops. If you move to the cotton-growing regions in northern New South Wales you will notice that there is an awful lot of crops other than cotton that have been planted to take advantage of record grain prices. There is an awful lot of sorghum that is being grown up there. So look when it comes down to it irrigators will understand the opportunities for the crops that they might grow and will look to the greatest return for their inputs. They have done that. They will continue to do that. Hopefully, as a result of that then their requirement to rely on any sort of drought support should be minimised.

PROF WOODS: Yes, I mean it's obviously different if you have got an orchard or something because it is dedicated to that single crop. But do you think that those who do have options of switching to some dryland form of operation are sufficiently prepared, educated, that there are enough extension services, that there is enough R and D to help them through that process or is that one where initial investment might be warranted?

MR GREGSON (NSWIC): There is never enough R and D. The great concern for us at the moment in term so research and development, particularly in irrigated agriculture, is that funding for it is often tied to previous years' production; that is, that it is being funded on the basis of a levy based on yield in previous consecutive years. If you look particularly at those two key areas of rice and cotton, they have had consecutive poor years. As a result the funding for research and development and to a certain extent extension has been dramatically decreased. So at a time when irrigators desperately need that option, it's that time that the research and development into the alternate options is being taken away. So reassessing the funding model for that research and development is obviously something that needs to be looked at and looked at reasonably urgently to ensure that this (a) doesn't happen again but (b) can be addressed immediately.

We have got no doubt that on-farm irrigators are prepared to face a new future and are prepared to try something different. But again they are on-farm. They need the assistance and the extension programs to enable them to utilise those options. New South Wales Irrigators Council is involved in a number of those extension programs. I think I can safely say that the response we get from farmers is that they are extremely interested to hear of any new option which involves either less use of water for the same level of productivity or alternate options in terms of cropping. They are always keen to hear what the options are.

PROF WOODS: Okay. We will explore extension in a little more detail in a moment. But just picking up the R and D, the RDC model has a lot of good governance features to it because there is buy-in by the farmers and they capture most but not all of the benefits et cetera. But from what you are saying is there an argument in there that government could almost have some sort of counter-cyclical policy so that when the levy income is falling down because of seasonal or other influences that then government could come in and top up for a period but then drop back down when levies go up. Is that sort of what you're suggesting?

MR GREGSON (NSWIC): It's something that our council again hasn't considered in any detail but it's something that we would - - -

PROF WOODS: That's why you are here.

MR GREGSON (NSWIC): Yes, certainly. It's something that we would certainly agree ought be looked at. As I'm sure you would appreciate a great deal of this research and development is undertaken in rural and regional areas.

PROF WOODS: Absolutely.

MR GREGSON (NSWIC): The most difficult asset to obtain is the people that are involved in it. If funding dries up and you lose a research scientist it's very, very hard to attract them back again. So potentially counter-cyclical is well worth looking at to ensure an evenness to the revenue of those organisations.

PROF WOODS: Are you expressing there concern about the sort of short-term employment nature of a lot of the staff, you know, if they are on a one-year, two-year or three-year funding grant that it's not meeting your needs of that long term that you're talking about?

MR GREGSON (NSWIC): That's part of our concern. But I suppose what I was addressing more particularly is the need for these organisations to assess their forward revenue and recognise in some circumstances, that we are definitely aware of, they can't afford everybody they have got. Again once you lose somebody you don't get them back.

PROF WOODS: Extension. Are there some good models in your various industries that warrant closer look from our point of view, because we would like to flesh out some of the extension activities and promote them more fully. Are there any that you would particularly draw to our attention?

MR GREGSON (NSWIC): Our role, as I'm sure you would appreciate, is to represent irrigators overall rather than any specific commodities.

PROF WOODS: Yes, true.

MR GREGSON (NSWIC): I'm afraid we don't have that information.

PROF WOODS: But you don't have a view on whether cotton does its extension work better than rice or, you know, whatever?

MR GREGSON (NSWIC): Given that both Cotton Australia and Ricegrowers are our members, no, we don't have an opinion on which one is best.

PROF WOODS: Perhaps we could have a cup of coffee later.

MR GREGSON (NSWIC): I'm sorry to do it to you but it's a question - - -

PROF WOODS: Yes. No, I - - -

MR GREGSON (NSWIC): It's a question best posed to the cotton growers or the rice growers - - -

PROF WOODS: Yes. No, it's just that we're looking for models that - because they do work differently and you can get lessons from both sides - what things not to do and things that are worth doing more thoroughly. But we will continue to explore that issue of where is extension work done well, why is it done well and how can we build some of those lessons into our final report. Where to from here? We have dealt with extension.

The various forms of accreditation, legislative requirements of the different industries - you know, if you want to use chemicals you have got to do a Chemsafe program, you've got occ health and safety requirements et cetera. So there is a legislative set of requirements on farmers to be able to do a minimum set of things. Some industries then go further, and cotton is a good example of that, where they then say, "But, however, to be a participant in this industry here is a minimum set of capacities that you should have that can enable you to participate in our broader industry programs." That sort of increasing professionalism of farmers, ongoing professional development programs and the like, is that something that you encourage amongst your various constituencies and what do you see that trend being?

MR GREGSON (NSWIC): Yes, it is something that we encourage and a number of our member groups are specifically involved in it. You have mentioned Cotton Australia. We know that Ricegrowers are doing the same thing.

PROF WOODS: Yes.

MR GREGSON (NSWIC): We know that the Horticultural Council is also particularly active in that, as are the dairy organisations. So to a certain extent it's a form of industry self-regulation but I think that you have correctly identified that the minimum set of regulation is there as a legislative requirement and then the advances on top of that are undertaken by the individual commodity groups. It's something that we both agree with and support and think that it has been of enormous benefit, not only to the irrigators and to their businesses but also in particular in respect of environmental stewardship. In that respect I would point to the environmental champions program that the Ricegrowers Association run to ensure that the farmers are recognising not only the sustainability of their own business but the sustainability of their industry.

PROF WOODS: Yes.

MR GRANGER: If you had to paint a picture of irrigation in the Australian agriculture scene, say, 20, 30 years down the track, bearing in mind this thing called climate variability et cetera, what sort of picture would you paint? Would some areas that are very much attached to irrigation now, would they be still there?

MR GREGSON (NSWIC): To a certain extent I suppose irrigated agriculture represents the baseload of agricultural production and the peak production, as it were, may come from dryland; that is, we should in normal circumstances always be able to rely on a baseload production from irrigated agriculture, because of the nature of regulating the availability of water, except in exceptional circumstances.

We are not blinkered. We understand that it is likely that irrigated agriculture will be a smaller sector in 20 years than it is at the moment. But our suggestion would be that that is primarily as a result of government policy rather than any specific moves on behalf of industry. As we had said in our submission, to a great extent the wish of farmers is to be able to keep farming. To that end irrigators in the vast majority have recognised that they need to be more efficient with their water use. Many of them have made a great deal of progress towards that. That is not only in recent history, that is over the course of at least the last decade that they have recognised that they need to be more efficient with their water use in order to maintain their level of production, that is, the productivity.

Over the course of the next decade we see the pace of that efficiency escalating dramatically. A lot of that will be assisted by government policy. At the same time the uncertainty that surrounds particularly Commonwealth government water policy is a problem for them. They are not certain where it is that the government is headed in terms of purchasing water entitlements. They are not certain the areas that will be targeted for the purchasing of water entitlements. As you would appreciate, agriculture in general is already suffering from a great deal of uncertainty. Further uncertainty from a government policy perspective does not assist and we really do desperately need to see where the government is heading, particularly in water purchasing, quite quickly.

If that certainty was there as to what the government intended to do, how they intended to do it, and when they intended to do it, then I think you would see that willingness and level of investment, private investment, from irrigators in efficiency programs will increase dramatically. So if that occurs over the course of the next say 12 months to understand some of that certainty, then where do we see it in 20 years? We see there having been significant extra investment in efficiency and a level of production and productivity not greatly altered.

MR GRANGER: Thanks.

PROF WOODS: I notice you appreciate this isn't an inquiry into water purchasing but we do also in our report identify the very strong interaction between the two issues.

MR GREGSON (NSWIC): Of course.

PROF WOODS: You can't head off in two unrelated directions without causing significant grief. Just looking through your submission and some supplementary notes, I think we have probably covered all the topics, but are there any other issues that you want to tick off while you're here?

MR GREGSON (NSWIC): I think we've covered the great majority of what it was that we wanted to say and I think we've made that point that we wanted to make, that irrigated agriculture is a completely different beast and needs programs targeted at it.

PROF WOODS: That one is quite clear. Are you anticipating putting in any supplementary notes in response to our draft report?

MR GREGSON (NSWIC): Not at this point, no.

PROF WOODS: Thank you very much, as I say, not only for your initial submission but giving the time and thought you've put into coming along today. It has been very helpful. If there is any way in which you can encourage your constituent bodies to put in some notes - and we're particularly interested in areas of R and D, business programs, extension programs - that they can see some merit in, but of course they're free to comment on whatever they like but that would be particularly helpful. It doesn't have to be a big glossy brochure, it can be an email with an attachment or two and a series of points.

MR GREGSON (NSWIC): We can most certainly encourage that.

PROF WOODS: If you can give that message back to your constituency. Again thank you very much for the assistance you've been giving this inquiry.

MR GREGSON (NSWIC): Thank you very much, and again can we recognise the consultative model that the commission has adopted. It has been ideal and there should be a great deal of government involvement in that model, particularly in other areas of policy.

PROF WOODS: Thank you very much. We will adjourn for 10 minutes for morning tea before our next participants.

PROF WOODS: Thank you very much, we will resume our hearings. Our next participants are Local Government and Shires Association of New South Wales. Could you please for the record state your name and the position you hold in the organisation you are representing.

MR McBRIDE (LGSA): Yes, my name is Shaun McBride, I'm the strategy manager, finance infrastructure and planning at the Local Government and Shires Associations of New South Wales.

MS GEMES (LGSA): Liz Gemes, policy officer rural affairs and emergency services with the Local Government and Shires Associations New South Wales.

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

MR McBRIDE (LGSA): Well, we intend to just speak to the key points in our draft submission today. However, we would note that our Shires Association vice-president attended the roundtable in Dubbo on Friday, so it's quite likely that you've covered some of this ground. If you want to skip over that, just give us the cue.

PROF WOODS: Okay. Shall we do this on a question and answer type basis? Is that the best way through then, or do you want to start off and give us an overview? It's up to you.

MS GEMES (LGSA): I notice that you have a copy of our draft submission there.

PROF WOODS: As a draft; it's not on the record at this stage.

MS GEMES (LGSA): What we would be doing is going through this document and commenting on the key points, if there are particular questions that you have on this document. Have you had a chance to review at this point?

PROF WOODS: We're fine, yes. Do you want to take us through it?

MS GEMES (LGSA): Yes. The associations, first of all, would like to mention in regards to the drought summit that was held in conjunction with the New South Wales Farmers Association and the Country Women's Association, of that summit there was a list of key priorities that were the outcome for this summit. We mentioned within our submission the key priorities that weren't addressed within the Productivity Commission's report. One of them is in regards to the annual rates rebates, with that a number of other states and territories do offer a rebate for various shires and with that we would be of the view that a rebate of approximately

15 per cent, although there is support for 50 per cent, would be of great benefit to country areas not only for the community but then also to local government as they are finding that there is a greater number of rate deferrals in their communities.

MR GRANGER: Have you got an idea what the quantum would be if, say, it was 50 per cent, just roughly?

MR McBRIDE (LGSA): Yes, we did some estimates on this a couple of years back and I think it was in the vicinity of five to 10 million. It wasn't a massive amount. The Victorian figure was around five million in that year - which was probably 2007 - for their scheme where they provided 50 per cent rebate for farms with exceptional circumstances, and we estimated in New South Wales it would probably be about a third more than that at that time, so it was in the vicinity of five to 10 million.

MR GRANGER: Thanks.

DR BYRON: Can I just clarify, is this the payment from the Commonwealth or state government to local government - - -

MS GEMES (LGSA): As a rate rebate, yes.

DR BYRON: - - - to enable the ratepayers to pay less to the councils?

MS GEMES (LGSA): Yes.

DR BYRON: I'm just trying to work out the mechanics of who pays whom for what.

MR McBRIDE (LGSA): Under the Victorian scheme the state government pays the council so they bring in their rate notice and improve eligibility and council credits 50 per cent and then they claim that 50 per cent back off the state government.

PROF WOODS: They, the councils, not the individuals?

MR McBRIDE (LGSA): Not the individual.

PROF WOODS: Yes. Very good.

MS GEMES (LGSA): Okay. The next priority was in regard to fixed water charges. There was this overall support for a waiver of fixed water charges for irrigators who have had their allocations reduced due to the drought. As a result of

the dramatically reduced, in some instance, nonexistent allocations, the capacity for irrigators to pay is extremely limited. The next point was in regards to infrastructure spending. We would like to acknowledge that, yes, there have been two grants currently provided by the state and federal for infrastructure. We've had various support for the appropriate maintenance investment in rural and regional infrastructure, and with a report that was conducted we would like to highlight that there is currently a 7.8 billion dollar infrastructure renewal backlog from New South Wales local government. The infrastructure for rural and regional areas, yes, although we're appreciative of the current funding that's been made available there is still a great need.

In regard to income-contingent loans, long-term low interest rate loans, with that the associations are of the view that a great way to support our farmers is to provide low interest rate long-term loans, instead of your welfare-type payments and with that they would be able to then continue a financially viable business through a difficult drought period. One of the major priorities was in regards to the call for streamlining the current support system, drought system.

PROF WOODS: Yes.

MS GEMES (LGSA): Stepping away from the summit that occurred we would then like to talk about the great benefit of the agricultural industry to the Australian economy. The Australian farm producers in 07-08 had a farm production of \$41 billion and with that the agricultural establishments providing employment for Australia of \$359,000. The farm, forest, fisheries sector contributed 13.4 per cent to Australia's total export market. We're of the belief that Australia's farming sector really does need to be supported to produce instead of exit funding. It's obvious that the Australian agricultural industry is essential to our economy and with that if we have a mass exodus of farming and we have a depopulation of these areas there will be detrimental social and economic impacts. So we would call for a redirection of funding instead of exit funding to encourage farmers to stay and keep producing to then get out of this current drought period and into recovery.

PROF WOODS: Okay. We'll come back to that point.

MS GEMES (LGSA): Yes. We congratulate the commission's recommendation for significant public funding for research and development. With that though we would like to call for the funding package to be flexible to respond to the circumstances to change over time.

In regards to the farm management deposits, the associations strongly support the retention of the farm management deposits but we do have concerns about the recommendation to cap the farm management deposits at 400,000. With that, we call

that the cap should be increased to reflect the current increases in farm input and CPI, so where that shouldn't be recommended of being capped but allowed to increase, as costs increased. We also call for a commitment from the federal government not to reduce the extent and range of services provided by rural financial counsellors. All reports back that we have received have been highly beneficial to the community of the services that they do provide.

In conjunction with long-term, low interest rate loans we also then recommend that there is provided tax incentives such as, for example, the accelerated depreciation and the write-offs in the year of funding - improvements for silos and drought-proofing measures. We are of the view that this would effectively provide some financial support to farmers going through a difficult drought period without the stigma of receiving welfare, which has been highlighted within the social report. With that, we are in the view of the process of exceptional circumstance declarations and we would call for that process or that concept to be maintained, but we would ask for it to be reviewed and renamed to be more reflective of what it actually stands for, which is drought identification, and having the process streamlined to be easier to access but then also to have a more equitable process.

In regards to the commission's recommendation at 6.3 to terminate all territories' transaction based subsidies, within New South Wales the transport subsidies currently provided by the New South Wales government provides valuable assistance to ease the effects of drought on livestock for stock fodder and water transport. Although we recognise that this falls outside of the federal funding, we do call for the New South Wales government to continue this funding past February 2009 when it is earmarked to cease.

Then in regards to the Productivity Commission's recommendation 9.1, although the associations prefer to take the approach of long-term, low interest rate loans and tax incentives, we are of the view of that if the recommendation is adopted for temporary income support. With that, we have concerns about the restriction of three out of seven years that farmers would be able to access this funding. We are of the view that if we had another succession of drought occur over seven years, farmers would be in need of that funding after that three-year period. The recommendation was that they access assistance through the general social security system, subject to the asset and income test. We are of the view that the majority of farmers would then disqualify for social security benefits based just purely on their agriculture equipment assets. So we would oppose that recommendation of three out of seven years of funding assistance for farmers.

The associations would call for any new drought policy that is developed needs to be implemented after the current drought ceases and that there is enough time to allow for farmers to recover from the current drought. Farmers need, on average,

about three years of good seasons to recover from a drought. There are concerns of any new assistance or drought policy would affect their current mitigation and also recovery.

MR McBRIDE (LGSA): We'll leave it there.

PROF WOODS: Okay, no, that's very helpful. Thank you for providing that and your earlier submissions. That gives us some things that we can explore in this opportunity of the hearing. Perhaps if we start at the broadest level, the benefit of agriculture to the economy. I don't think that the commission differs from your own statistics as to the size and nature and contribution of agriculture to the economy. Certainly even in this drought, which for dryland farming is one of the three worst droughts in the last 100 years, 80 per cent of farmers have got through - not necessarily in good shape but have got through without government support.

So nobody is talking about the decimation of agriculture in Australia or agricultural land being abandoned. In fact, a number of farmers have complained to us that agricultural land prices have maintained at high level. In fact, a number of farmers have been supported and have kept on the land whereas the next-door neighbour would have actually liked them to have sold up so that they could have had the opportunity to buy the farm. So we are not talking about the abandonment of agricultural land. Somebody will buy it at an appropriate price that reflects what it can produce and take it over. So I think maybe you are painting a picture that might be a little on the extreme side. But do you have a reaction to that or a comment on that?

MS GEMES (LGSA): Okay, well, these statistics were from the 2007 to 2008 financial year based on the Australian Bureau of Agricultural and Resource Economics Australian commodities statistics.

PROF WOODS: Yes. We are not disagreeing the figures, just the consequence.

MS GEMES (LGSA): Yes.

PROF WOODS: Yes.

MS GEMES (LGSA): What then continued on was that currently what is provided on the export market by our agricultural industry is competing on an international level against their heavily subsidised counterparts of America and Europe. We would probably then take the stance that there needs to be a state and federal stance of supporting the industry and a statement to that effect of recognising the contribution that the agriculture industry provides to - - -

PROF WOODS: Yes. I mean agriculture in Australia actually is a very positive story. It has a very high productivity rate. I think it's 1.8 per cent per annum on average compared to the Australian economy generally of about 1.1 per cent. So it's a very productive industry in part in response to the fact that it is exposed to the world market. That has spurred farmers to pursue their productivity levels to great heights. Output continues to grow quite strongly. Even during this last drought from memory it was three years in this last eight years of being three of the four highest years of yield in agriculture. So it is a very strong and positive story of agriculture in part because it is exposed to world trade. So I think they need to be congratulated for where they're heading. We certainly support that. What we are looking to do is identify ways through R and D and extension and business support programs and the like, where there is public benefit, not just private benefit, to encourage them to even greater heights. But it certainly is a very positive story of agriculture.

If we can then look at hardship issues and move then through to business program issues. On the household hardship support you made mention of your concern about the three years. These are matters of judgment and we appreciate your assistance in the judgment we finally make in our final report. But we took the view that farm households should prepare for and be able to cope with at least a one-year drought every so often because that's part of agriculture. Every district can show you - whether it was the 94 or the 82 or whatever it was year, 2001 or 2006 years - that drought is part of that landscape. So a level of preparedness - one year every now and then is a normal not an exceptional. A second year consecutive gets hard.

Then what we were envisaging is by having three years in seven that they would get through the first as a normal part of their operations. The second year they would struggle through and then in the third year this cuts in. So really it would take a five-year drought to exhaust a lot of farms.

MS GEMES (LGSA): Which if we have then another round of a seven-year drought that we are currently in, where a lot of regions have even been suffering from an exceptional drought longer than a seven-year period, this is then where we raise concerns of, yes, that the majority of farmers are able to mitigate or survive a one-year drought. But then where we have a succession of seven-year droughts, this is then where we have concerns that there is that restriction of - - -

PROF WOODS: Yes, understand that. We should also remember that even in this drought - which again as I said, for dryland farming is one of the three worst in the last 100 years - that 70 per cent of those even in EC declared areas haven't been getting this government support. It has been an exceptional drought in that sense but 70 per cent of farmers on average haven't been accessing government support. So there is a lot of preparedness, there is a lot of resilience, there is a lot of capacity out there in the farming community.

MS GEMES (LGSA): True. But there are concerns that some of those farmers haven't been eligible. Although they are suffering from financial hardship they haven't met the eligibility of that exceptional circumstance funding, whether they have been able to diversify and have an off-farm income or assets.

PROF WOODS: They are things presumably to be encouraged, that you should start with self-reliance first and therefore if you can get off-farm income or if you can diversify your operations or whatever measures you are able to take you would want to do that first.

MS GEMES (LGSA): Which has then disqualified a lot of farmers from receiving this funding, although they will be suffering financially because of the drought.

PROF WOODS: Yes, but they are starting with self-reliance first and then moving through. So that's why we have come to that view, although we do note your views on what the impact of that would be for an exceptional drought. Anything else on the hardship side?

Then going through some of your issues on the farm business side, you have put a number of issues on the table, things like annual rate rebates, infrastructure spending. Is there an argument that as droughts bite increasingly deeper into a local area that government should, whether they be state or federal, undertake some counter-cyclical type activities? It needn't be through local governments necessarily, although they are well placed to do some of that, but catchment management authorities, you know, pasture boards et cetera; that there is an argument that state and federal governments should ramp up their expenditure in those areas by the time it gets to year 3, 4, 5 to undertake public works that have public good but also provide some part-time or off-farm income that meet some criteria that improve infrastructure so that recovery is facilitated?

MR McBRIDE (LGSA): We would certainly support that point of view because although we are talking a lot about farmers today in our submission, our earlier submission, we have also emphasised our concern for the towns and the communities too - there would be knock-on effects - and the small businesses and so on. The types of measures you are talking about would be quite appropriate for sort of keeping the economies of those towns and communities ticking over, perhaps replacing employment, there might be loss from businesses and that, by creating employment opportunities in other areas. At the same time the government still would be achieving its longer-term infrastructure objectives, its environmental objectives and so on. In most cases you would be bringing them forward, at the same time providing cash in-flow into that local and regional economy to help maintain a certain level of jobs and to maintain the communities.

PROF WOODS: So that could wrap up a number of these specific things that you have got here if we had a sort of counter-cyclical program. I'm sure you would be arguing why local government is best suited but you would probably also acknowledge that the CMAs and others - - -

MR McBRIDE (LGSA): Sure, certainly.

PROF WOODS: - - - are also well placed to do some of that work.

MR McBRIDE (LGSA): Yes.

PROF WOODS: Well, that one didn't receive any disagreement, probably appropriately. Other issues, rural financial counsellors, you made mention in your supplementary material about the role they play. Do you want to expand on that at all?

MS GEMES (LGSA): The reports back that we have received from our various shires and local government is that the rural financial counsellors do provide an essential service to their communities. Our members have raised concerns of having the services reduced or amended. So with that they are of support of the Rural Financial Service and the services that they provide; that there wouldn't be a reduction in regards to their extent or services that they provide.

PROF WOODS: That they just become an embedded part of the rural network providing support?

MS GEMES (LGSA): Yes.

MR GRANGER: Do many shire councils have coordinating counselling services for their communities or farming community, I should say?

MR McBRIDE (LGSA): I think it varies from council to council. We are probably not in the best position - we don't have research on that at present. I know the relationship and the structures with the councillors and councils and level of support and even the level of general social services that individual councils provide varies quite dramatically across the state. There would be some that have a heavy coordinating role and heavy involvement and there would be others who might be maintaining arm's length and allowing some of these services to be provided more autonomously.

MR GRANGER: Often people mention there's a lack of awareness of just what is out there. Invariably there are a lot of support services - people that get very stressed

for all the things we are talking about, sometimes their whole world sort of closes in on them and yet support is so near. Often the local government is probably in the best position to have a good regional feel.

MR McBRIDE (LGSA): Councils do disseminate a wide range of social and health information from council chambers and other council offices and particularly council libraries, by library services. There's usually a vast range of help services, of health and social and financial need that are promoted there. They are variously provided by local, state or other agencies, voluntary agencies. So councils do play a large role in fostering awareness.

MS GEMES (LGSA): But with some councils it is in regards to their capacity to provide such services of where they are already at, their extent. Then also probably we would make mention of whether there would be a double-up of services provided and that would cause confusion of where we are calling for a streamline of services so that there is that knowledge within the community that there is one location for this.

MR GRANGER: Can I ask you a broad question. It's probably a bit out of left field but do shire councils on average have a development plan for their region?

MR McBRIDE (LGSA): Yes, well, mostly. Most country councils would have economic development plans or strategies of some degree of sophistication or another. In some cases the larger players, larger towns or larger councils, are often quite sophisticated. Many would employ a economic development officer or manager in many rural councils. Some of the smaller councils don't have the resources to have that type of expertise.

MR GRANGER: If I was a farmer in a particular region would I be able to easily see where I fit into the thinking of the regional area just in terms of the direction, just what sort of infrastructure resources people have in mind, for example, a whole host of things. But would it be really farmer-friendly in terms of, "Well, you know, I'm feeling important. This is where I fit in"? I don't know.

MR McBRIDE (LGSA): Most of the rural councils would generally see farming as one of the important components in our economy and, of course, a significant proportion of the elected councillors will be farmers or from the sector and will be closely related to it. I think if you were farming in, say, the Cowra region or in Inverell or Liverpool Plains or somewhere like that, these types of long-term plans would be there and agriculture and value adding to agriculture would feature prominently in their long-term plans. I know, for example, just a few years back even at Coonamble, a relatively small council, they were very active in that area and the council itself was leading an initiative to establish a feed lot to improve the value

adding to agriculture in that town which is probably still depressed, was very depressed even then. But that was council providing the initiative. I think that feed lot has subsequently been established but as a private sector initiative, but council got the ball rolling. That's just one of dozens of examples.

MR GRANGER: They were probably the Dorothy Dix in this. Do you see that shire councils have got a role to play in drought-proofing the community? It's not only an ag thing.

MR McBRIDE (LGSA): To the extent of their limited resources, councils and particularly small country councils are financially not well resourced. They can and do play a significant role in maintaining communities through difficult times and in planning for the future development of their areas. But their resources to put behind plans or to implement plans are quite limited. While they will have great long-term infrastructure plans and so on, their resources to fund them are often highly constrained. Prof Percy Allen conducted an independent inquiry into local government financial sustainability and he found that probably 25 per cent of New South Wales councils are not financially sustainable in the long run and it was probably no surprise that the majority of those were probably smaller rural councils, particularly to the far west and south-west and his view wasn't a matter of amalgamating them would make them stronger because the analogy of you just amalgamate two basket cases, you just get a larger basket case and in the course of distances, geography and that you just don't have those synergies to achieve the economies of scale.

PROF WOODS: You can't share a grader if you're 500 kilometres apart.

MR McBRIDE (LGSA): That's right. I think his view on that type of thing was that some of these communities in the long run will only survive if there is permanent financial support from federal and state governments to supplement them, otherwise those communities would not survive into the long run, that was his finding. Mind you, that's not to say all country councils, that was only a small proportion. The majority are actually quite sound.

PROF WOODS: There are financial assistance grants that industry would back through, in part on need, depending on how each state interprets that criteria.

MR McBRIDE (LGSA): Yes. In New South Wales and probably most other states because they all operate in similar - there are five principles or whatever that they all must recognise. Yes, it's true the bias distributes the money towards the more needier councils, particularly the rural councils and the urban councils with strong revenue bases, you only get the minimum entitlement.

PROF WOODS: Everyone gets a minimum but there's a discretionary component that biases to those in greater need.

MR McBRIDE (LGSA): Our long-running argument at a national level is that the pool itself is inadequate to achieve its horizontal equalisation objectives, but that's cause for another submission, I guess.

PROF WOODS: Yes.

DR BYRON: I just come back to the point that you made, Liz. We all want to see a long-term, sustainable, profitable, viable, dynamic, world-class agricultural sector. But I assume you'd agree with me that that doesn't necessarily mean that every existing farm can stay where it is doing what it has been doing indefinitely, that there is a dynamic of long-term change and, just as an example, my father-in-law's place used to support 12 families in the 1950s but now it supplies half the income for one family, although its productivity and its yields and everything have been going up, agriculture across Australia has been shedding people for a long time as we get more mechanised and all those sorts of things. I can understand why the rural councils have a really strong interest in keeping people on the land, but aren't you coming up against this fundamental tension that as farms get bigger as we get more mechanised and so on, there will be people moving out of agriculture. Is part of the answer to that to find livelihoods for people in rural areas that aren't actually agriculture based? Have you got any thoughts on that tension and how do you keep people in the country, but not necessarily in farming?

MS GEMES (LGSA): In regards to the agricultural industry evolving, I would respond every other industry needs to evolve with time. In regards to that there are greater technologies and that there is then more employment that is moving away. We have long since advocated for economic development within regional areas within a number of sectors, not just your agricultural industry. So with that, of course, we would be very supportive of other initiatives and economic development, that these positions that were originally in farming in regards to technologies increasing, better production processes that there is then other industries for them to move into.

DR BYRON: The follow-up question to that is that a lot of people have suggested to us that for borderline farms, are we actually doing the farm family a favour if they keep them on what's been called a drip feed or a life-support system and the counter argument is, we've had some anecdotal evidence but no really strong analysis about life after farming with people who eventually bit the bullet and decided it was time to move or even to stay in the district but not do farming. Some of them are telling us it was the best thing they ever did. So the "Is there life after farming" question is one that we really need to grapple with in terms of drought support and do want to

necessarily have a system that keeps people in farming rather than keeps them in the district, which is sort of another version of the question I just asked you.

MS GEMES (LGSA): We are of the view that because this has been such an exceptional drought, that it has been for seven years or longer, the people that are exiting farming - could be still quite a viable farm and they're quite capable of managing that farm and it has just been because of that, such prolonged drought and its severity, that there should be that encouragement to stay on the farm and keep producing and there will be good seasons and they will be able to recover and still produce that farm productively. We have concerns that a lot of focus of policy is towards exiting farming and with that we have concerns that there will be a depopulation in these areas.

DR BYRON: Unless you're got ways of exiting farming without necessarily exiting the district.

MR McBRIDE (LGSA): It is a complex issue that one and where do you draw the line and what's a viable sized farm, and depending on what type of crop you're growing or what type of animals you're raising. I think in the long run, yes, we would acknowledge that assisting people to get out of unviable farms - and I know that has been long-term strategy in Western Queensland and I think the Department of Primary Industry many years ago was actually following that sort of policy. So I think in the long run what we're concerned about is that this has been an exceptional period of duress, that it might not be appropriate to encourage people at this point of time while under duress to leave the farm because maybe the farm is in the long run viable and it has been an exceptional period.

Under normal circumstances, yes, there might be decisions that just need to be made on the basis of viability and assistance should be when they can make a decision in a cool-headed, rational environment about selling off their family farms.

DR BYRON: Yes, I think we would probably be in agreement. The people who are in the best position to make that call are the owners, the farmers, themselves and the only proviso is, provided they are thinking rationally and clear-headed - and I accept when you're under extreme stress it's very hard to be very rational and clear-headed about that. I understand it's a big call.

PROF WOODS: Yes. That was helpful. You talk positively about income-contingent loans in parts of your proposed - will this get to the public record at some point?

MR McBRIDE (LGSA): Yes, it's only because we haven't - - -

PROF WOODS: Whatever form it proves to be is what we'll put on the web site. So just using it for the purpose of discussion today you refer to your support for income-contingent loans but later on you also talk about your support for long-term, low-interest rate loans. Are they seen as two separate things and that you'd like them both to be available or are you talking about some subsidised access to capital as a loan structure of some sort, whichever formulation it is?

MR McBRIDE (LGSA): I think from our point of view there's probably sort of slightly different degrees of opinion on those two issues. I don't think they're seen as mutually exclusive. We think they should both be investigated as potential alternative options to direct financial assistance for the reasons stated. We haven't ruled out one over the other. We don't see them in that way.

PROF WOODS: So it's more a conceptual issue.

MR McBRIDE (LGSA): A conceptual issue.

PROF WOODS: You can see something as being beneficial in your view.

MR McBRIDE (LGSA): Yes. New South Wales Farmers, as you're probably aware, they will obviously speak more to this this afternoon, initially came out promoting the income-contingent loan idea to which they sought our support to and which we provided the support to that as a positive option.

PROF WOODS: Okay. I mean, even whether it's an income-contingent loan which basically means there's a deferral of interest payments, which is a grant by another name, and the interest rate subsidy which is basically the grant between the market rate of interest and the rate of interest you pay, they're all grants. They're all money from the taxpayer handed over to farmers. There's no strong argument that says, "Well, these really aren't like getting handouts from taxpayers." I mean, it's still payments by taxpayers in one form or another. Even a subsidised interest loan is still a grant of that space, the margin between the market rate and the rate paid. It's true they repay the principle but you get a grant. We look at these in that generic sense and say, "Well, what is the best form of support that has some public good associated with it?"

The design of each of them has pluses and minuses and we work our way through the various merits. So in reading whatever form of document you finally sign and send into us, I should look at that as a generic concept and then work our way through.

MS GEMES (LGSA): In regards to the income-contingent loan that was our priority that was outlined within the summit that was held in conjunction with the

associations, and we sat down the associations independently and they are of the view also of long-term, low interest rate loans.

PROF WOODS: Yes, okay. That helps. I understand that. We seem to have been working our way through the issues. Are there ones that you've raised - and we look forward to getting a final document from you for the record, and preferably by the end of the week if that was at all possible.

MR McBRIDE (LGSA): Yes, it will be. It's only a matter of sign-off.

PROF WOODS: We dealt a bit with the role of the RFCs. I'm not sure if there's anything more we need to say on it. Do you want to say anything more on rural financial counsellors?

DR BYRON: It was about the review.

PROF WOODS: Yes.

DR BYRON: As you're aware in the draft report we picked up on the recommendation of the social expert panel about reviewing the role and it has since been explained to us that the role has changed substantially quite recently, and a number of people have suggested to us that reviewing it now would be premature and possibly even a waste of time, maybe in a couple of years' time. So I just thought I'd let you know that we're certainly reconsidering that one.

MS GEMES (LGSA): Okay.

PROF WOODS: Very good. Anything else on your list? FMDs?

DR BYRON: We talked about - - -

PROF WOODS: Talk about the caps and - - -

DR BYRON: Well, we talked about that earlier with the Irrigation Council. I don't know if you were here when we had that conversation?

MS GEMES (LGSA): No, we weren't.

DR BYRON: No. We accept that bigger farmers need to have bigger reserves, that the cap on the farm management deposits are 400,000, doesn't cap the total amount of reserves you can put away, it just caps how much of it gets the special, favourable tax treatment. Of course there is a cost in providing that special, favourable tax treatment. It seemed to us that relatively few primary producers around Australia

were bumping up against that threshold so there didn't seem to be a very strong case for changing that threshold. But again if we can get evidence of how many people are seriously disadvantaged or why other ways of putting aside reserves are unsatisfactory, then we can look at that again. The rationale for endorsing the FMD system but saying that we didn't see a strong case for changing the cap was subject to getting further information.

MR McBRIDE (LGSA): Yes, I think our major point there is just about indexing it, so it maintains its value through time. It maintains its real value.

MS GEMES (LGSA): Instead of locking it in, there's a cap of 400, that there is that flexibility to increase it as fund costs increase.

DR BYRON: The cap is probably far too generous for some producers but far too small for the top end. Anyway, we're still looking at whatever information we can assemble on that.

PROF WOODS: Are there matters that you would like to explore further that aren't either dealt with in your paper or that we haven't discussed today?

MR McBRIDE (LGSA): No, I'm quite satisfied with that.

PROF WOODS: We did have the benefit of the Dubbo roundtable there.

MR McBRIDE (LGSA): I'm sure.

PROF WOODS: A number of these areas were explored. I think that one went for three and a half hours or something. There were many people around the roundtable, but it was a very thorough examination of some of those issues. If there's nothing else that you wish to add then thank you very much. I appreciate the material that you've provided us already and look forward to a signed version of your rejoinder submission. That being the case, we will adjourn and resume at 1.30.

MR McBRIDE (LGSA): Thank you very much.

MS GEMES (LGSA): Thank you for the opportunity to present.

(Luncheon adjournment)

PROF WOODS: We will resume the hearings into the government drought support inquiry. Our next participant is New South Wales Farmers Association. Could you please for the record give your names, the position you hold and the organisation you are representing.

MR LAURIE (NSWFA): Thank you. Jock Laurie, president of the New South Wales Farmers Association.

MR BAIRD (NSWFA): Angus Gidley Baird, policy manager, New South Wales Farmers Association.

PROF WOODS: Thank you very much for coming and for providing support to this inquiry, both through initial meetings and helping arrange groups out through New South Wales, your submission and now your attendance here. We have appreciated the contribution that you have made to date as part of this inquiry. Do you have an opening statement you wish to make?

MR LAURIE (NSWFA): I think if we just keep it to a minimum, we're more than happy to answer your questions. The obvious impact of the drought, whether it be social, financial or just the sheer emotional impact of the drought over the last six or seven years has been obviously quite incredible. While I think we do recognise right from the word "go" the systems that are in place probably aren't the most equitable and probably aren't the best, we certainly know that the assistance that has come back through those measures has been of great benefit, not only to individuals but most definitely to helping supporting communities in those local areas.

I think we'd like to put on record the fact that we do believe, very much so, that the support has been of great benefit, as I say, not just to individuals but communities. But at the same time we realise there are people who feel that they have been harshly dealt by simply because they haven't been able to access support in one form or another, so that has been a problem for the association, certainly a problem for our members in many areas right across the state.

PROF WOODS: Okay. There are a number of issues that we would like to go through with you. Are you also intending to put in a rejoinder submission to our draft report or will we treat today as - - -

MR LAURIE (NSWFA): No, we will be putting in a further submission.

PROF WOODS: Just a reminder that the cut-off is the 19th.

MR LAURIE (NSWFA): We'll get there, don't worry.

PROF WOODS: Or as close as you possibly can. I mean, we're very keen to get your submissions as close as you can get to that deadline. It would be greatly appreciated. You've seen our draft report, perhaps a couple of points of clarification first off, just so that we don't get stuck on discussions we don't need to have. One is the transition time frame that we had proposed. You would be aware that separately Minister Burke and ministers of the states have come out saying that while ever an area is in EC then those who have been receiving EC support programs can continue to be eligible to apply for those, given that our time frame becomes somewhat irrelevant in that context, so we don't need to have that particular discussion about cutting off at the middle of next year.

We did put it forward seriously in terms of giving the farming community two seasons, but we just don't need to have that conversation so that can take away some of the time that we could otherwise spend on other matters. On the question of household support for farming families when they go into hardship, you will have noted from our draft report that we propose moving away from drought being the trigger for that. I mean, drought is a significant factor that can lead to hardship but there are other reasons why farm families are in hardship. So we have proposed an "always on, always available" for households. We've proposed that there be an asset limit of two million, tapering out at three, and three years in seven. Just as some background to the three years in seven, if you assume, particularly for dry land farming - putting irrigation aside for the moment - that a one-year drought every now and then is not exceptional circumstances, it's part of life, and that farm families should be prepared for that, a second year in a row starts to get tougher, and anything beyond that starts to get really significant.

You would expect they would be able to, on their own resources, get through a one-year drought; a second-year drought might stress it, and then this would cut in at either year 2 or more likely year 3. So it really gives them a five-year coverage for a particularly long extended drought, but we propose not having it so that they could start to factor it into their budget on a long-term basis if there was a cliff face that they have to come to a decision point on. Do you have a view on that proposal that we don't tie it to drought as such, that we have it there available as a support for farm families when they fall into hardship, whatever might be their circumstance?

MR LAURIE (NSWFA): I don't think there's any doubt that we see on a regular basis a great variety of reasons why families are falling into that hardship. Obviously there are calls on many occasions to have government have a look at assistance in one form or another, and obviously making some change going down that path tends to overcome some of those things. So people after a period of time will actually fall into the household assistance which is obviously very good. I mean, every household in Australia when they require help should be able to get help and this should be no different.

Some of the things about the assets test are probably of some concern because while you can have any number of assets, if it doesn't rain, for instance, when it comes to drought you've got no income-earning capacity and I think that's one of the things that probably really creates issues as much as anything. For us we're not exactly sure where that fits in and what the problems or potential concerns could be with that. But obviously it is a system, as you say, and I think most farmers do have the capacity to handle droughts. The extremities of weather conditions for one to two years; some people, three to four years, it's all depending on how they're set up and how they're prepared, and also depending on whether they've been under storms or not under storms. That just makes so much difference.

PROF WOODS: Yes, we've seen plenty of evidence of that.

MR LAURIE (NSWFA): The frustration of seeing somebody get the rain and you just completely missing out is pretty ordinary. I think that probably takes in a bit of that variability and allows them to take up those people, pull up those people, I suppose, and catch them in their net. I think that persistence, as much as anything, that household assistance as much as anything, is to try and capture some of that. For that reason I think we don't have any great issues with that. It appears to be reasonable. The asset component, as I say, assets don't give you any guarantee of generating income at all if things don't go with you. So I suppose there's some issues in regard to that.

Just one point you made about the time frames - and I certainly appreciate that, and the minister has been very clear about the time frames and staying with the EC - unfortunately the recommendations were published very clearly in the press about the cut-off time and it had an enormous impact and created enormous angst within the industry. I think I would like to note, as I've noted on one or two of the other reports, the CSIRO one - especially where there was going to be a drought every two years, we were told - the press picked that up and it really did create enormous angst for some people under severe pressure at the moment.

PROF WOODS: No, we were conscious of how the press used that, and as we've been going around we've been explaining our situation and also reinforcing the minister's commitment. So we're trying to ameliorate those issues. The asset one, without pushing too far in that discussion - but it is basically a judgment as to where you cut off in terms of eligibility - this is an asset test that is not available to the general community, it's well above what is generally available. It becomes a matter of broader public issue as to whether you're providing 17 grand a year as a household support to an entity that's got net assets of maybe five million or 10 million. I understand your point that you might have those net assets but they're not generating income.

We have also spoken to the capital market sector and banks and others and everyone's individual circumstance is different, but a number of the banks have suggested to us that if somebody has got significant net assets then extending their overdraft by 17 grand a year to meet household needs is something that they would most likely undertake that extension. If they've got five million or 10 million in net assets they felt that they wouldn't be averse to providing cover for household support payments.

MR LAURIE (NSWFA): I don't disagree with that at all. A couple of statements you've made, I mean, every farming business is completely different.

PROF WOODS: True.

MR LAURIE (NSWFA): Getting to understand each farming business, I think anybody who gets on top of that will be a wonderful man because I can tell you the complexity in all those different enterprises is just amazing. The capacity of the people running them is also amazing. That also relates very much to the banks, and the banks' ability to be able to support people is their judgment not only on the assets but also the judgment on the ability of the people who are running those businesses. While in certain circumstances we know that there might be substantial net assets, if the banks don't have confidence in the managerial ability of that person or they don't have confidence in the person, then the decision-making process in relation to extending overdrafts or whatever are also very much made on that, and while I think many people probably won't admit to it, I'm quite certain that banks take all things into consideration when they're looking at lending money into the sector.

PROF WOODS: Okay, thanks. Was there anything else on the household support side then that you want to raise or can we move on to the other topic?

MR McBRIDE (LGSA): I think the household support is, you know, when it all boils down, every Australian family has the potential to get household support. I understand your argument about assets and also I suppose we need to understand that we're not just talking in many cases about people having no income, we're talking about people having negative income in many years throughout the drought, so the figures have become quite alarming in many properties over the last six or seven years. As a matter of fact, equity levels have dropped enormously in some areas. So the asset limit, while we've got some concerns about, we certainly understand what you're saying, but we also understand there's some issues there.

PROF WOODS: Okay. To the extent you want to address those in your rejoinder submission, we look forward to that. On a related topic, the vexed issue of succession planning, of access to the pension, if a person gifts a three or four million

dollar net valued farm to the next generation, at the moment they're not eligible for a pension for five years, where do you sit in public policy terms of how to encourage a proper succession plan? We as a panel have sort of mulled over this question many times but we can't see a role for government directly. You don't want a government-mandated requirement that every farm has a succession plan and, "It looks like this and you've got to fill in" - I mean, they're very personal matters to address, but also the lack of them causes an awful lot of issues that we see, some of which do end up with government.

Is there a role for government anywhere in there, other than promoting the fact that good business planning and maybe through the FarmBis program et cetera - and you've noticed that we've been promoting that FarmBis should come back - is that the role or is there some other way in which government can encourage farm households to think through these issues.

MR McBRIDE (LGSA): Succession planning is obviously a very big one and it's interesting, because I've just come off a three-hour meeting last night with my father about this very issue, so I understand it very well. We're fortunate enough to be a family that has a plan in place, but there are many families that don't have any planning in place and there are many families where it's too difficult to get it in place because of sibling rivalry or whatever it is. What part does government have to play in that? I think all you can do is encourage people to get in and make decisions, to make fair and equitable decisions that aren't going to end up in courts down the track somewhere and really encourage them to understand I suppose to a certain extent the obligation to do that because I think if family businesses don't step into the succession planning role at some stage, then I think potentially you just end up having a disastrous situation down the track, as we do see in many circumstances.

So I really don't know what part the government has to play other than encourage people to bite the bullet and to be involved and obviously offer any training or assistance that is required, whether it be through FarmBis or any other issue.

PROF WOODS: That's exactly where we came out; I was hoping there might be some other way, but there isn't. That's all right, we understand that.

MR GRANGER: Do you think it could ever get to the stage where it was accepted as a part of some mutual responsibility or obligation to have a succession plan in place to access some, say, government assistance or whatever? It's a hypothetical. Do you think your constituency would tolerate that type of requirement to be there?

MR McBRIDE (LGSA): I think our constituency is a very conservative constituency and in saying that, I think a very independently minded constituency

and one who doesn't regularly take kindly to anybody telling them what they should or shouldn't be doing, but at the same time, a bit of a nudge here and a prod there to try and get them to where we think they need to go I think wouldn't do any harm.

PROF WOODS: Yes.

DR BYRON: Might that nudge or prod come from a bank manager?

MR McBRIDE (LGSA): I think in many cases it does or from family solicitors or accountants.

PROF WOODS: On to business issues, obviously your submission supported interest rate subsidies and you'll notice from the draft that we're proposing that they not be continued past the new transition as expressed by Minister Burke and others, but that we recommend government invest more heavily in other areas. We can look later in this conversation at the "where to" the R and Ds, the extensions, the business management and others that you might want to put to us, but to give you the opportunity to express a view at the moment on our draft recommendation of interest rate subsidies not being part of a future drought support program and therefore once you've got a household support program that deals with individual households, and if you don't have interest rate subsidies, then doing away with EC overall - so you can tie those two bits of conversation together.

MR McBRIDE (LGSA): Obviously the association is and has been very strongly supportive of the interest rate subsidies. I think in my opening statement, I made it quite clear that I think interest rate subsidies aren't necessarily and to a certain extent just solely related to the farming business, they're actually very much community related, and I think in the very vast majority, that money goes back into keeping local businesses alive. So the talk of removing that all of a sudden opens up a whole can of worms, how we deal with communities, not only the business, the agricultural business, but how we deal with communities that are very much associated with that. We know that there's been a lot of money going into individual communities, a lot of money going into individual areas and therefore going back into communities.

By the same token, we also know that there are a lot of our members who haven't been able to access it, as I said before; for one reason or another, they can't meet the criteria. They have been very conservative businessmen and never wanted to borrow any money, so therefore very good, very professional businessmen haven't wanted to borrow any money, so therefore haven't been able to access any of those things. But I also know that there are people who have accessed the things who are also extremely good operators but use their asset as a leveraging tool I suppose to really kick their business up and get it going. So the common theory that people say the only people who are getting this sort of assistance are down and out busted-arse

cookies is just not a fact. There are a lot of very, very good operators out there that aren't in a position to access. For that, I think we do understand quite clearly that there's inequity in the system. In communities, people don't see fairness in some people being able to access it because of business structure compared to other people who can't access it because of business structure. But we do also quite clearly see, as I said before, the impact that it has had on people who have been able to access it.

So as part of a tool of drought assistance, we do believe and certainly the people who have been able to access it do believe that it's been a great advantage to their communities, with the money going back into those communities, and obviously any change away from that system would need to have structures put in place that first of all allowed those individual people to put themselves on a surer footing financially to be able to deal with those difficult times, and obviously in any transitional phase you need time to allow that to happen, not only government policy but also time to allow that to happen because droughts don't just - - -

PROF WOODS: You've got to rebuild.

MR McBRIDE (LGSA): - - - stop tomorrow and the money starts pouring in. Generally you've got an extended lag time before you can turn a loss around into a profit again and get your stock numbers back up or get the crop. There's a lot of people this year who have gone in and put some pretty substantial crops in and had a wipe-out again. So it's that transitional phase from one to another; if you're going to move to another system that is going to be beneficial to a wider group, it's how you go through that transitional phase and how you allow people to put themselves in a position where they can then be on the front foot.

PROF WOODS: Okay. We understand your view on that. If we deal separately with the question of regional development and also what should government do as droughts bite harder and harder, I'd like to deal with those but after we've dealt through some of these other business issues, so I won't lose that topic. We'll just come back to it.

We have supported FMDs. We think that they do play a valuable role and, as you pull them apart and look at them in detail, the cereal growers are progressively drawing them down and the pastoralists are progressively building them up, as they destock to then draw them down as they restock. You know, all of that makes complete sense but, on the way, they get a tax deferral advantage and that costs 75, 76 million a year to tax payers. So we've come out in support of them; we haven't supported increasing them because they don't actually act as a constraint to how much of it is tax preferred - tax advantaged. Also, given that the average use of FMDs is 70-odd thousand - the numbers who are maxing out of the 400,000 is not many - do you have any views or comments you want to make on our proposal to

retain FMDs as they are?

MR LAURIE (NSWFA): No, I think that the FMDs have been, as I say, one of the tools that people have been able to use to firm up their position and I think your description of how they operate is pretty solid. Generally speaking, I think as people are using them to do exactly that, is to be able to use that as the buffer instead of using the bank, or instead of using the government or whatever. I think for that reason, the FMDs and people who access the FMDs have been a good system and it's good to see it supported.

PROF WOODS: Okay. R and D - I'll get on to E in a minute, but R and D, I guess a couple of issues there. One is, is enough being done in that area? Should more be done? We like the governance model of RDCs because they're by industry. A lot of the benefit is captured by industry, but some is public good and therefore government contribution makes sense there. But where would you put your priority on increasing R and D? Also is there an argument that could say that when production is down and therefore levies reduce into the RDCs, that maybe that's an argument for government in a kind of cyclical sense sort of top up the gap to maintain the continuity of R and D through times of low production? Where would you head there and where would you give us guidance? Because we do want to build that part of the report out in more depth in the final - - -

MR LAURIE (NSWFA): Yes. The R and D issue is obviously becoming extremely critical with the whole debate about climate change and how to adapt to climate change. I think the one thing this industry has got is a tremendous capacity to deal with what is put in front of it, and has done for a long period of time. You've got a lot of people out there who, on a daily basis, make decisions on what's going to happen over the next month, which is I think not recognised by a lot of people but certainly it's something that happens within the industry. Obviously any R and D that needs to be done really needs to be very focused on the industry itself - certainly on the production side of the industry - to maintain profitability. Maintaining profitability puts people in the position where they can best help themselves through difficult times also.

But not only on the production side, there needs to be a balance between the production side and environmental issues and just get that right so that we're managing and, in the current debate, reducing emissions, for instance, but at the same time, being able to maintain or increase production in order to cope and deal with that. Obviously the whole climate change area is absolutely critical and the need for money to be going into that I think is absolutely critical, but we also know that there's an enormous amount of R and D being done by a lot of different agencies and a lot of different groups - probably a bit disjointed and not really centralised or focused. I think obviously any work in that area specifically needs to be pulled back

in and be very, very focused on what it's aiming to deliver so that it can be done without duplication and without wasting money back into many other areas.

Obviously an enormous amount of R and D done in the good times to allow people to take up with the bad times is probably a good way to go instead of figuring out in the bad times that we need to do some R and D to overcome this problem. We need to be forward thinking and actually start doing R and D and delivering those outcomes so that people can start taking those things up prior to going into the next drought or doing whatever. But it's a matter of identifying the areas that the work needs to be done in and then making sure that it's appropriately financed.

When you're talking about the R and D companies, especially in times of downturn like drought, and the funding that goes back into those, obviously any R and D programs that are in place, there will be a need to continually fund those. The money has obviously got to be sourced from somewhere and you don't want to see any R and D projects cut or withdrawn simply because of the levy-payer shortfall as in the industry. So we need to seriously have a look about how that is addressed in those difficult times and how the programs that are in play at the moment need to be funded and continued to be funded.

MR GRANGER: Are there any fields in R and D that sort of represent gaps in our knowledge now? Is there anything that is really going to make a huge difference? Is it a plant breeding thing or is it some other particular area of science that, from your position, represents a bit of gap? I know it's a crazy question; it's a huge question.

MR LAURIE (NSWFA): Well, it's certainly not a crazy question. It's a question that everybody would love to have the work done on now. If we could R and D done and really sit down and have a look and someone would get a grass developed that lived without any rain, I think we'd absolutely love it. If we could sit down and have a look at the climate change debate about whatever needs to be done in nitrogenous fertilisers; work that needs to be done in methane with livestock, for instance - what we can feed them to reduce the methane; all of that stuff, when it comes to climate change, I think is a burning issue.

So without any doubt, there's an enormous amount of research that has got to be done. If nitrogen fertilisers are causing problems, for instance, then what R and D is being done to develop plants that don't have a requirement for nitrogen? So there is a big new area there, talking about the whole climate change debate in production and reducing emissions. There's a very big area there I think that people are really starting to get their head around, or still trying to get their head around how they're going to go. I mean, at the moment they're still measuring emissions out of cattle with gas bottles on their bloody back, trying to measure how many emissions there are, so we still haven't got some really clear data in many areas.

PROF WOODS: Climate change is clearly getting a lot of headline and there will be follow-up activity behind it, but seasonal variability - I mean, are farmers in any way satisfied with the information, the R and D, that goes into understanding what that sort of weather pattern between the next two and eight months is? You know, are you going to get September rains to fill the grain, or are you going to get November rains to flatten the grain? These sorts of issues, is that a gap that could otherwise get swamped by the whole climate change thing? Is climate variability still an issue?

MR LAURIE (NSWFA): I think we need to be very careful about how we're describing all these things because droughts are droughts, you know, and droughts have always been droughts in the history of Australia. Climate change is another issue that people are talking about. Climate variability is something we deal with every day and people do most definitely make decisions based on their gut instinct when it comes to climate variability. As I was saying before, that is where people I think really aren't given much credit for some of the fantastic things that they do to deal with those issues on a personal basis - individual basis.

Now, as an industry, what we regularly see is people who haven't read the signs or haven't dealt with it, but you don't read the stories about all the people that have dealt with them. So climate variability is something that we deal with all the time, something we'll continue to deal with. When it comes to weather forecasting, I think that the Bureau of Meteorology do a fantastic job of trying to get the weather right and I know that, over the last two to three years, there have been reasonable predictions for rainfall for winter crop, for instance, and it petered out on both occasions.

Farmers have always made decisions on a gut feeling, using the information that has been given to them. I know last year a lot of people made a decision based on the information that was given to them by weather forecasters and, in the end, they were emotionally, absolutely distraught at the fact the prediction didn't come true and they were left with hundreds of thousand of dollars sitting in the paddock, rotting. So if we could ever get to the situation where we could get more reliable long-term weather forecasts, it would be fantastic but we all understand the difficulty of trying to do any of that sort of thing.

PROF WOODS: Extension. From what discussions we've had, and we've been around all states and territories twice now as part of this process, the extension side of it attracts a lot of attention from participants in several terms: one of having objective advice; the second, the importance of translating the R and D to the paddock; and the third, the continuity of funding for extension, that having a one-year grant to do something and try and employ somebody who then runs around

and meets a few farmers and then starts to look for where their next grant is coming from et cetera. Where would you go in the extension space? Where can we flesh out our report?

MR LAURIE (NSWFA): The extension is obviously something that, as you said earlier on, the R and D part is one of them but there's no point doing all that research and development and then not having a capacity to extend it out into the wider industry. It's not just a matter of getting it out there; it's matter of getting it out there and getting people to seriously adopt it, or make a decision to, or not to, but make a decision to do it one way or the other. I suppose the difficulty we have at the moment is that we're seeing, say, in a state like New South Wales a change in DPI extension and probably not a lot of clarity as to exactly what's going to be delivered.

I think the delivery of technologies will change. It probably won't be face to face, there will be other methods or other ways used to get the information out there. I don't think there's any doubt that a lot of people who are doing particularly well in the industry have really taken up on a lot of the research that has been done over a period of time. I think if you go and have a look it might be a real dad show out there and you think that you wouldn't take too much notice of all this work that has been done but in actual fact are very successful people, simply because he has taken up a lot of those new ideas, and I suppose it is how he has picked those ideas up, whether it's a direct face to face contact with someone or whatever, but whatever way he has been able to access that has been of benefit to the industry.

So I think delivering it will come in a various number of ways and I think any one set way, I think, will be very difficult. It also comes very much to the R and D and the extension component once again because we've got R and D being done, for instance, by R and D companies - the MLAs, AWIs, Hort Australia, all these. We've got some R and D being done, R and D research centres held at state level. We've got some research work being done at a federal level. We've got funding coming in from all over the place. Once again it's not clearly directed or organised by any one group of people.

I suppose also it gets down to the extension as to who should be responsible for the extension. Should it be the R and D companies? Should it be the state department? Should it be the federal departments? Do they interact all the time and are they very clear about what they want to achieve and how they're going to get it? I don't know. I think with the R and D and the E, I think, causes a few problems. So I think without any doubt the extension part of it is absolutely critical in getting take-up of the R and D part of it. If we don't find good ways to deliver that in many different and varied ways, I suppose then it's going to be hard.

PROF WOODS: One model that has been put to us is having the DPIs putting

extension officers on staff so that they have continuity of employment but that they then get seconded out to industry bodies and that the industry bodies buy in on that by providing them with all their operational support so that there's joint ownership. But it achieves those two different things; you have the continuity but then you have the industry direction. Is that one of the possible models that you'd be attracted to?

MR LAURIE (NSWFA): I think you'd probably need to have a yarn to the state government to see if they would even be prepared to employ those people to have them seconded out. I don't know. There are a couple of things - - -

PROF WOODS: Putting that, we can argue with them separately, but just your - - -

MR LAURIE (NSWFA): You'll need to argue with them separately.

PROF WOODS: Yes, but your reaction.

MR LAURIE (NSWFA): My reaction will be that we need to have a well organised extension program, and I think that we need to sit down and work out which is the best way it is. At this stage I'm not exactly sure whether that comes out of the state bodies, federal body or the R and D companies. What I do know is that the extension officers need to be independent and not aligned with companies. That's one thing that our industry wants. We know at the moment that a lot of the extension or agronomists, for instance, are coming out of private companies. So you'll always be very cautious that they're peddling a product that they're selling. So the independence of the extension officers, I think, is absolutely critical to be able to make a fair and valued judgment on the information you're actually being given, but to tell you the truth, about exactly who should be delivering that, I don't know.

PROF WOODS: No. I mean, there will be a range of models that work.

MR LAURIE (NSWFA): Yes.

PROF WOODS: If you sort of reflect on any that you find have some attraction, if you could let us know - - -

MR LAURIE (NSWFA): We will, yes.

PROF WOODS: - - - because we would be very interested in - not coming up with a prescription because that's totally the wrong approach, but to say, "Look, here are some principles. One is that the extension work be ongoing and not a year-by-year annual grant type mode, that they be people who build up an understanding and relationship, that there's some independence," whatever those sets of principles are. Then you can have programs that, to varying degrees, meet those principles.

MR LAURIE (NSWFA): I think you've got it covered off pretty well there anyway. I mean, there needs to be not short-term, year-by-year stuff, it needs to be extended and they certainly need to form relationships with people in the industry. Good extension officers who regularly get the message out there are people that are well accepted and very trustworthy souls.

PROF WOODS: Okay. Business support programs, business farm management type programs - one thing that has been a very consistent message to us is that a lot of the features of the old FarmBis shouldn't be lost, that there was some good work done there, that it's an area where farmers know the agronomy side because they have grown up with it but the farm management, business management side is becoming infinitely more complex and any help they can get to improve their skills is not only of benefit to them but has a community good that justifies public funding. Do you have any views on that?

MR LAURIE (NSWFA): We've been very strong supporters of FarmBis for a long period of time and spent a considerable period of time lobbying the government to get it reintroduced, simply because we believe that it is another way of getting the extension component out there to a certain extent. A lot of training that can be done can be training of delivering R and D work, for instance, or it can be training for financial issues or whatever, but there is a broad range of issues that programs like FarmBis could go out there. Succession planning is another one, as you were talking about earlier on. There are a broad range of issues. I think it has been very successful. It has been very well taken up. I know we've got training arm within the association that certainly trains a hell of a lot of people. We get a lot of support there because people are really striving to get information. As far as we're concerned it's something that's absolutely critical.

PROF WOODS: So we're of one on that, the bring back FarmBis.

MR LAURIE (NSWFA): Most definitely.

MR GRANGER: You mentioned in your submission the development of regional networks in response to, or as part of your general response to, the draft paper that was initially put out looking at drought preparedness and self-reliance measures, et cetera. I warmed to this as a broad principle but I'm just wondering if I could draw you out a bit because I think that regional networks often provide a very important platform for all the things we're talking about: development priorities, extension of information and building up capacity of the individuals. Some of our meetings and consultations we've gone to areas where it seems as though they were facing the impossible in terms of living and yet there was a real spirit there.

I don't know whether it comes with facing a single adversity and people say, "Well, we're not going to do it on our own; we'd better at least go down as a group." Not going down, but you know what I mean? Could I just draw you out a little bit on this, because I mean it's - - -

MR LAURIE (NSWFA): Yes, very much so. I think one of the things that we've seen over the last six to seven years is just tremendous community support, I suppose. Six or seven years ago you'd go into towns where people would not have even known each other. Now, all of a sudden, they're keeping regular contact for one reason or another. But the groups can play many different roles. They can certainly play a supporting role, but they most certainly can also - and I know in some towns there are different groups around that are very much focused on delivering information, so we're getting back to the extension issues we were talking about before.

On a regular basis they will have field days where they will go to someone's place and they they might have the agronomist, local agronomist, in or local beef cattle, sheep cattle, officer, whoever, coming in and talking about an issue that is relevant to all those people in those areas. So they are very much pulled in there. They get all the information that actually could be given to them on that subject. Quite a few of these field days you can have a lot of people in.

MR GRANGER: Is there a single catalyst that - - -

MR LAURIE (NSWFA): Generally speaking in most communities there will be one or two individuals that pull those groups together.

MR GRANGER: What's the job for government, do you think?

MR LAURIE (NSWFA): I suppose we have seen over the years lots of these groups come together and then fall out of favour for one reason or another, generally speaking, because you don't have a driving force within the committee or you don't have a driving force within the community. What role government could play, I think that's where good extension officers within those areas can identify supporting people to make sure that those units stick together and very much work together. We are seeing that to a certain extent with drought support workers and rural financial counsellors. I think they are performing those roles to a certain extent where they are pulling groups together on those issues.

But on the other production issues - in my local town, for instance, there used to be a group and they met every - sort of three or four times a year. They would go around different places, different field days and they were all done on variations within agriculture, dealing with drought, dealing with floods, pasture development,

livestock issues, whatever. But all of the R and D that was being done was going to the extension officer, the extension officers were then coming to these days, presenting at these days and then individually making contact and working throughout those groups.

So there are different groups dealing with different issues. As I say, drought support, they've got their own units. All the rural chaplaincy people out there have got their own group of people that are working with - then you've got the production groups out there that are working individually in different areas. So without any doubt that network I think is great. How it gets developed I don't know. What role the government should play, I don't know. But I think in many areas a group like that really does help get people thinking about all the work that is being done and then how they drive that forward.

MR GRANGER: Thanks.

PROF WOODS: Having continuity of employment for your extension officers then sort of is part of that process. They become embedded in that community on the production side.

MR LAURIE (NSWFA): It's critical. In order to get any of these things to work you need to have that continuity and you need to have people who trust them. You can go into a community - if you've got a bloke there, you go into a community and he's well-liked and well-trusted, they will get support.

PROF WOODS: Yes. Which brings us then probably usefully to the Rural Financial Counselling Service. A couple of questions. One in general: how positive a role do you see that they have played, and on that basis would you be arguing for continuity of again, employment, for at least a basic-level counselling network over the seasons, not just peaking at times of drought?

MR LAURIE (NSWFA): I don't think there's any doubt that the rural financial counsellors and the drought support workers have been absolutely critical in forming relationships with people and forming very strong bonds with them. They're opening their business books up, in many cases they're sitting around kitchen tables in enormous emotional stress trying to deal with issues that are out of their control. To a certain extent I think some of those people who have - are trained for that. I think they need to be trained for it because it's a very, very difficult thing to do. I'm not sure what you call them and I'm not sure who they should be but I know that those two groups of people have really been a tremendous support back out in the communities.

The rural financial counsellors I think have got a great understanding of

dealing with people in a similar situation right across their area. So there comes a great familiarity in dealing with the issues of the same sort of consistent problem with the banks or with finance or whatever. So I think that experience that gives them opportunities to probably suggest things that other people many not see. I think if your local accountants are dealing - from businesses being very good to very bad, these people deal with businesses that are in similar sort of situations every day they talk to them. So they are creating their own network. They obviously need a lot of support themselves but I think they also - you do need to have that continuity of employment there because I think they definitely do generate a tremendous amount of support out there. The drought support workers in their own different capacity are doing very similar things.

PROF WOODS: With the rural financial counsellors we did have a draft recommendation that in part we picked up from the social panel because we have been working closely together, that warranted a review of what they were doing. But since then two issues have been brought home to us. One is the change that they're going through at the moment and therefore review while they are in change is probably inappropriate and wouldn't show anything of any worth and just cause further angst.

But the second is the argument that had been put to us that some counselling staff are sort of "holding on" to their client base, not referring them on. That was based on statistics that showed the might have been on the books for five years. But as a number of the counsellors and a number of farmers have said, "Well, we might have gone to them five years ago on one issue. That got resolved and we have come back on another issue." Well, they may have been on the books five years but they have not sort of been managed for that five years.

So on both of those grounds we think that they should continue through this current form of operation for several years before one then looks at them and questions where to. But in terms of the continuity of employment again there seems to be very strong argument that they should be supported right through good seasons and bad, that there's a role to be played.

MR LAURIE (NSWFA): Well, I think if you go back to your household support it's not about drought, it's about people in difficult situations.

PROF WOODS: Yes.

MR LAURIE (NSWFA): I think you will find somewhere in Australia all the time there are some people in difficult situations.

PROF WOODS: Okay. No, that's helpful. Regional development. A lot of people

have made the point that interest rate subsidies, let alone household support payments, not only go to the farm business or the farm family but then go through the local community. That's true to an extent. Not all of it does but a fair bit of it does go through. Is that then the best way to promote regional development? In our view you should really look at the two separately.

Regional development is an issue of significant importance that warrants policy in its own right, that you shouldn't rely on regional development being achieved by intermittent drought payments to individuals who then spend it according to their own priorities in or outside of the local community. But if you want a regional development program then have a clear policy and have programs of support behind it to achieve those outcomes. While not expecting that every small country that has been progressively declining for the last several decades, if not even longer, will necessarily stay on the landscape - towns will grow, towns will shrink, some towns will disappear - that's economic, social, life. But we do think that it's of sufficient importance to warrant policy and programs in its own right, not be dependent on a series of drought payments. Do you have a view on that?

MR LAURIE (NSWFA): Well, I think the first thing I would say is that the drought payments don't create regional development. Drought payments that are going back into those rural communities basically help sustain those rural communities. They certainly don't allow any development going on. As a matter of fact they're stopping the decline - we have got about - it's interesting because we have got rural communities that are still doing particularly well; the big rural centres, I'm not talking about communities, you know, say, your Tamworth, Orange, Wagga.

PROF WOODS: The Morees and all those.

MR LAURIE (NSWFA): All doing well.

PROF WOODS: Yes.

MR LAURIE (NSWFA): I mean Moree has been declining simply because of what is happening up there with agriculture. But Tamworth and Orange and Wagga, those centres are doing particularly well. They are sort of the sponge centres, they're dragging and sucking the lifeblood out of a lot of smaller towns, we know that. But the second-tier towns are all towns that have very, very strong, vibrant communities; probably won't expand much but they are strong, vibrant communities. What the drought has done to those communities is it is dragging them down to the level where whether they can be sustained or not is a problem. What the interest rate subsidies are doing without any doubt in those areas is keeping those - the levels just there. They're holding. They're stopping them falling over and they're holding them.

So there's no development in those areas. What you have got is communities - there is a level of community support. I acknowledge that not all the money goes back into those communities but certainly a good proportion of it does go back in there and it does help a lot of those businesses. A lot of those businesses I think if you go and have a look at their books you would realise they're going to work because it is giving them something to do, not because they are making money. What it is doing is providing a service in those towns. Whenever you can keep the population there without the shops closing down then at least you might keep another teacher or you might keep a nurse or you might have a chance of getting a doctor there or something. So it's critical for those second-tier towns.

I believe you're right - the third-tier towns. I think those towns that have been struggling even in the good times are probably going to continue and the government needs to make a decision about how they're going to address those issues. But when it comes to regional development I think most definitely there's a package required to go into regional development. But I do believe that this money does go in just to help sustain some of those communities in that second rung, not in the top rung, I think their own size allows them to grow and develop anyway.

MR GRANGER: One of the paradoxes in the inquiry process for me has been the high value of land, against what your instincts might have said to you at the beginning, you know, "one of the worst droughts", and all that stuff. Do you think this whole EC thing has helped - I'll ask the question, anyway - to artificially prop up land values?

MR LAURIE (NSWFA): I think you probably need to sit down and talk to an economist to get a proper answer there. I can give you an answer that I believe could probably answer it, and you blokes could sit down, you blokes with all the letters after your name, and figure out whether I'm bullshitting or not.. The fact is that all of the people who deal in land around the world at the moment tell me Australian land is cheap. On the world stage Australian land is cheap. For agricultural production in Australia the land is still cheap, and we're seeing a lot of overseas money coming in right at the moment, coming into many areas.

We've seen a ripple effect of the economic boom in Australia where we've seen people move out of the cities, going out into some of the eastern seaboard areas. The eastern seaboard areas then go out, in our circumstances for example, and buy country at Gloucester. The Gloucester people sell out for bloody good money and they come up into our area and buy country, and our people say, "That's too good. We'd better sell up here and we'll go further out west," and they just keep moving out to the extent where you're getting record prices paid at Wilcannia. So that ripple effect was happening because of the economic boom.

You put on top of that the fact that land prices around the world, Australia is recognised as being fairly cheap, and that's why we're getting a lot of overseas money coming in. So not only have we seen the money in Australia going out, we're seeing overseas money coming in, and I've seen that locally also myself. We're also seeing some commodity booms which are helping to exaggerate land prices also. While you might see, say, the dairy industry is performing particularly well at the moment and spending a lot of money in an area, they will go into an area and they will buy up that money and pay a lot of money for that land, the fact is that whoever sold the land, if they still want to stay on they go out to another area that's a bit cheaper, and they're prepared to pay a bit more in that area and you get the same thing.

PROF WOODS: They're cashed up.

MR LAURIE (NSWFA): So a combination of all those things put together, I think if you sit down and have a look at the production of many rural areas at the moment for the price, you'd wonder why. But it's other factors that are creating the price of land at the moment. Interest rate subsidies, I'm not sure that it's making too much difference. I might be wrong, you fellows know a lot better than I do.

PROF WOODS: Talking of interest rate subsidies turns us back into the broader question of either income-contingent loans or low interest loans or some variation on those, which are subsidies of one form or another. Your early submission had some attraction to those issues but where is your current thinking on income-contingent loans or low interest loans?

MR LAURIE (NSWFA): We've had a look at nearly every possible idea, and we've thrashed everything out. As I said earlier on, the current system that is in place is doing a good job for people who can access it. So we've been looking at low interest loans, certainly cropping grants, and going back into getting some of the cropping going, looking at absolutely anything that we think would be a fair and sensible way and equitable across the industry. But at the same time we've also got to sit down and say it's got to be seen as being fair and reasonable by the Australian community. We've said that on a regular basis. But it works both ways, the Australian community has also got to understand that agricultural produce is something that they eat every day. So I suppose it all depends on what value they put on that link.

We've had a look at a combination of everything: low interest loans, grants to a certain extent HECS schemes, haven't we. So I think we're pretty open-minded. We're the same as you, this is a difficult situation and it's how you deal with it, I suppose.

PROF WOODS: Yes, we're in the same boat and we understand the situation facing young farmers, new entrant farmers. Part of the difficulty there is that they all come from such different circumstances. Some are starting off but are going to inherit the family farm, others are out there being a share farmer for five years or leasing a few paddocks and trying to put their act together. Then the first time they actually buy something along comes a seven-year drought or whatever it is. Because of the totally different sets of circumstances if you try to create a single program then it creates all sort of who's in, who's out, for what reason. It's a very difficult area to address. So any thinking that you have that sort of meets a few basic criteria of equity, of public good, whatever might be the appropriate criteria - it's a very vexed question.

MR LAURIE (NSWFA): I think if you go through and look at the average age of people - I think you're well aware the average age of people in agriculture is quite old compared to many industries?

PROF WOODS: Yes.

MR LAURIE (NSWFA): There are many reasons for that, of course. Getting people involved in agriculture - and I think it goes back to the question that was asked earlier on about land prices. If you sit down and have a look at land prices the difficulty of trying to go out and source a pool of money from scratch, and a lot of these kids have got reasonable business skills and they're very hard-working but the ability to go and borrow the money in the current market, or any market, is virtually impossible. So they need to have a look at all the other avenues that they can actually get a start in, and that includes share farming and leasing, it includes agistment, it includes a full range of everything. While all kids' great ambition is to own their place, patience is a virtue at times and they need to find ways and find avenues to get in. What we've got to do is allow them opportunities for that to happen.

Some people will inherit family farms, and along with the inheritance will come a fair debt. So there's been many jokes made over the years, the latest form of child abuse is to leave your child a property. That didn't come out of fresh air, that come because people honestly thought like that for a little while. But the simple fact of the matter is that it's a tremendous industry, it's got a great future, and until they start making a whole heap of synthetic food we're going to be needed for a hell of a long period of time. What we've got to do is encourage a lot of young people to get in there.

PROF WOODS: Actually it's quite refreshing that you several times during this hearing have been promoting the very positive nature of agriculture. We've found ourselves on a number of occasions having to remind participants before this

committee from agricultural organisations that you look at the productivity story in agriculture of 1.8 per cent per annum over decades compared to the economy average of 1.1, you're way out in front; the increasing levels of production even despite the droughts that we've been going through in the last few years; the fact that you play on a world stage that's not even and yet you're out there pushing new boundaries. It is a very positive story that is there and it's very refreshing to hear somebody who is in the game who is actually pushing those positive sides.

MR LAURIE (NSWFA): I can tell you I've got two boys, 18 and 20, who are coming back onto the land and I wouldn't be doing this job if I didn't think there was a great future in it and I certainly wouldn't be encouraging the kids to come on the land if I didn't think there was a great future in it. The only thing we need out in our area is a few women, not necessarily a bit of heart, we just need some women out there to make families for some of these young blokes. So I think there's a great - - -

MR GRANGER: Sounds like a TV show coming up.

MR LAURIE (NSWFA): We've already had discussions with it. The industry itself has taken an absolute belting over the last six or seven years and I think you're talking to people at the moment who are really physically, emotionally and financially drained. I think probably what you're seeing is a lot of that, and I think it's very, very difficult for them to see the bright side of it. It's very difficult for them to remember all the good years they had in it.

PROF WOODS: I think we've probably wandered through the list of topics, but are there things that you want to raise, or Neil or Bob, that we haven't covered?

MR LAURIE (NSWFA): I think we've covered off on most of the issues. We'll put another submission in just covering off on a lot of those things, but I think a lot of the really important things about the future of agriculture we've discussed today anyway. I think the whole Productivity Commission thing and the changes that are being mooted by, potentially, the new government are quite daunting for the industry at the moment. I think the whole debate about climate change is very daunting at this time also. I think the current economic circumstances are very feeble on top of everything else that has been happening around the industry, but it was great to hear only just last week that the agriculture sector stopped Australia slipping into a potential recession and I thought that just showed just how resilient it is after seven years to turn around and see that.

All I can say is that I've been saying all the time that whatever we do we need to make sure we come out the other end with a structure in place that allows the industry to just keep doing what it's been doing for a long period of time.

PROF WOODS: Excellent. Thank you very much. Can I again just put on record how grateful to the association for putting submissions and for you personally for coming along today which is very refreshing and very helpful.

MR LAURIE (NSWFA): My pleasure. Thank you.

PROF WOODS: We will have a brief adjournment before we call the next participant.

PROF WOODS: The next participant is the Country Women's Association of New South Wales. Could you please for the record state your name and the position you hold in the organisation you are representing.

MS BROWN (CWA NSW): I'm Margaret Brown, I'm actually the state international officer, and I am representing the Country Women's Association of New South Wales.

PROF WOODS: Thank you. You have provided us with a list of points that you wish to cover. Do you have an opening statement, or do you wish to speak to these points.

MS BROWN (CWA NSW): The only opening statement I'd make is the sheer complexity of the whole issue of drought relief. At this time, and one of the points I make in the submission, is that while we have drought relief measures in place once a drought has taken hold, we don't seem to have anything in place for people coming out of drought.

Now, at the same time as we've got people totally still caught up in drought, particularly like our irrigators, but also people in the south and west of the state, we've got people beginning to come out of drought. While they are facing those issues, there's climate change, there's carbon trading - and farmers are being encouraged to participate in that; there's the whole water issue where properties, and even towns, seem to be on offer to give back sufficient water. So people caught up in all those things, drought is only one issue even though it's the issue that dominates their daily thinking. But as soon as they go to look at the long term, they are faced with all these other issues that all feed into it, as well as things like the single desk for wheat gone, grain lines gone - all those things - and they all impact on the daily life of somebody on the land.

PROF WOODS: It's a very extensive risk management process they undertake with a whole range of things.

MS BROWN (CWA NSW): It's huge. I look on them all as gamblers, but I also look on them as supreme optimists, but I truly don't think you would go into farming without huge optimism, sometimes misplaced but often not in the long term. Your own figures in your draft report show that. Agriculture has increased each year compared with the other sectors, and in the current global recession, depression, crisis, whatever you like to call it, Australia is doing buoyantly by comparison because of its agricultural figures. That is extraordinary in a country where people are still in or coming out seven years of drought. The people handling that are these farmers who always whinge - always whinge. You have to be a whinger to be a farmer. Hanrahan had it down pat.

PROF WOODS: "We'll all be rooned."

MS BROWN (CWA NSW): Yes. "Get rain, there will be grass, there will be bushfire." Yes. It's there.

PROF WOODS: I understand your opening comments. Do you want to go through these points? Is that the best way to conduct this session?

MS BROWN (CWA NSW): If you like, and if you ask me questions then.

PROF WOODS: Yes. Your first statement is need for change to current system. What I wasn't sure of is whether that was an affirmative statement, "There is a need," or a question, "Is there a need?"

MS BROWN (CWA NSW): No, I think there is a need. We think there is a need.

PROF WOODS: What drives that thinking? What's the problem with the current arrangement and where would you go?

MS BROWN (CWA NSW): The current arrangement does not seem to have been equitable to a lot of people. That a farmer in this community is able to claim exceptional circumstances, and just down the road, a farmer can't, and yet people with two properties in two different RLPB areas can't. They can claim for one but not for the other. I don't know whether it's a real inequity or perceived inequity, but it's there.

PROF WOODS: It creates division in the community whichever way it is.

MS BROWN (CWA NSW): Yes, and it does create division.

PROF WOODS: Yes.

MS BROWN (CWA NSW): The other thing is the sheer amount of red tape. I was at the drought summit that the New South Wales Shires Association hosted last year. The then assistant minister for agriculture, John Cobb, made his main point that you do not apply for EC assistance unless you work through a professional. Now, that's the message that's come out at all the drought days, all the mental health days, and I've been to a number of them. It seems to us that if you have to go through a professional to apply for something that is so obviously needed - I mean, all you've got to do is open your bank account - there is something crazy in the system.

Now, I'm not denigrating the older generation of farmers but, by heavens, to

get them on a computer is darned hard. The wife will do that. The next generation are tremendously au fait, and I'm speaking very generally about the older ones. But how do they access information that is needed to make an application that will be successful when you need a professional to help you? Then it has to go through the professional with all that time lag, then it has to the RLPB, then it goes off to the government. It is so red-tape roundabout.

PROF WOODS: Our proposal on households in hardship that isn't tied to being in an EC area, that it isn't tied to drought; it is something to fall back on irrespective of the reason for the hardship. Your views on that?

MS BROWN (CWA NSW): Are there any parameters? It struck me just from reading the draft report that we open all farming or agriculture families facing difficulties. Is there any?

PROF WOODS: We put an assets test on it.

MS BROWN (CWA NSW): Yes, you did. It isn't very high.

PROF WOODS: It's not very high. No, I would correct that: we think it's a reasonable level. If you pushed it up to, say, five million in net assets or 10 million, then the question becomes should the community be paying 17 grand a year to somebody who has got net worth of that level.

MS BROWN (CWA NSW): Yes, that's right. Except that while you were talking to Jock about the current level of land prices, that hasn't been for the full seven years.

PROF WOODS: That's true.

MS BROWN (CWA NSW): It hasn't been in some areas. Places around the central west where I come from have been on the market for ages, and you could go along back roads and For Sale, For Sale, For Sale. In fact, Cranky Bobs are still for sale along the Ogilvie Road between Molong and Cumnock.

Now, farmers when they put those places up for sale put them on with the value that they had in their heads before drought, and they couldn't unload them. Some have gone for a lot less than that, but a good viable property should be worth at least two million, I would think.

PROF WOODS: So we're saying two to three; two tapering out at three.

MS BROWN (CWA NSW): Yes.

PROF WOODS: But once you start having a net worth of five - - -

MS BROWN (CWA NSW): Yes, you probably are.

PROF WOODS: - - - then you then feel confident that the banks would extend their overdraft by 17,000 to get them through that - - -

MS BROWN (CWA NSW): Yes, I guess that's so.

PROF WOODS: It's a judgment.

MS BROWN (CWA NSW): Yes, it is. That brings us then to, do farmers want to go in to any more debt; they're already.

PROF WOODS: But 17,000 out of five million is not a significant increase.

MS BROWN (CWA NSW): Regardless of the value of the property, the average farmer probably has debts a lot higher.

PROF WOODS: We're talking net assets, though, not gross.

MS BROWN (CWA NSW): Yes, that's true, with the debt taken out. Yes, that would be fair enough.

PROF WOODS: So that is one change to the current system. We're also proposing to not have interest rate subsidies but to, through the good times and the bad, spend more on supporting programs: the extension work, farm management skill development and those sorts of things, in which case then we basically can do away with - well, we do propose doing away with EC as such that you treat all farms equally and you support them all through these other programs because there's some public good argument for supporting them and therefore not have the EC process. Do you have a view on getting rid of the EC process?

MS BROWN (CWA NSW): I wouldn't do it in the immediate future.

PROF WOODS: No. Sorry. Yes, if I can clarify on the transition that Minister Burke and others have said while ever an area is in EC and those conditions continue to prevail, that the EC will stay. Also those who are getting support in those EC areas can continue to apply for support.

MS BROWN (CWA NSW): Yes.

PROF WOODS: So that guarantees that while we're in the current drought for

those situations, they would continue to be eligible.

MS BROWN (CWA NSW): That they're covered. But does that come into where you're looking at a review every six months?

PROF WOODS: The review of the individual every six months is related to them continuing to be on household support payments, that they would have a plan of action as to what they're going to be doing as a household to become self-sufficient and that Centrelink would case manage them, so call them in every six months to say, "Where are you at? What have you done? Where are you going?" and that that be a six-monthly just check on where they're at.

MS BROWN (CWA NSW): Yes. As long as it doesn't become another red tape.

PROF WOODS: A big process in itself.

MS BROWN (CWA NSW): Yes.

PROF WOODS: We understand that.

MS BROWN (CWA NSW): Yes, as long as it doesn't become a stand-alone ministry.

PROF WOODS: We had had strong representations to us that you shouldn't be every six months getting professionals to produce yet another plan - - -

MS BROWN (CWA NSW): That's right.

PROF WOODS: - - - because the cost, the time, the complexity; so we have heard that message loud and clear.

MS BROWN (CWA NSW): Well, commonsense says that you spend your six months doing your evaluation on your previous six months and preparing for your next six. When are you farming?

PROF WOODS: Do you think most farmers have a business plan?

MS BROWN (CWA NSW): These days I would think, perhaps not necessarily written down, but anybody who has borrowed has had to go and produce one for a bank.

PROF WOODS: Certainly a cash flow.

MS BROWN (CWA NSW): Yes. Anybody who has gone to a rural financial counsellor has probably worked. I would think anybody caught up in this drought these days would have. Now, a lot of them would tell you they know it's all up here, but it's not a new notion, is it? I did a farm secretarial course way back in 76 and one of the things for that - and that's 30 years ago - was that you had a plan; a business plan for your farm, and that you and the farmer, you as a secretary and the farmer as the manager, went over that business plan on a very regular basis. While it didn't seem formal, yes, when you're looking - every time you write out your cheques for the month you've got some form - it may be an informal one, but you've got some form of a business plan up there. But I think a lot of them do, yes. Those people who go into the CARM accreditation and things like that, they've got fabulous plans. If you work with LandCare and all those things, you've generally got some form of a business plan. Any time you want any sort of real assistance, you've come up with some form of a business plan I think. Yes, I think the majority of them would have by now - and certainly anybody younger moving into it would.

PROF WOODS: You mentioned the rural financial counsellors. What's the CWA's view on the role they've been playing and what should happen in the future?

MS BROWN (CWA NSW): We think they need lots more support.

PROF WOODS: You've been talking to people in here.

MS BROWN (CWA NSW): No. No. We were quite devastated in our area, for instance, at the changes that came in where the local committees disappeared. They could still be advisory, but they didn't have any real power.

PROF WOODS: Yes.

MS BROWN (CWA NSW): Yet it was those committees that often brought that counsellor in touch with families.

PROF WOODS: Yes.

MS BROWN (CWA NSW): Needless to say County Women's Association was fairly solidly represented on those committees because we are in all those little hamlets and villages and communities.

PROF WOODS: Yes.

MS BROWN (CWA NSW): Now, Orange - which has mixed farming, it has cattle, it has lots of horticulture with the orchards and the grapes and the olives and the honey and all these things - it has one rural financial counsellor. That was after

we hassled to get him. We had a part-time one when the changes came in. Now, he's exhausted, poor man. We're very strongly in favour of support, because the work they do is right there with the farming family. It's a face-to-face. It's not a distance thing at all. It's not a bureaucratic thing. It's not an impersonal thing. As Jock said, sit down at the family table and go through what you can do, what you are doing, how we can help. Yes. It's a very, very powerful tool if it's looked after.

PROF WOODS: You're one of a number of people who have drawn to our attention the benefit that the committees used to have in managing that without being intrusive into the personal details of individual farming families.

MS BROWN (CWA NSW): Yes. The other thing we found - and you shouldn't talk from the personal all the time, but the Orange area is very big. We want to do some work in the different communities. It was the rural financial counsellor who was able to tell us who were the people to contact - - -

PROF WOODS: Where to contact.

MS BROWN (CWA NSW): Yes, to find out that need. So we were able to put in through government grants programs for 12 different communities that are still running - the programs are, yes. Now, that was a rural financial counsellor who did that, yes, because of that face-to-face personal contact and knowledge.

PROF WOODS: Going through your points, bipartisan approach by government.

MS BROWN (CWA NSW): I've wondered if it should be tri after the last couple of weeks.

PROF WOODS: Yes, okay. I think we understand your point there.

MS BROWN (CWA NSW): But it's got to be long-term.

PROF WOODS: Yes, exactly.

MS BROWN (CWA NSW): It has to be federal and state.

PROF WOODS: Yes.

MS BROWN (CWA NSW): It's got to stop being vote catching. It's got to be putting their money where their mouth is. When they tell us they're working for the good of the people, then on something like this they have to.

PROF WOODS: We're looking at how you would develop an intergovernmental

agreement that actually gets the states and the feds to sign up together.

MS BROWN (CWA NSW): Yes, and goes for long-term.

PROF WOODS: Yes.

MS BROWN (CWA NSW): Yes, regardless of what party is in power. It shouldn't be a political football.

PROF WOODS: Okay. That covers off your third point as well.

MS BROWN (CWA NSW): Yes. That includes your local government who need a lot more recognition and a lot more support. They've got heaps more responsibility these days, but they haven't got the financial support, nor the decision-making abilities that they once had. Now, I don't know if that's only true to New South Wales because that's where I'm coming from.

PROF WOODS: Yes. Well, they've certainly made strong representations to us at various levels both here today and out at Dubbo, so we're fully across their issues. Survival of agriculture as an Australian industry, I'm not quite sure what lies behind that in the sense that I don't think anyone is contemplating that farmers are going to suddenly walk off their farms en masse or there's going to be some diminution of production. I mean, the statistics show that even in this period of drought, the volume and value of agriculture continues to rise. If one farm family decides that they can't make a go of it, the next-door neighbour has been coveting those paddocks for quite a number of years and looks forward to the opportunity of being - that first offer on them. So if you could explain what lies behind that comment?

MS BROWN (CWA NSW): I think those two points, the survival of rural Australia and rural communities goes with the survival of agriculture. You're right. Your agriculture may well continue as big business, but you've got a lot of overseas investment in it. You haven't got Australian families - - -

PROF WOODS: Well, it would still be predominantly Australian families, by far the majority.

MS BROWN (CWA NSW): Yes, but for how long? When somebody does sell or dies, it is often an amalgamation of properties. We're educating kids out of farming to a very large extent. When Jock said he's got two sons to go into it, I would argue that that's not the general picture that we begin by sending them away to school from our tiny communities, and we insist often on tertiary education, and then we bleed because they leave us, but they do. They don't come back to the land. We think that's a concern, but more of a concern if one is a viable agriculture is what's going to

happen with climate change. Agriculture produces more greenhouse emissions than the entire transport industry of Australia, they tell us.

What are we going to do? Stop our cattle methane producing? I mean, what are we supposed to do? But that's one of the messages that keeps coming out at our carbon trading days and at our water days, and the other issue is water. I quote I here the experience of Torelli at Bourke; a large viable farming property with good agricultural land, and that's been bought jointly by the federal and New South Wales governments because they're going to use its water, and so that's property lost. If that becomes a norm so that we've got this populist response to the need for more water, then what does happen to those areas around Bourke and Bree and those places, even Moree with its cotton?

MR GRANGER: Margaret, wasn't the station owned by overseas interests, and therefore at least it's sort of come back into the local fold?

MS BROWN (CWA NSW): But the understanding is it's not going to be used for agriculture. It's going to be locked up. Well, that's land that could be producing food and fibre for Australia, even if the profits were going overseas. It's an agricultural section or a section of the agricultural industry that's gone.

MR GRANGER: I hear the argument but - - -

MS BROWN (CWA NSW): Yes. That has been the big example. I mean, there was talk of Cubbie, but I don't know whether that will happen.

MR GRANGER: But using Cubbie as an example, though, isn't that an issue of what is the highest value of the resource? There are two resources there. One is the water and one is the land. In fact, in Cubbie's case, even though they haven't been irrigating, they've still been producing wheat and other things. So it has been producing.

MS BROWN (CWA NSW): But stopping water coming down?

MR GRANGER: Yes. That's what I say. There are issues - - -

MS BROWN (CWA NSW): Yes. So you're immediately - - -

MR GRANGER: There's the water issue and the land for agriculture issues.

MS BROWN (CWA NSW): Yes, and stopping water coming down the Darling, so you have that - you know, what happens then to those places along there?

MR GRANGER: Margaret, I've been asking other people about what I see as a possible tension or contradiction between the survival of future prosperity of agriculture as an industry and the rural community is that the two points - because, I mean, some people have argued that success of agriculture has in large part been because of technological change that involved, in effect, shedding people. We've got bigger farms, we've got bigger headers. We've got much more mechanisation and so on. If that hadn't happened, Australian agriculture wouldn't be anywhere near as viable and dynamic and innovative and world class as it is, and so on the one hand, we're saying that to continue to be world class, agriculture is going to continue to become a bit more demodernised technological work - - -

MS BROWN (CWA NSW): Yes.

MR GRANGER: - - - probably need fewer workers, and at the same time we've got this other objective about wanting to keep rural Australia populated. It seems to me that what we might need to be thinking about is how do you keep people in the bush but not necessarily related to farming? The reason we're talking about this is one of the justifications implicitly, rather than explicitly, for drought relief is that by supporting farmers during the drought, it helps to keep some of the smaller rural communities alive.

MS BROWN (CWA NSW): Yes.

MR GRANGER: The question is whether in some cases that's futile anyway, that our little country towns have been falling off the map since the days of Cobb and Co. I don't know if you know Carcour?

MS BROWN (CWA NSW): Carcour, Mandurama, yes.

MR GRANGER: I know a lot of those places. Rockley - - -

MS BROWN (CWA NSW): Yes, all those.

MR GRANGER: So in a way, there's an inherent contradiction between the success of agriculture in a certain extent in having fewer people employed, but we want to keep people in those communities anyway.

MS BROWN (CWA NSW): There is a tension but there's also - remember, for all that technological stuff and the you-beaut machines and everything, they still have to be serviced. Seed still has to be purchased. Fertiliser still has to be available. Diesel still has to be sold. So there are the service industries. Cattle still have to be inoculated and Tiguon'd and all those things. Sheep still have to be - all of them these day have to be chipped. So there are still service industries, regardless of the

anonymity or the size of the agricultural enterprise, and while those service industries are there, you're going to have some forms of population, and I still don't think you're going to lose - farmers still need labourers. It's all very well to say, you know, they mechanise and they go technologically berserk and things like that, but they still need physical labour. You still have to mark lands and you still have to mark cattle.

There's still a percentage or a proportion of labour there, and I think the New South Wales farmers are absolutely right. Places like Dubbo, Orange, Bathurst, are booming but they are sucking the lifeblood out of Parkes, Forbes, Condo. Yet, little places like Yeoval are doing well. Don't ask me how. But they have the most fabulous landcare group there. So again perhaps it comes down to the person. But I still think you're going to need a proportion of bodies available. I mean, until we give the sheep a pill that lets them shed their coat, someone is still going to have to pick up the coat.

PROF WOODS: But doesn't that argue for a regional development strategy, rather than a drought relief set of payments to rely on for regional development?

MS BROWN (CWA NSW): You're more optimistic than I am. How long have we been arguing for regional development strategies? So long.

PROF WOODS: I used to belong to the Department of Urban and Regional Development back in 1975.

MS BROWN (CWA NSW): I'm sorry if I've hit a nerve.

PROF WOODS: So that's 30 years.

MS BROWN (CWA NSW): Look, we've been arguing for regional development and we've got the consultative committees and where are we? We've got huge centres.

PROF WOODS: Isn't some of that economic sort of inevitability?

MS BROWN (CWA NSW): I have no doubt it is and they breed success themselves and they're very good spin doctors. They don't tell you the problems they're having, like Orange with no water to keep Cadia Mines alive, because it's 20 per cent of the employment in the town. But what's Orange done for Blayney? What's Orange done for Canowindra? Orange for Molong? All it wants to do is amalgamate with our local councils because it has a debt and we don't, and it's putting a hub - as waste place - in the middle of good agricultural land in Molong. So, no, sorry, regional development strategies if they (a) are viable, (b) implemented and (c) evaluated, yes, I'd be rapt in them, but - - -

PROF WOODS: Okay. Don't hold out - - -

MS BROWN (CWA NSW): I'm too old. I'm sorry, I'm too old.

PROF WOODS: We haven't got time to wait for one?

MS BROWN (CWA NSW): No, and in the meantime, people need assistance when there's a crisis.

PROF WOODS: Yes, and we hope that our household support program et cetera - - -

MS BROWN (CWA NSW): Yes, and in the - - -

PROF WOODS: - - - bring those.

MS BROWN (CWA NSW): - - - social expert panel response, they - and I've put it in here - seem fairly dismissive - - -

PROF WOODS: Yes, we - - -

MS BROWN (CWA NSW): - - - of that aid. Yet, that kept communities going.

PROF WOODS: It provides a social support program.

MS BROWN (CWA NSW): Huge, and an excuse for people to come out and meet.

PROF WOODS: Exactly.

MS BROWN (CWA NSW): Yes, so it kept communities alive and viable.

PROF WOODS: You may not have read it, but on our web site is a paper that the commission did on social capital and the importance of that in communities.

MS BROWN (CWA NSW): Yes, and, I mean, that's where we're coming from.

PROF WOODS: We do understand that issue.

MS BROWN (CWA NSW): We're into people.

PROF WOODS: Absolutely. We totally agree.

MS BROWN (CWA NSW): We're not into bottom lines.

PROF WOODS: No, but you are into the social bottom line.

MS BROWN (CWA NSW): We are, very much, yes.

PROF WOODS: Yes, and I don't know if you had the chance to look in detail at our draft report, but we identify various forms of capital that are all important. So there's the natural capital base of the farm; there's the infrastructure capital of the dams and fences and sheds and the like; there's the financial capital of the FMDs and other sources of financial savings.

MS BROWN (CWA NSW): Can I say there - - -

PROF WOODS: But social capital is an important one.

MS BROWN (CWA NSW): Until I read your draft report, and I've been in farming and country towns for years, I knew nothing about FMDs, and yet what a brilliant idea they are.

PROF WOODS: We support them.

MS BROWN (CWA NSW): So why aren't they more widely known? Sorry, I'm - - -

PROF WOODS: Yes, I have no idea.

MS BROWN (CWA NSW): But, I mean, I know - - -

PROF WOODS: Every accountant should understand what an FMD is and should be talking to their constituency. I mean, FMDs aren't things that everyone wants to use, but they're a tool available for those who do want to use it.

MS BROWN (CWA NSW): They're a brilliant tool.

PROF WOODS: We thought they were worth supporting.

MS BROWN (CWA NSW): So I think one of the things you might need to do is - - -

PROF WOODS: Put a bit harder.

MS BROWN (CWA NSW): - - - broadcast them. Sorry, I interrupted you.

PROF WOODS: No. We've covered off the points and, looking through your paper which - I mean, there's no point reiterating all of the material in the paper, but I think we've - - -

MS BROWN (CWA NSW): No, and I did not collaborate with Jock Laurie - even to the joke. My God, I nearly died.

DR BYRON: He's stolen your punchline.

PROF WOODS: Yes, that's right.

DR BYRON: I saw that.

PROF WOODS: But clearly you have invested time and effort in going through our draft, for which we're grateful, but are there other matters in that draft that you want to comment on, or have you covered off basically with your submission to us?

MS BROWN (CWA NSW): I think in the general submission we've covered off, but I really would like to emphasise that complexity that is facing you as you come up with recommendations but, more immediately, as facing the farmer. It is a hugely complex issue because it's so many interweaving ribbons and one can unravel the whole parcel. The other thing that I haven't really mentioned is the fragile mental health of a lot of farmers.

PROF WOODS: Yes.

MS BROWN (CWA NSW): They are very fragile, a lot of them. So that at the drought summit, we were able to talk about women who could not go shopping because they weren't game to leave their husbands on the farm, and there was no way he was going to come beyond the farm gate. He just stayed back there, and that wasn't a one-off, that was - - -

PROF WOODS: Yes.

MS BROWN (CWA NSW): With the younger ones, our concern is the sheer number of single-vehicle motor accidents that we think may play a role, or stress may play a role in.

PROF WOODS: Just too hard.

MS BROWN (CWA NSW): Yes, too hard, so the mental fragility, and of course

they don't have it. Just ask them.

PROF WOODS: Yes, self-diagnosis is not to be relied on.

MS BROWN (CWA NSW): Yes, it's really the people.

PROF WOODS: Anything else, Neil? Bob? Can I express our great appreciation for the fact that you have thoroughly gone through the issues. I mean, we've not only had your presentation today, but we've got a document lying behind that. Thank you for the time and effort you've put into it.

MS BROWN (CWA NSW): Thank you.

PROF WOODS: It's much appreciated.

MS BROWN (CWA NSW): Thank you and good luck.

PROF WOODS: Yes. There being no other participants coming forward, I adjourn the hearings until Canberra on Wednesday.

AT 3.19 PM THE INQUIRY WAS ADJOURNED UNTIL
WEDNESDAY, 17 DECEMBER 2008