

## Study into Drought Support

Submission to Australian Government Productivity Commission by J A Beale  
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From the government Drought Support Issues Paper the summary of Agriculture in Australia makes use of current and past data which can disguise the real importance of Agriculture past, present and future.

The use of GDP from the past when mining iron ore, nickel concentrate etc. were in their infancy along side the giants that these exporters are now, tends to diminish Agriculture's importance to the continuance of the well being of our society.

Undoubtedly the rural workforce is older, with lower education levels and longer job tenure. Statistics reveal the levels of education but they do not show the countless astute operators like Sir Sidney Kidman, Mr Roger Fletcher of Fletcher's International and many others. They likewise do not show the level of education of directors and CEOs who have presided over spectacular corporate failures and setbacks. Misuse of such statistics in the hands of elements in the media have denigrated the image of Agriculture. Therefore in this submission extra explanation is given to counter some of the erroneous ideas and expectations that cause actual harm.

The fact that wages are low is a consequence of the decline in farmers' "terms of trade" and the shortage of labour skilled or otherwise is in part due to depressed wages.

Australia's drought policy has recognised that drought is a normal part of the Australian climate and makes an important distinction between "normal" and "severe drought". While drought is considered normal for Agriculture other activities dependent on it, such as local government (LG) and other government agencies and authorities ignore it. (See 1.4 below)

By dealing with the fourth question p 9 the answers to the 3 questions p 8 will become apparent. Too often "preparedness and self reliance" is applied to on-farm activity so that the focus of concentration has been there while the off-farm impediments have received little or no attention.

In response to the first section of the terms of reference "Identify impediments to farmers, farm businesses and farm dependent rural small businesses improving self-reliance and preparedness for periods of financial difficulty." is that there are many causes of impediments leading to rural and farm decline with a consistent common denominator: If full payment is not made for that which is delivered, decline of the provider is assured.

Drought is defined by Funk & Wagnalls standard Dictionary as 1 Long continued dry weather, want of rain. 2 Scarcity; dearth. The Oxford dictionary; 1 The continuous absence of rain; dry weather 2 The prolonged lack of something.

It is the second item in these definitions that has not received the attention needed in past drought enquiries, so that the following list of contributing factors necessarily covers a wider field than might be expected.

Migration

Negative public perception & lack of basic knowledge by the community

Commercial systems

Governance systems

Effects of interference from third parties

Lack of recognition of factors peculiar to Australia

Misguided information from rural communities going to government

1.1

## Migration

Since WWI there has been a flow to and from rural areas, helped after WWII by the Soldier Settlement Scheme. Technological change reduced the number of workers needed on farms and as industrial wages rose greater productivity became necessary for farms.

The following statistics sourced from the Australian Bureau of Statistics (ABS) show not only the extent of decline of farm families but when aligned to physical and/or financial drought the effect is the same.

	Farming family	Other family	All families
1971	190,466	3,601,618	3,792,084
1976	179,893	4,065,979	4,245,872
1981	170,135	4,642,300	4,812,435
1986	141,222	4,016,789	4,158,011
1991	120,491	4,178,405	4,298,896
1996	115,175	4,50,744	4,655,919
2001	112,753	4,824,075	4,936,828
2006	102,616	5,116,546	5,219,162

From these figures the reductions in farm families are

1971 to 1976	10,573
1976 1981	9,758
1981 " 1986	28,913
1986 to 1991	20,731
1991 to 1996	5,316
1996 to 2001	2,422
2001 to 2006	10,137

There were droughts in 1968/9 with worsening drought in the early 80s and braking in 83 with more localised droughts through to the mid 90s resulting in the creation of Exceptional Circumstances (EC) until the current series of national droughts.

It is generally agreed that farmers survive the actual drought and sell out after the event; however economic conditions over this period have not been favourable either. Coinciding with the 80/83 drought there was a recession and over 2 million bales of wool in a stockpile. Then there was a period where farmers were being advised to get big or get out; those that took the advice were caught in a currency crisis and a number had to get out. With inflation, high interest rates, escalating LG rates and the collapse of the wool market all produced a financial drought aided by physical drought that removed 49,000 farmers in a 10 year period.

"The ABS in 4102.0- Australian Social Trends, 2003

### Summary

Living arrangements: Farming families

The number of farming families in Australia decreased by 22% between 1986 and 2001

Farms in Australia have traditionally been family businesses, passed onto successive generations. However, since the 1950s, the introduction of new technologies, the globalisation of commodity markets, and the removal of protective tariffs, have contributed to the restructuring of the agricultural industry. Due to efficiencies associated with economies of scale, for most commodities increasing farm size is linked to higher rates of return, making larger farms more economically viable than small farms.. The amalgamation of properties as some farming families leave the industry has resulted in an increase in average farm size. The reduction in the number of farms and farming families has been one contributor to the population declines in the small towns that have traditionally serviced the farm sector.

For some farming families, farm income has reduced due to declining profit margins, and can be highly variable, requiring some farmers and family members to obtain off-farm employment to supplement and stabilise the family income. Stress, overwork and reduced time for family and community activities can affect the well being of farmers and their families. The 1990s saw a renewed focus by policy makers and government service providers on economic, social and personal circumstances of people living in rural Australia, and in particular those living on farms.”

From the same ABS document under Families on farms “Farming families may leave agriculture for a variety of reasons, including personal (e.g. retirement), economic (e.g. industry restructuring) or environment (e.g. Drought). That said, between 1986 and 2001, the number of farmers leaving agriculture was greatest during periods of high commodity prices, as land values were high and neighbouring farms had the financial capacity to expand. The decline in the number of farming families from 145,000 in 1986 to 120,000 in 1991, was partly influenced by favourable economic conditions. The lower commodity prices in broad acre industries throughout the 1990s resulted in some farmers delaying their decision to retire, leave farming, or hand the farm over to their children. As a result, the number of farming families declined by smaller amounts between 1991 and 1996(5,300), and between 1996 and 2001 (2,400).”

Farm management consultants frequently say 60% of farms are off-farm income dependant.

Critical mass is vital for keeping or attracting government services, health, education, Police, communication and LG itself. The loss of 87,850 farming families using the above ABS figures in 35 years is a considerable negative at a time when more, rather than less, families in rural areas would be in the national interest.

By contrast the EU and UK have addressed the mistake of subsidising agriculture production, have preserved the number of farms, actively foster rural communities, and provide environmental support without taxing farmers working capital.

## 1.2

### Negative public perception & lack of basic knowledge by the community

Impediments to farmers businesses (primary industry) and farm businesses (contractors) and farm dependent rural small businesses (secondary & tertiary industry) need to be separated and recognition given to the effects of loss of critical mass in rural towns, incremental change brought on by the passage of time and ever developing technology.

It is a fact that the voting public in recent times have by misleading media (for the most part, not necessarily with malice aforethought) come to overlook the fact that we do have three levels of industry but for simplicity's sake, erroneously accept that there is only one level of industry and therefore farming is just another business that deserves no favours. (See attachment “Farmers who fail don't deserve pity”[Note that the author is alleged to have had no TV at the time according to an ABC Radio National presenter and would not have seen the Premier of NSW looking at a huge but empty water storage dam])

The fact that farms are primary industry and farm businesses such as contracting are strictly secondary industry, while farm dependent and rural small businesses are a mixture of secondary and tertiary industry, does separate farming from the rest, deserving a complete reappraisal of attitude.

Just how different farming is to its fellow primary producers, fishing, forestry and mining would surprise most of its critics. This becomes apparent in following sections.

The public overlook the effect of change; that change is accelerating aided by improving technology and that there is a need to provide a counterbalance to protect and preserve farms and their rural support communities, which will be dealt with under the second section of the terms of reference.

The public have an exaggerated expectation of what farmers and rural Australia can deliver promoted by interest groups lacking in practical experience of the interplay in rural resource management but because of their concentration of voting power they unduly influence their political representatives into making decisions that achieve negative results.

The Canberra fires would be the worst example where wilderness advocates have undue influence on Park management leading to an unnatural build up of fuel but there are others where farming and rural communities have imposed on them inappropriate action such as Managed Investment Schemes (MIS) where planting trees that end up reducing the flow into the Snowy River, raise the price of land beyond its traditional agricultural expectation of return, make small towns non-viable all in the name of reducing salinity, where it was not a problem and is on the decline in NSW. Now these plantations are claimed as carbon sinks but in reality, a very short term sink that is at high risk of bush fire and at high risk of diminishing ground water recharge.

### 1.3

Commercial systems: when goods are sold at auction or on commodity markets costs can not be re-covered as they can in secondary or tertiary industry.

The concept that the user pays is not disputed, the problem is to find ways for the final consumer to pay. This points to indirect methods whereby costs on farm are reduced or eliminated and such gains are held by the farm business to build up the necessary reserves for self reliance.

A further distortion to the smooth working of commercial systems, is the notion that markets, hence competition will solve the problem, when in fact any market is based on human frailty of greed and indifference to others.

Time and circumstance has altered the commercial world since the original Trade Practices Act. The plethora of local retail outlets then have been consolidated into a relative few now with dominance in each state. As a result we have market dominance.

Inflation then as now is the greatest concern but precluding agriculture's ability to be part of the general prosperity has reduced its ability to be self reliant.

Ultimately society has to decide (not only for agricultural industries but for manufacturing industries) if it is desirable to keep the ability to be self reliant and independent or sink into a dependence on foreign debt as has happened with the USA.

In short, do we try to control our destiny by a judicious use of regulation?

There is further interplay of commercial and governance systems in 1.4

Interest rates as a control mechanism for inflation does not discriminate between classes of borrowers. In times of drought the farm has to borrow to maintain the farm, pay government charges on time and the activity is not inflationary but the effect on the farm is to add unnecessarily to the financial burden and hastens the decline of viability.

Where government owned infrastructure should be upgraded or maintained such as rail branch lines with associated equipment, the activity is hardly inflationary and government

borrowings to keep essential services needs to be isolated from consumer spending where expenditure on opulence and non essentials such as over sized houses, country “acres”, imported cars and status four wheel drives, are inflationary.

Cross subsidisation: from country to city has occurred until the oil price spike, where fuel was priced 10 cents above Sydney prices while the transport cost was 3 c/l. It is not known if that extra margin went directly to oil company's profits or was used to keep city prices lower and turnover higher. The fact that the practice appears to have ceased, unless prevented it could be resumed to the impediment to rural communities. During the currency of this practice it was just another impediment to any build up of financial resources needed to combat drought.

Research to determine if a level playing field exists between rail and road transport and if car registration is subsidising trucks is needed. The matter has been discussed in Federal Parliament with the trucking industry predicting higher prices for consumers and farmers have supported the truckers because they cannot afford higher costs delivering their produce.

If trucks are obliged to pay for the extra damage they are alleged to do to roads, plus collateral damage through accidents to the health system then depending on such research consumers may be as well off paying fractionally more for food but less on car registration, while farmers under existing rules will not be expected to pay through their LG rates for road maintenance.

#### 1.4

Governance systems:

the system of local government (LG) has been the subject of a Productivity Commission Research Report: Assessing Local Government Revenue Raising Capacity that has established beyond doubt that rural and regional LG have to exert greater effort in revenue raising than their metropolitan counterparts. Also table 5.9 of the report shows the share of councils remaining grant dependent is 87% for rural and 95% for remote.

LG provides services that flow beyond their boundaries so that the final beneficiaries are beyond their jurisdiction and the common denominator is applicable to farmers and LG equally.

It is understandable that under the heading Rates (p177) “Rates on land values are generally considered to be an efficient form of taxation in that they do not significantly distort economic activity and resource allocation: that is, choices about how to use land.” This cannot be agreed to by farm families because having to raise finance while in a period of negative income, not necessarily drought, adds to the list of farm impediments.

This does not register at the official level as was evidenced by the Mayor of Bourke on ABC Country Hour expressing the appreciation of his Shire in that the farming landholders had not defaulted in paying their rates while in drought. From the farmers point of view LG interest rates are excessive and it is better to go with the lesser evil and raise finance through commercial providers.

It is the base of the rating system that does distort economic activity and resource allocation. Farmers need to be part of the whole but rates vary from council to council resulting in Horizontal Fiscal Imbalance (HFI) within their industry sector, such as dairy or lamb production.

Affluent “Life style and view seekers” have moved many dairies from coastal areas to inland areas in NSW due to the higher rates impact with undesirable environmental consequences. From the local council's view when life-style and view seekers change the land use and pay in excess of farm use economic capacity, the council concerned rejoices in the extra rate revenue and the extra activity generated in the local town. From the adjoining farmer's point of view his rates

rise increasing costs that cannot be re-covered. The only dubious benefit is that theoretically his land has appreciated in value and he can borrow more.

To facilitate a broader view of LG it would be better renamed "Primary Government". The purpose being to create a new awareness that this level of government is of equal importance to all citizens regardless of the area they live in. Therefore the funding as far as rates revenue is concerned is of equal importance to all, but the reality for farms' rates is that they are disproportionate. See below 2.4

The other reason for a name change is to circumvent the convention that LG is entirely "local", that it is self contained to the boundaries under discussion, whereas in reality due to the changed circumstances brought about by time and technology, it is a unit in the whole system of LG.

With the advent of the Sub Prime Mortgage debacle based as it was on the expectation of ever increasing house prices, while here it is land prices and the unknowns associated with climate change, the need to change from the existing rate base to a more uniform and equitable base is urgent.

LG is not the only government sector to apply charges and taxes in times of negative income that cannot be re-covered by the direct user from the ultimate final beneficiary.

These are water authorities applying standing charges even when there is no water delivered, RLPB rates that apply regardless of ability to pay or conditions prevailing, and the potential in the future for Catchment Management Authorities and carbon trading to exact levies and charges.

The economic rationalist says the irrigator is the user and should pay but when as is the case, the irrigator's final beneficiary is not paying and cannot pay because our commercial system of auction and commodity prices; then a new method of recovering the cost of that service to the community needs to be found.

National Competition Policy (NCP) or its interpretation through the Trade Practices Act does not recognise that farmers are very large consumers and are in need of the same protection accorded to supermarket customers.

No two farms are the same because of soil type variation, distance from market, genetics etc. and within industries such as dairying the districts are not the same so that collusion to manipulate a market is not a threat. The rules for collective bargaining need review and simplification because they are over precautionary.

Abuse by market dominance is an issue here as well as overseas. The circumstantial evidence is there for all to see, articles in the media, letters and TV. Dairy farmers, truck drivers, fishermen, all are complaining that they cannot recover costs no matter where they are, Denmark, Spain or Australia.

The cause is that their contracts have no provision for unknown causes of rising costs and their recovery. The modern day operator under the age of 60 does not seem to have any knowledge of Rise & Fall clauses in a contract. Contracts during and after WWII all had such clauses.

With market dominance favouring the convenience of the supermarket chain or manufacturer and the inconvenience of fluctuating buying prices; such a fair trading device as a rise & fall clause is in the supermarkets' interest to avoid.

Market dominance manifests itself to the impediment of building or maintaining jobs and services in smaller towns. Well known brand names of cars and appliance manufacturers with one exception set unrealistic sales targets for their distributors or use other excuses for terminating the relationship. To buy and subsequently service a new vehicle from the nearest large town or city can require a round trip of hundreds of kilometres.

1.5

Effects of interference from third parties.

The effects range from the introduction of serious long term problems affecting costs to misleading information denigrating the agricultural industry or its practices. Such negativity has to be countered because it inevitably becomes an inhibiting factor to farmers and their organisations.

Historic but with ongoing consequences are the introduction of rabbits, foxes, cats etc. and various weeds. Rabbits caused irreparable damage in the late 1890s through erosion and is ongoing but the present day critic sees the damage and believes the farmer needs to improve management practice!, with implications as to the farmers' ability to manage or be worthy of help from the public purse.

Because of the early introduction of some of the worst weeds and feral animals, coinciding with a period in history when farmers and graziers were much more wealthy in real terms, (they were not able to cope with the consequences) it was considered a farm's problem then and now, but it is everyone's problem. National parks, Crown lands, roads, forestry, all are affected.

Foxes, cats, pigs have created the situation where bio-diversity is an issue with the public. The list of endangered species grows, confirming the need in the public's eye for government regulations that are often counter productive because the vocal minority making the the demands are targeting the wrong cause. The farmer is not compensated and the viability of the farm compromised when weeds and feral dogs invade.

Present day and likely future interference ranges from environment perceptions through to commercial exploitation. It is not an exaggeration to say the public have been subjected to a sophisticated propaganda campaign to stop forest activities that has spilled over to farms with the object of growing more trees.

The average radio or TV presenter promotes the growing of trees as the saviour from greenhouse gas, and farm forestry is the way to do it. What the vegetation types were in 1770 or how the Aboriginals managed those areas is not considered.

Unless due regard is given to species, soil type, long term rainfall, drought, frost; all this well intentioned advice to grow trees will turn against farmers first and their communities second but the environment that everyone wants to protect is put at greater risk.

The rural press and Landline ABC TV have shown farms virtually at a standstill because the regulations take no regard of silviculture or good forestry practice. The trees (scrub is the more accurate term) are not preventing salting, are, depending on soil type, causing erosion, are not growing at their optimum rate, therefore not sequestering carbon at optimum rate and the "trees" become a weed unto themselves. Ultimate harvesting is not discussed.

Commercial exploitation by those wishing to import agricultural produce or animals regardless of pest or disease consequences have been able to do so with no risk to their financial viability but subject farmers and the total environment to hazard. Much time is spent by farmers and their organisations fighting to preserve their future which is another inhibitor to farm profitability.

Dairy deregulation has been one of those cases where commercial interference by the supermarkets of the day has had wide spread negative consequences, not that it is portrayed that way. Because there was new capital for those remaining in the industry complete failure has been averted.

It must be acknowledged that animal activists, like the early conservation movements were not all negative and that miners, saw millers, manufacturers and now farmers do need incentive to overcome the dislike of change. Having made change for the better, because certain positives will be/have been the result, there can be no impediment. Unfortunately when extreme organisations like People for Ethical Treatment of Animals (PETA) interfere and disrupt the wool industry, or animal activists take out advertising that is actually contrary to the well being of pigs, they add to the list of impediments to farmers' ability to cope with drought. When all is for no gain to animal or human well being, then measures have to be taken. (see below)

## 1.6

### Limiting factors peculiar to Australia.

Limiting factors peculiar to Australia are the size of our continent that creates a tyranny of distance and time, its climate, population density and disposable income disparity that has led to a country/city divide.

Academics, journalists and those living in cities are inclined to forget these simple facts and do not take them into consideration, so that when overseas economies are advocating tax reductions we with less people and a bigger land mass to look after should not be expecting to follow suit. It is argued that we should be paying top executives world market prices. Not a view shared by Mr Gerry Harvey of Harvey Norman Limited and struggling farmers. Overpaid city executives have been equally successful in making corporate failures and some that have had repercussions into agriculture and rural communities.

In Australia we must be much more wary of any factor increasing costs.

Tax laws and government initiatives need to be more even handed. For instance the capital gains tax exemption on the family home was politically essential to have the law accepted by the electorate and theoretically it was a concession to all citizens but it was a door that opened for city dwellers to make money due to the population density of a city that is not available in country towns and out of the question for farms. A counterbalance needs to be found.

Similarly MIS came about because it was considered that new capital was needed in the country and that trees for the timber and pulp industries were very important to rural economies. The finance sector were the prime beneficiaries, the cashed up investor second. The extent of damage to the environment will be revealed in the future but it was an event based on lack of knowledge of Australian geography.

To be even handed Landcare has been an outstanding success because it did provide farmers and rural people with funding. Land values and water prices were not distorted.

Subsidisation of city transport is essential but it inevitably puts more money in the pocket of the city commuter while the country commuter with greater distances to travel and higher fuel prices is put at disadvantage. According to an editorial in The Land newspaper the subsidy for NSW city public transport for one year exceeds all payments for drought assistance since 2000.

Unless care is taken over the climate change debate time and effort will be wasted expecting Australian agriculture to need the same treatment as agriculture in the Northern hemisphere. Again it will be lack of applying knowledge of our geography and history over millennia.

## 1.7

### Misguided information from rural communities going to government.

It is only reasonable that all sides get equal scrutiny in assessing impediments to farms and their communities.

Farmers have to realise that some of their actions and inaction have been counter productive with messages not being based on full knowledge of all the factors pertaining to the message being sent. A case in point: after the 2000 Annual Conference of the NSW Farmers' Association a statement that the delegates did not want handouts or subsidies but wanted equity. At that stage it is doubtful that those delegates knew that they were the ones giving handouts and subsidies to city dwellers and had made no asserted moves to achieve for themselves the equity so desired.

The most constant message going to government was on subsidies to UK, EU, USA and Japanese farmers and how it distorted trade. The other aspect was the unfair distribution of those



funds with 10 to 15% of big farms getting the lion's share. That mistakes were made in the early years the UK and EU admit to and have made adjustments that are now considered beneficial to rural communities and the environment.

In Australia there is a surprising lack of knowledge of commercial and government systems with a belief that nothing can or should be done. Not so with the timber industry but then there were far fewer saw millers to unite than farmers.

An opportunity for change came and was missed when the then Minister for Agriculture The Hon Warren Truss commissioned the National Farmers Federation(NFF) to produce a Report by the Agriculture and Food Policy Reference Group "Creating Our Future agriculture and food policy for the next generation"

In 2007 as a result of correspondence with the then Minister The Hon Peter McGauran who sent a copy of the above document. "Querying Creating our Future" was prepared and sent to past and present Ministers.(See Attachment)

Farmers and their organizations make matters worse for themselves when there is too much haste to express an opinion without careful consideration of what is being said. Eg. To agree with PETA that a certain animal husbandry practice is cruel without ascertaining the meaning of the word is totally wrong. Under their interpretation Doctors and Nurses treating childhood leukaemia are cruel.

For an irrigator to say that standing charges should be levied when there is no means of passing on the cost is counter productive. It shows that same degree of ill considered haste to agree with perceived convention, as was the case with certain farming families writing to agree with the attachment "Farmers who fail don't deserve pity".

Never a thought as to why farmers fail, that their arrogance and lack of care may lead ultimately to their own downturn.

2

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

The task is to rebuild Agriculture and rural communities to the point of self reliance. This is not impossible but metropolitan and coastal communities are in no position to cry foul of the measures necessary to achieve the goal, particularly because they have been enjoying benefits at rural communities expense for generations.

The list of contributing factors gives an indication of the areas needing revival and a focus on what agriculture delivers but does not get paid for. The list is not prioritised but is an attempt to provide logical steps to rebuild rural communities.

The UK decided in 1925 to make changes to their system of LG and it was 1930 when they were implemented; therefore the changes necessary to approach self reliance under Australian conditions will be spread over a similar time span. In Australia we have the benefit of learning from their experience.

2.1

Migration.

Australia to provide for its rural communities and its stewardship requirements for this vast land needs to follow the example set by the UK and EU. To reverse the migration flow back to the country requires incentives and new industries to rebuild the critical mass of services because having good health and education facilities is an incentive in itself.

The NFF published "Taxation Zones and The City-Country Divide—A Discussion Paper—May 2001". Politicians rebuffed it on the grounds that they could not be put in the position of choosing zones. The idea of having a reduced tax rate as an incentive was not a bad concept.

Therefore regions based on LG areas where there is already an accepted distinction of rural and remote LG in use and if applied equally to all, should be worthy of further investigation. A refinement would be distance from main metropolitan populations and or populations greater than say one hundred thousand in rural areas. The recipient would have to have proof of residency such as being on the electoral role.

In the light of the UK and EU experience, history may prove consolidation/amalgamation and corporatisation of farms to be a mistake. Very satisfactory for the ego of the few but in the interest of repopulating rural Australia, a new method of managing smaller farms to make them more prosperous and self reliant would be a prudent approach.

The suggestions in the following sections all become a package of incentives or indirect ways of returning profitability to farms by cost reduction.

**Recommendation:** Provide incentives to foster migration back to rural areas using income tax as an incentive after a further Productivity Commission study or Parliamentary enquiry into the feasibility of doing so for rural and remote regions.

## 2.2

Negative public perception & lack of basic knowledge by the community.

In documents such as "Are Councils Sustainable? Independent Inquiry into the Financial Sustainability of NSW Local Government" the cost of rural roads leading to farms is levelled at farms, other users get it free. The environmental services of keeping weeds and feral animals under control, locking up land to save land clearing are all in the public's eye the responsibility of farmers.

Therefore contrary to farms being "Just another business", they do deserve different treatment to provide balance and do not seek any favours other than the realisation from the public that because nothing has been done for 80 years, time is necessary to make adjustments.

**Recommendation:** Environmental services provided now by landholders be the basis of a new independent industry, (funded through local government, using dwellings as the rate base) providing equal service to Crown and private land as per UK system.

## 2.3

Commercial systems

If indirect methods are established to pay farms for all the services they deliver on an equitable base then education of farmers to provide them with a better understanding of the virtually new business they will be expected to run is going to necessitate new concepts and attitudes. E.g. the need to accumulate cash reserves to have self reliance precludes passing on those gains to ultimately give consumers ever cheaper prices.

It is only governments that can change competition policies and look at regulation but the need for review, even because the time lapsed indicates such a step, our overseas competitors do carry out reviews and do have regulation on production areas, with it must be stressed, compensation.

To have a situation where rise and fall clauses in forward contracts are excluded is in no ones interest. The difference to the inflation rate would be negligible.

Interest rates imposed by the Reserve Bank seems to be so indiscriminate in their affect that surely a better system can be devised.

As suggested in 1.3 the rail/road cross subsidisation situation should also investigate which system is best for rebuilding rural communities.

**Recommendation:** Review Trade Practices Act to;  
simplify collective bargaining,

Investigate judicious regulation,

investigate cross subsidisation,

Rise and fall clauses to be part of any contract to supply over a certain period

investigate a better system than over the board Reserve Bank interest rates.

## 2.4

The overall system of LG for rebuilding rural communities is an asset in place if somewhat disconnected and that the rural and remote content of LG expend much effort on. The Achilles heel of LG is its outdated rate base. In the 21<sup>st</sup> Century the changes in populations, wealth distribution etc. make it unfair to the point of discriminatory, open to abuse and disguises from the wider community their share of responsibility to the whole.

The findings of the Productivity Commission's report referred to in 1.4 confirm that the LG system is not even handed. The use of grants to support rural and remote LG provides a cash value for what is being spent towards maintaining rural communities, but the indications are that it is not enough. The farms with reduced or no income because of natural disaster, pestilence or low commodity returns are under greater stress to support LG.

Grants to LG is a subsidy by another name that goes to all LGs with the greater proportion going to rural and remote and when put on a per capita basis, does not contrast well with more densely populated areas because of the complicated formula with length of roads being one of the factors.

A letter dated 26 04 2006 from the then Minister for Local Government The Hon Jim Lloyd stated inter alia "The Australian Government provides Financial Assistance Grants (FAGS) annually to councils. In 2005-06, this is expected to amount to in excess of \$1,623 million." When this is shared over 8,426,559 dwellings (sourced from ABS 2006 Census Quickstats) the cost per dwelling is \$192.60 per annum.

From "Are Councils Sustainable?" Final Report: Independent Inquiry into Financial Sustainability of NSW Local Government Page 18 " Nevertheless, rates are efficient and administratively simple because they are impossible to escape unless subject to statutory exemptions.(---). Also, since they average just over \$600 per household, residential rates are a small proportion of the cost of a home and as such not very distortionary. Exemptions are important, for when the State Government expands its land holdings (e.g. the creation of national parks or state forests) councils may suffer a loss of rateable income."

Use of grants could be looked at as a Treasury ploy to keep inflation figures low, but in reality the home owner is not informed of the true cost of funding the total local government services of the Commonwealth that everyone uses. (Because of those limiting factors in 1.6 above, the State system cannot be involved and any adjustment calling for abolition of states etc. is irrelevant.)

The reports "Rates and Taxes: A Fair Share for Responsible Local Government" and "Are Councils Sustainable" show that the populace want and expect services from or through LG. Had there been a different rate base earlier, it is conceivable that the extra services being demanded through LG would have been funded and the rates required nationwide would have been available.

The importance for a change in the rate base is vital for farms.

Consider the allegation above that the present system is discriminatory and open to abuse. From ABS above the farming families in 1971 were 5% of all families, in 2006 they are less than 2% and a minority. P196 "Are Councils Sustainable " In 2003/04, councils received 26 per cent of their rate

revenue (\$573 million) from business rates. The average rate per business assessment was \$3,499. Councils received eight per cent of their rate revenue (\$179 million) from farmland rates. The average rate per farmland assessment was \$1,471."

Less than 2% are required to pay 8% of the total rate bill with no ability to pass the cost on, while 26% comes from business who do pass on the cost.

Abuse of the rating system occurred in Gannawarra Shire in Vic when a newly elected council imposed 58% of rate requirements on 13% of the population. Tumut Shire in NSW up till the late 80s drew 75% of rates from 25% of population, now it is 40% from 19%. From submission DR69 to Productivity Commission Research Report "Assessing Local Government Revenue Raising Capacity" page 4 "The case of the City of Horsham cited in VFF sub31 where 8000 residents pay \$46.00 each while 500 rural holdings pay \$640.00 each goes to show that while aggregate income is an appropriate indicator of fiscal capacity it is not being used fairly, in fact discriminatory, and the value of the indicator of effort is abysmal.

If applied to all, \$81.53 would be the per dwelling increase but using vertical fiscal imbalance some would pay more, some less. It is reasonable to believe that executives in the city will have far greater disposable income than any of the 500 rural properties even allowing that 300 of those have off farm income coming from the city. Using the 640:46 ratio no farm is going to be 13.9 times better off than any city based activity."

Where the excess rates from farms get spent is open to question but at Lockhart NSW at the time of writing, an industrial park to attract more business and jobs to the town is being funded by the council. At Tumut NSW the town has been beautified using expensive heritage street lighting replacing serviceable standard lighting.

It is farms' money that is being spent to foster the tourist industry, who pay nothing extra because their rates are based on property value, not type of business and therefore cannot be singled out for recovery of their benefit.

The consequence for farms over a long period of time is that they have less money every year to spend on improving their farm, be that lime, fertiliser, better genetics or any other activity that increases wealth, puts away reserves and give ability for self reliance.

E.g. Three farms jointly owned by two families with 4 houses is paying \$16,000 per year rates. The State average (Are Councils Sustainable? ) per dwelling is \$600 then that farm business is paying \$13,600 more tax than it should. There are three shires involved with rates varying from \$3.60 to \$5.60 per acre. This not only demonstrates the varying fiscal effort by those shires but also the inequity of the rate of attrition on farms in those three shires.

The big farm away from capital city commuter influence, thus on comparatively low value land does not pay the same rate per hectare as a small farm within easy travel time from a major centre where the escalated land value exceeds the productive capacity of the land.

When the rate base is dwellings and agricultural land is for agriculture or forestry as in the UK and EU, the small farm has equity.

The irrigated farm has the extra burden over and above council rates of standing charges for upkeep of infrastructure to deliver water with no direct access for recovery of such costs. When water prices rise or commodity prices fall or as has happened there is no water supply, attrition of the farm's capacity for self reliance inevitably follows.

For rural communities to revive and grow, equal opportunity has to be provided for those who have endured the long standing attrition of their assets (traditional farms) competing against the "New" capital flowing into agricultural pursuits (MIS and new fad large corporate farms) where a tax deduction, I.e. negative gearing is the driving force. When investment is made from savings or borrowings with no tax implications then equality would exist between investor and traditional farmer.

Rising land prices are the security for such investors. If an investor sells out taking his share of capital gain and any profit from the farm's activity a new buyer moves in. This situation has not been there for the traditional farm family. One of the family leaving has to be bought out by the family causing extra stress on finances.

The fact is that the advent of the large corporate farm comes about from the attrition of assets of neighbouring farms, maybe health and age are a factor but mainly from commercial and

governance systems. Drought only hastens the rate of decline.

This submission is about farm impediments but it should be noted that fixed income retirees stand to benefit by changing the rate base to the holistic approach of using dwellings. The unlimited capacity of developers to raise finance and thereby increase land values at no disadvantage to themselves under existing rate regimes needs investigation. To counter it the dwelling base for rates is attractive.

#### **Recommendations:**

Change name from Local Government to Primary Government

Rate base needs to be on dwellings nation wide

Decide on FAGS, whether to keep, increase, or use dwellings based rates to replace ?

Investigate distortion in competition brought about by the present non holistic rate base

Ensure equal opportunity in land transactions by eliminating negative gearing by those remote from the land.

Investigate the ability of developers under existing LG rating systems to distort land values by virtue of their borrowing capacity.

## 2.5

### Effects of interference from third parties.

The risks have not diminished from further interference by third parties with gardeners importing plants via the inter net which could avoid quarantine scrutiny.

There has been very little effort to eliminate weeds and feral animals with the onus put on agriculture and no compensation or means of passing on the cost of chemicals and labour. Farms do what they can knowing that re infestation will come from Crown land.

There is scope to set up a new industry to control weeds and feral animals in National Parks, Crown forests, roads and farms. Funding would come from LG using dwellings as the base. It is an ambitious plan with long term benefits to the environment and agriculture that would gradually take a huge cost out of farms and significantly increase their capacity for self reliance.

Certain regulations can be brought in by States where there is no constitutional protection for the landholder resulting in various negatives such as land devaluation, inability to manage woody weeds, erosion caused by certain woody weeds, denial of use of capital to owners best advantage.

If constitutional change is too difficult, the use of Inter Government Agreements (IGA) may suffice to bring equity.

Because most of these regulations have been brought about by minority groups' agitation, paying for landholders disadvantage may bring forth a more moderate and better thought out responses.

The risks have not diminished from further interference by third parties with gardeners importing plants via the inter net which could avoid quarantine scrutiny. Where commercial enterprises want to import risky products to further their profits, then a bond or insurance policy to cover the cost and compensation of eradication of any weed or disease infestation would fulfil their

user pays obligation.

In the case of PETA, their objective is so extreme, it takes no consideration of human development, anatomical, physiological, or shows any consideration for the well being of fellow humans. They are a public nuisance and should be treated as such before the law.

Animal activists that run advertising contrary to the benefit of animals (latest case pigs) misleading the public and causing financial loss to agriculture need to have appropriate constraining action taken against them and their members.

**Recommendations:**

Environmental hazard (weeds, feral animals) needs new industry servicing Crown and private land.

Environmental regulation by States need scientific review and compensation to affected parties.

Investigate use of bonds etc. on importation of hazardous goods.

Implement suitable laws to protect against damaging and biased claims from third parties.

2.6

Limiting factors peculiar to Australia

To overcome that tyranny of distance etc. and provide a counterbalance to a city's natural ability to create wealth, a differential tax rate for rural and remote regions, as suggested under Migration is another reason for further investigation.

MIS in agricultural pursuits is recognised as a mistake, as is similar schemes in tree planting on agricultural land and the forced grab for tree cover by regulation. There are better alternatives that still produce timber and jobs on Crown land with much greater security of tenure.

City commuters need subsidisation of public transport but it is of equal importance to maintain country rail and its branch lines. Research into using crop and forest waste to boost freight on branch lines and create more rural jobs would enhance sustainability of rural communities.

On climate change; history should show that emissions from fossil fuels used by agriculture are the only contributor to the increase in CO<sub>2</sub> levels in the atmosphere since the Industrial Revolution. The animal population of the world and their carbon cycle would be constant. The only aberration is where animals are housed under factory conditions.

Agriculture is part of the solution to the problem. Carbon trading will be a bonanza for the finance sector. When NSW decreed lead could not be used in cars for health reasons the Nation followed. A decree to use only LPG in motor vehicles would bring about the desired affect. No need for carbon trading and encouragement from government to use and develop new technology like that used in the city of Woking in the UK is by far the better way to approach climate change.

**Recommendations:**

MIS to be wound up and any ongoing tax advantages to be eliminated.

Establish a new industry making bio-fuel from crop and forest waste to provide a new income stream for farms and rural communities plus extra tonnage for rail branch lines and rolling stock.

Avoid carbon trading as much as possible, lead by example, but give farms full credit for all carbon stored in old trees and soil.

## Information for Government

If it is agreed that it is desirable to build up rural communities and part of that process is based on viable farms then there is a need to investigate why farms are failing. An indicator that there is urgency is in the fall of farm families over the last 35 years and that trend is not sustainable.

The rule of thumb 20:60:20 where 20% lead 60% follow and 20% drag along behind is applicable across many industries. Human nature being what it is, the 20% of accredited leaders in agriculture are from big farms with vastly different circumstances and reserves to a small farm. The small farm is not likely to have its interests aired before government.

Again in the 20% of leaders human nature indicates that empire building is not over, that acquisitive nature wants the neighbouring farm, that arrogance provides the conviction that other farmers are incompetent, resulting in no investigation into why farms are failing.

Structural adjustment is the euphemism and sop to conscience for not making the effort to investigate.

From the above and attached documents the distortions in trade between LG areas and the variations that exist because of location, show the uneven effort required for farmers to stay viable. Depending on location and LG tax rate the attrition of assets or availability of ready cash reduces the capacity to fully provide for drought let alone EC.

Therefore question p10 of the Issues Paper *"In general, do-----of sever drought? Do they do the opposite?"*

The answer is they do neither because the incentive comes from the reluctance of farmers themselves to receive handouts. Therefore all farmers do their utmost to be prepared for drought. The limiting factor being the conditions enumerated above.

The fact that EC is available should be viewed as a social conscience payment to those who have contributed to the well being of all over a very long period of time but through drought have lost control.

The question p11 *"Does EC declaration process create incentives for state governments to apply for assistance given the Commonwealth is responsible for most of the funding?"*

The answer is in the affirmative and the reasons are stated in a letter of 20 Feb 2007 to the Hon Jim Lloyd MP. See attached.

P 12 *"To what extent have farmers benefited from other input(fodder,transport-----such as maintaining excessive stocking rates?"*

When the Federal Government boosted the housing industry by giving a \$14,000 subsidy to first home buyers the value of all homes increased and when fodder is subsidised all fodder increases in value but the farmer is assisted. There must be a chain reaction through the marketing chain and as that is largely confined to rural communities, they too get some assistance.

Maintaining excessive stocking levels in time of drought may be considered "a poor farm management practice" but it would depend upon for how long and what reason it was done. As a general rule it is not imagined that by the time EC has been declared stock reductions would have been made. EC payments are a help and are unlikely to be abused.

P 13 *"Should governments have structural adjustment policies which are triggered by severe drought?"*

Because the changes that should have started 80 years ago have never eventuated, have by default, created the farm business environment of today where there is a need to help those who through financial, ill health, interference from third parties, and/or age can no longer support themselves.

*"Why is there little use of exit plans?"*

If this is a fact it is not surprising because having spent a lifetime born and bread on the farm

a job off the farm is going to be the first alternative, or financial advisors have provided an alternative.

*“Do severe droughts lead to an increase in exit from the industry? If not, why not?”*

Any drought is likely to be the straw that breaks the camel's back but from ABS data quoted in 1.1 above there are other factors to be considered. The emphasis should be on preventing exodus from the industry or rural community.

*P14 “Should equity in assets be run down to some minimum level before households are eligible?”*

If the asset is gold bars in a bank vault then sale is appropriate, but if the asset is producing income that pays the children's school or boarding fees then there is no sense in liquidating it. The criteria should be the level of income derived from assets not the value of the assets. This sends a healthy message to all farm businesses to provide their own drought support as far as possible and not be penalised for good husbandry.

From 2.1 above, re fostering large farms being a mistake; on ABC-TV Four Corners program advice from an agricultural expert was that farmers should do as Sir Sidney Kidman and have properties in more than one state. This does not allow for having to keep paying for infinitely higher rates now than in Sir Sidney's day.

Maybe the answer lies in adapting to the practice in the USA where contracting teams move their highly capitalised machinery from district to district to gain a longer earning period and some flexibility over weather conditions, rather than have the farm encumbered with huge capital expenditure and interest repayments only to have certainty of control over when crops go in or come off. The larger the farm the greater the perceived need to control its destiny. More smaller farms spread the risk.