

Dear Sirs,

I write this submission as a beef producer from the inland of the Far North Coast of NSW where drought is perceived to be rare.

One thing that must be realised before making policy on rural issues, is that as individual producers we are in direct competition with every other producer, and that if one receives a benefit that others are denied then that puts that producer at an advantage or in effect disadvantages the other producers.

Where we live, drought as in very long periods without rain are unusual, but because of this our land is valued higher per breeder area than other areas so has a higher capital overhead cost of production. Because we expect rainfall to be reliable, short periods of unusually low rainfall can be very detrimental to our income. Also because of the heavy continuous rain that often falls, the resulting floods and soggy ground can be just as devastating as a drought.

I do not believe that any producer should be subsidised in any way to continue producing product at uneconomic prices. I would think that if a producer cannot over say a five year period produce enough profit to cover costs they are unviable and producing product below cost that competes with other producers.

The interest rate subsidy is particularly unfair and detrimental to those who have to compete against others that receive it. Consider two identical farms, one is run by a very conservative manager who lives frugally takes on little or no debt, does not borrow to buy new machinery, and the other who borrows as much as possible, maybe even to buy more land, when the drought comes the first farmer cannot receive any drought assistance yet the second farmer might receive interest subsidies up to \$500,000. This totally distorts the market, encourages indebtedness and pitches one farmer against the other. I have heard it said that some producers can't wait for the next drought so they can buy more land with the help of the interest subsidy.

The fodder freight subsidy is also unfair and detrimental to those who prepare and store fodder for drought. The subsidy in effect increases the demand for fodder and thus increases its price. My father used to say that we should store a lot of feed for the next drought and when it comes sell all the livestock and then the feed as there would be much more profit in selling the feed than feeding the cattle. The freight subsidy, although not supposed to be, is often claimed by those who buy feed as a normal part of their business, dairy farmers and lot feeders come to mind.

The best assistance that is provided is the Farm Management Deposit Scheme which in effect allows producers to build a store of money that can be used by its owner however he thinks will be in the best interest of the business. This might be to buy feed in drought, build dams, silos, or another property. It is fair in that it is open to all farmers provided that is their main source of income. Farms must be viable otherwise there is no profit to deposit and it is taxed when used which accommodates the vagrancies of farming businesses. This

scheme maybe enhanced if it could be used by the farming business as well as the individual.

There is possibly some case for loans to be available in some circumstances, or maybe equity loans against planting a crop where the Gov. risks capital for a percentage of the crop. This might be a way of building a drought insurance fund in successful years to hedge against bad years.

The real problem in agriculture is that the terms of trade have been decreasing markedly over the past 50 years. Agriculture is one business that increases in efficiencies have seen not increasing profits to farmers but cheaper food & fibre commodities for the community. These efficiencies have been accomplished by the use of machinery and fertilisers, and other labour saving practises. These efficiency gains may have come to an end with increasing fuel, fertiliser, steel and other import costs escalating rapidly in recent times.

What farmers need is a profitable price for there produce. Now this will be a different price for every farmer. If some farmers are assisted to produce product when it would not otherwise be profitable (including the cost of drought), the increase in supply reduces the price and thus makes other farmers unprofitable. We cannot just keep producing product and expect to be paid a profitable price, we need to work out before we produce something if we think it will be profitable, and if it isn't, don't grow it or accept the consequences.

Tax incentives also distort the market. Recent tax incentives with Managed Investment Schemes have pushed land values in some areas out of economic value of traditional land uses. This might be a boon for those wishing to retire from agriculture but raises questions as to the real economic value of the replacement industries. Again is this the result of one farmer (or investor) being assisted to the detriment of others.

Tax deduction incentives also work against the smaller farmers, who after living expenses may not have much left to invest to claim the tax deduction. There is often a call "get big or get out" which tax incentives encourage, but is this what we really want? The ultimate end of this philosophy is one owning every thing and the rest working for the one owner.

The present natural disaster assistance is another unfair assistance as it only provides help when there are enough people affected to cause political damage. It doesn't matter how badly an individual is damaged, they will only get assistance if there are many others damaged as well. There should some form of disaster insurance worked out that provides for natural disasters. Perhaps a type of HECS?

I believe that governments should treat all its citizens equally when it provides services or welfare, and it should attempt to produce conditions that allow the smaller producers to grow and not be swallowed by the big, and the way to do that is to tax heavily those that have incomes far greater than the average.

In summary I believe that subsidies of any sort usually in time do more harm than good, mostly by encouraging over production. I believe that everybody is entitled to the same safety net or welfare as any other citizen, and if you have assets you should not be entitled to any assistance until you have exhausted those assets. Business is risky and subsidies encourage greater risk taking and if the subsidy is bigger for those who take bigger risks then this is wrong.

Thank you for your attention,

James Ramsay