

Submission:

To: The Productivity Commission.

By: Graham Wells

It is appreciated that Australian Ministers for primary industries have agreed upon the need to reassess current approaches to drought in light of current changing circumstances.

It is also appreciated that the Productivity Commission Draft Recommendations open the way to a broader interpretation of the needs of farming people and their enterprises.

I submit the following as issues which require attention during the course of the enquiry.

1. Farm Managed Deposits were established for the purpose of income levelling i.e. to allow surplus money, earned during profitable years, to be set aside to help meet costs during years when drought conditions incur extra costs and negative income.

However, under the present policy, funds payed into Farm Managed Deposits by company managed businesses are not permitted to be returned to company accounts. The money may be deposited into personal accounts, but upon withdrawal, is then viewed as personal income and therefore attracts large levels of taxation, even though withdrawn for the purposes for which this scheme was designed, as described above. The present policy, while intentionally set up to encourage farm and small business owners to be prepared for the inevitable i.e. drought years, actually cuts its effectiveness off at the knees. Therefore, there is need for a change in this policy. Farm Managed Deposits required for drought management need to be made transferrable into small business company accounts, where it will only attract the level of taxation pertinent to the earnings of that year.

Such a change in policy would encourage and enable farmers and rural small business owners operating as companies, toward more independent management of drought conditions.

2. The existing policy regarding capital improvements was designed to help stock producers secure and store fodder supplies for use during drought conditions. It allows for medium to long term depreciation. However, it was built around longer periods of high profitability than we are now experiencing.

This policy was basically formatted during a period when good to high profits were the norm, droughts were less frequent and their effects were much shorter term.

During the last 2 decades the above climatic scene has reversed and dry to severe drought conditions have existed, with only the odd good season occurring during this period.

In light of these changes, the terms of the policy need reassessing.

Current interaction between the effects of drought and terms of trade has severely diminished grain growers' ability to drought-proof their businesses.

Increased market fluctuation, effected by globalization and less positive terms of trade, has severely affected the profitability of farming since 1990. With the recent deregulation of the wheat industry, terms of trade will place yet greater pressure on grower profitability. On-property grain storage is now set to become a necessary marketing tool to allow grain growers greater flexibility in marketing and maximize their profitability.

One hundred percent tax deduction on grain and hay storage facilities is required to allow farmers to cope with the changes in climate, deregulated marketing policies and resulting fluctuations in terms of trade.

3. Freight subsidies are in place in some states of Australia, but not in others. Specialization in farming businesses has provided for flexibility in methods of drought feeding stock.

Selling off breeding stock is ill advised. Currently depleted stock numbers indicate it is imperative that breeding stock be saved. Once lost, breeding stock numbers will take a very long time to re-build, and could well cause the demise of the industry.

In many circumstances, it is more economical to transport stock to agistment on stubbles and failed crops, than to buy in feed for feeding on home properties. Increasing co-operation is developing between grain growers and stock producers in drought feeding stock, saving stock numbers, protecting drought-affected paddocks from degradation, while gaining a cash return to the grain grower from an otherwise failed crop.

Freight subsidies should therefore continue in those states where this policy presently exists. Other states should implement policies along similar lines.

4. Governments and policy makers need to be strongly aware of the pressures placed upon young farming families in times of economic hardship such as those being presently experienced.

These young farmers are at the peak of their life's expenditure demands, in terms of education costs (some of which necessarily include boarding school fees) at the same period as high expenditure on establishing and building their farm, plant & equipment to secure a viable future for their families.

Today's young farmers, well educated, intelligent and innovative as they are, need encouragement, respect and financial incentive from governments and the support of sound advice from successful people, to ensure this generation is not lost from rural industry through circumstances outside of their control.

5. The infrastructure of rural communities is built by young families, farmers and town workers alike, who are taking extensive responsibility for the growth and stability of their families and communities. Farming families have extra travel and time costs. Nevertheless, with their town brothers and sisters, they are running the fire brigades, school and health committees, churches, sporting clubs and activities, musical and arts societies and the many other activities which build and shape healthy communities. It is paramount that rural community families are encouraged and supported in their efforts to raise and educate sound, healthy families and continue to build strong rural towns. Rural enterprise needs to be respected, valued and supported by governments, as the framework upon which rural communities are economically founded. Unless farms are viable, the infrastructure throughout rural Australia will collapse.

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