

REPORT OF PROCEEDINGS BEFORE

**STANDING COMMITTEE ON NATURAL RESOURCE
MANAGEMENT**

TERMS OF REFERENCE A AND B

(ecologically sustainable land and water use in New South Wales)

At Sydney on Wednesday, 23 November 2005

The Committee met at 10.30 a.m.

PRESENT

The Hon. Richard Amery (Acting Chair)

The Hon. I.M. Armstrong

Mr G.J. Aplin

Mr P. R. Draper

MICHAEL DENNIS YOUNG, Chief Research Scientist, CSIRO Land and Water, Private Bag 2, Glen Osmond, South Australia 5064, and

JAMES MCCOLL, Visiting Fellow, Policy and Economic Research Unit, CSIRO Land and Water, Private Bag 2, Glen Osmond, South Australia 5064, affirmed and examined:

Mr YOUNG: I work with CSIRO Land and Water as a chief research scientist. I am appearing before the Committee as a professional economist employed by the CSIRO. I am not representing the views of all of CSIRO, only the area that I work in.

Mr McCOLL: I am a part-time visiting fellow to CSIRO Division of Land and Water in Adelaide and I am appearing in that role.

CHAIR: Would you like to make some opening comments before I ask the Committee members to ask a few questions, supplementary or make any comment that you may wish to?

Mr YOUNG: Thank you very much, Mr Chair. I think we should start by reflecting on our last report, which has received lots of coverage on structural adjustments and managing change. The thrust of that report is a review of Australian experience over the last 70 years in structural adjustment policies in various forms, starting in the 1930s with the Commonwealth reconstruction program and rolling through a series of schemes and five major Government reviews of that. We wrote that report focussing on water policy reform issues, searching for opportunities and insights that would help the implementation of a national water initiative and would benefit the States.

The major observation arising from that was a very clear message that emerges from all the reviews that autonomous structural adjustment has been the key to Australian survival in agricultural and doing that very well. Then going past that we identified three different types of government programs and policies: ones that impede adjustment, ones that facilitate adjustment and those that expedite adjustment. That three-way framework gave us a mechanism which has engaged a lot of people in ongoing debate and discussion around the most appropriate way to go forward. We came to the conclusion from the analysis that we did that the future of Australian agriculture is most vibrant if governments focus on facilitating and expediting change, rather than actually trying to find ways to engage in slowing up or impeding adjustment processes.

The other piece of work which I should draw to the attention of the Committee relates to our work on water property rights, and particularly two documents *Robust Separation* and *Robust Reform*. I am pleased to advise the Committee that our framework on robust separation, which is a new way to define water property rights across the world, has been adopted in New South Wales and you are in front of all the other States in terms of adopting that framework. I am pleased to inform you that New South Wales is in front of all the other States in terms of defining water entitlements to shares and unbundling water entitlements, so rather than having one licence you have an entitlement, you have a separate allocation framework that looks like a bank account, and I think New South Wales is in fact leading the world at the moment in terms of developing and implementing that framework, but I should also warn that other States are following and quickly catching up.

Our work on robust reform looks at the River Murray process in particular and some flaws, which I think we should come back to, in the way water accounts are constructed and the way entitlements have been defined in the past. The other piece of work that I draw your attention to is the difficult relationship between what in Victoria is defined as duty of care of landholders and the provision of incentives and we have done some important work there trying to understand what you expect landholders to do in their own right, without actually any incentives from government, and that is done largely through deregulation of defining property rights and that which you pay people to do. We could come back to that.

That set of documents I will leave for the Committee and we can go through them in more detail should you want to explore those documents.

CHAIR: Would you like to make any comments as well?

Mr McCOLL: I do not want to add to that. I think that is probably pretty good initial coverage. I am happy to get involved when we perhaps get into some of the specific areas in questions.

CHAIR: We all get involved in political debates, members of the Committee are politicians at the end of the day, but there was an issue going around for some time when there was a national requirement for water rights and so on, a COAG type arrangement, and then there was a debate about different formulas being put forward. Quite obviously from a New South Wales point of view I am very pleased to hear what you say now about our system of water rights, which you say is leading the country, if not the world, and so on.

How is our system benchmarked? A State which says it is putting in water rights or water property rights and so on, how is it benchmarked at a national level? This might be an unfair question, but is there a minimum standard of what is really a water entitlement or water rights? You are saying you are very happy with our system, our model, but there was a lot of debate in the early stages of it when a lot of changes had to keep being made from one State to another to make sure they actually complied with the requirement to introduce water entitlements.

Mr YOUNG: I think the benchmark that we have certainly suggested in our work with people is a reverse of the benchmark type approach. What has happened in the past is that every irrigation licence or water licence system has been rolled out piecemeal, bit by bit, an area at a time with various different schemes put in place and gradually we have glued it all together, and the benchmark which we suggested was one which focussed on what we call robustness. The idea is that you search for institutional arrangements that you would expect to stand the test of time, and by that we mean several hundred years without further change. So rather than doing what has happened in the past, which is we make the next incremental change when something is wrong and we fix up the next bit, that goes wrong and the next bit that goes wrong, we believe the right benchmark to take is to go back and say if you are going to put a system in place that you would expect to last for several hundreds years without amendment, how would you do it, and working from that a whole pile of things then start to become very clear and transparent.

The first one is that you have to define the water entitlement in a way that would expect change and expect to be managed in a way that assigns risk. We hunted around and found inspiration looking at the way companies define shares. When you have a company, the equity in the future which is uncertain is defined and then there are mechanisms and detail around that. So New South Wales is now rolling out unit shares as a way to define water entitlements, which means that if the future changes and it gets wetter or it gets drier, everybody knows how the allocations per share will be managed.

We also recommended, and this is also happening in New South Wales, that rather than having what is currently called a temporary trade, which is where you take a water licence, and if I wanted to transfer some water to you, I transfer my licence to you, you take the water off and then return the licence back to me. Rather than doing that, you just transfer the water on its own and you do that in the same way as banks manage money, where you set up a bank account and then allocations are announced at a point in time, just like a dividend in a company, it is announced and you credit a formal thing that looks like a bank account with a volume of water. If you do that, then if somebody wants to write a water cheque to transfer some water, then you can do that and the cost of transferring is only one or two dollars, but if you do that you have to manage the environmental side of the impacts of water use separately, and by going to that third part of having the use approval, then you can manage environmental and development issues separately from river system wide issues and efficiency issues.

That is the top part of the framework and below that we could set up catchment plans and rules for actually trading, set up a title type register, and I can go on through the detail. It is a very simple framework really but it is a very big change from where people were previously.

CHAIR: You could also have a requirement that the State have the water property rights but without really defining what model was the desired model that met the national water initiative.

Mr YOUNG: The national water initiative, which has now been agreed by the Prime Minister and also the Premiers, actually states that water entitlements shall be defined as shares but they will manage allocations of entitlements separately and use approvals will be issued. So they have actually adopted and recommended this framework as the way to go forward, particularly to assign risks so that landholders or water entitlement holders know under what circumstances they have to adjust without any compensation from government and when they would be entitled to receive compensation.

CHAIR: Ian Armstrong and I have had resource or agriculture portfolios in the past and we have always been hit with a very difficult debate which you have touched on; that is I think you have talked about and this paper also talks about government assistance or structural actual adjustment should be in the form of assisting change--

Mr YOUNG: Facilitating change.

CHAIR: Facilitating change, which always runs into the political difficulty involved with that. Obviously, when a drought hits or even a long running issue, with the farm sizes they are just not going to survive in the long-term, and governments do get involved in transport subsidies and so on. We have gone through the Ministerial Council meetings and have come up with principles and policies which probably more reflect what you are saying, but then when the drought hits and it becomes front page stories and debated on talk-back radio, then of course we seem to revert back to some of these policies which I think the CSIRO have been critical of in the past. Politicians do not tell specialists how to perform heart surgery and brain operations, thank goodness. Sometimes we may work up these sort of strategies that you are arguing about but I do not think many States have been able to eliminate what you may consider to be unproductive or inefficient assistance from government from time to time.

I would seek a comment from you, but it is just a difficult one. You are going to come back with are governments going to have the courage to do that, et cetera, but in a lot of ways that sort of assistance, which you consider in many of your papers to be inefficient and so on, is just trying to keep a bit of money going onto the property during the bad times of drought or whatever it may be. I would like you to make any comment on that. It is the difficulty between the technical point from the CSIRO and the very practical management of a crisis period by governments, Federal and State. There is one area here where I think someone challenges the exceptional circumstances as well.

Mr YOUNG: Our role as scientists is to work through all of the relationships and reveal the consequences of what is happening and to search for options which will lead to improvement. We see improvement as being either improvement in the welfare of communities or individuals and also the improvement of the landscape and the economy as a whole. Putting all that together requires us to think innovatively and with clarity and to try and make sure everybody is aware of the consequences whether they are unpleasant or not. We see that as our role, to articulate with clarity what is happening, and in this case, when you look at the available evidence, and I should stress there is not nearly as much evidence as we would like, we have to go back to first principles and the amount of research that is being done on the adverse consequences is less than we would liked to have seen happening. That which is available makes it quite silly to ask if structural adjustment, which occurs not only during a drought but immediately after a drought, is the thing which has kept Australian agriculture vibrant and kept it innovative and at the forefront.

When you look at the data and compare the income received by the rural households and compare it with urban households, there is no difference across Australia and that has come about through a continuing process of change and adjustment and the areas where we see problems are where governments have gone in and impeded change. I was lucky enough to serve a New South Wales parliamentary inquiry here in the 1980s in the western division. That Committee observed then how much harm was being caused by price control, home maintenance areas, controls on all these

other things which was one of the primary causes of a lot of the land degradation that was being experienced in the western division, and so they recommended the repeal of parts of government policy, and there are lots of other examples of that.

The ideas around facilitating, for example, are classic examples of something that has worked very well; there is the introduction of farm management programs which create incentives for farmers to plan for drought, to see drought as part of the system and to manage it very carefully. I was talking only last week to a farmer from Victoria and she was saying to me that she found droughts exciting because that is when they had a nice holiday, and this is a farm family that planned for drought really well. They put a lot of money aside for the drought and that is when they shut the property down and go and have a holiday, and she said "we celebrate droughts". That is the far extreme. Many other people do not do that but building fluctuations and fortunes into the planning of the business is one of the things that a lot of Australian families have been doing.

CHAIR: Do you want to add to that?

Mr McCOLL: Just one or two points. I think in terms of discussing this general issue we need to draw a clear distinction between what I will call social security welfare, farm family wellbeing and the support for that and business assistance, and I think in a debate, even the debate we have recently seen, that has become quite confused. There is no question, in fact in the last rural adjustment report national review that was done, positive recommendations were made to provide greater access of farm families to the social security system, which in fact has happened. That is a key point I think we should keep in mind. So we are talking about business assistance and business assistance for farmer A as against nothing for farmer B who might well be under the same sort of pressures from the variability of seasonal conditions.

I think we also need to think of this in terms of the **general** approach to interest rate subsidies across the board, not just necessarily for drought, but across the board, which were part and parcel of the earlier rural adjustment schemes and the down sides of those, and in fact the Government basically changed the policy in relation to interest rate subsidies some years ago as a generally available instrument, with the exception of exceptional circumstances. Just adding to the points that Mike has made, I think it is important again to draw the clear distinction between the support that is necessary and quite appropriate for farm families and that for business assistance.

The financial system I think is much better at providing support to farmers through difficult periods than it used to be. Certainly, it is some years now since the financial system was deregulated. That was in the early 1980s if I remember correctly. The financial system itself I think does a pretty good job of providing support for farmers through these difficult periods and to some extent I suppose you could argue that provision of exceptional circumstances, say interest rate subsidies, in fact is crowding out the private sector in terms of its potential support. It is really business assistance we are focussing on.

The Hon. IAN ARMSTRONG: I guess, gentlemen, it is one of those areas where there is no crystal clear answer and we have been working on this since Captain Cook came here in many ways. I am mindful of the Goyder's line in South Australia, I am mindful that in 1963 when the first cotton gin was built at Wee Waa, the absolute community belief that you could not farm west of the Narrabri Moree Road, I am also mindful of the fact that many of these droughts have happened over the last 80 years, but yet we have on many occasions tried to define most of these things. Now we are farming 300 kilometres west of the Narrabri Moree Road, and of course we had a massive increase of opening up of land in the Nyngan area in the late 1970s and early 1980s, there was a push up from South Australia up there, went into country that the old people would never have dreamt of going into.

Mr McCOLL: Pastoral problems.

The Hon. IAN ARMSTRONG: Pastoral problems, that is right indeed, and suddenly it became agriculture and there were tractors out there where they had never been seen before, and a lot of this was assisted by government. In those days there were big taxation deductions for clearing

land, taxation deductions for fertilizing, for sowing down pastures and major depreciation allowances on machinery, and that has been part of the expectation over the years. But I guess the real muddying of the waters is a farming family and that is where you have got three components. You have got a business, you have got a family, which is mum, dad and whatever kids there might be, and you have got professional farming as in business. If it is a local garage selling cars, the business is quite clear. Very few people live over the top of the business selling cars and very few of them probably have their children involved in the garage; the business is the business, the home is the home and the family is the family; but in farming we tend to marry the whole lot together and thus we have the farmer living over the top of the shop, we have the shop being painted and watered and prepared and so forth as part of the farm costs and the family will have assets of three, four, five million dollars and the kids are on Austudy because the farm happens to be held in a trust and mum and dad have an income of \$30,000 a year between them. So it is full of contradictions. That is being quite frank about it.

The bottom line is that we have traditionally encouraged farmers to be more productive and to take more note of science and science has worked very well to allow us to farm the arid country, to put water where nature never intended water to go and to completely reverse the cycle of natural flows in our river systems. In New South Wales, the Barwon, the Macquarie, the Lachlan, the Murrumbidgee, before we put dams up the top they were dry in the summertime. The Lachlan where I live was a chain of water holes in three out of four summers. We made that into a major river flow for irrigation purposes and it worked very well. Then we have created the next problem and that is the socio-economic effect of farming in these communities and that is where government comes in, as Richard was saying. As soon as we have problems such as droughts or the major downturns we had in the wool industry in the 1980s and the major downturn in the beef industry in the 1970s where those industries virtually collapsed for a short while, so did the local communities and all those dependent businesses ranging from agricultural contractors right through to retailing, retailing machinery, dips and dredges and so forth.

Therefore, government sees its support for farmers as keeping some semblance of business confidence in the community, retaining population in the local community, retaining numbers in the school, retaining numbers as far as using the local hospital to keep that infrastructure together. So it is far from a simple definition when we talk about what we can do for further adjustment for farmers. I am with you very much in terms of farm management deposits. That is the biggest advance I have seen in my lifetime; there is no doubt about that. I think we will look back in 12 months time, assuming the drought is just about over in New South Wales, and say this is the best outcome from a drought we have ever had. Financially farmers at the moment are coming out of the drought far, far better than any previous drought probably in bank's records. The number of people they have got in turmoil they can count on the one hand, so I am told, in the central west - that is the NAB and Westpac - and that is a great factor.

It is a matter of determining I suppose as to how we manage now, for instance, environmental flows in our river system and how we manage farming and what responsibility we might have in terms of maintaining the socio-economic stability in our rural communities and as to whether we just see farming as a stand-alone industry that we should ignore the socio-economic effects it has or responsibility it may have and as to how far we go with further science to enable us to farm country that is on record as having unreliable rainfalls in difficult soil types and difficult environmental types, and that is the big questions for us. I have not got the answers.

Mr YOUNG: Perhaps I should respond very quickly to that. I think you are right that we are looking at a complex set of arrangements. The work that Jim McColl and I have been doing is focussed very much on trying to think with clarity through that, and out of that came the insight into separation of instruments you would expect to last for a long time and to work with clarity and to **give** very clear signals to farmers and other land managers about the direction and about what they should be thinking of planning for, because if you have a confused, changing world then they cannot plan in the long-term. That is the difficulty we are in.

We are particularly aware of the difference between the role of markets actually introducing an integrated solution and the role of government in introducing an integrated solution. A lot of time

people are looking to the markets to make the final decision and sometimes it is left to the government. All this switching backwards and forwards is when you get high transaction costs and confusion and a lack of long-term strategies that drive the reform process. We are also very aware, if you go back through the data, that in the last 20 years Australian agriculture has lost around about a quarter of its farms. Actually, the land is still being used.

The Hon. IAN ARMSTRONG: Farms or farmers?

Mr YOUNG: Farms and farmers, it is really both. There has been a big change through amalgamation and change and structural adjustments, and change which is a continuous ongoing process without end, and that process is what we think from the data that is available when you go back over the last 70 years is the secret to wealthy communities. We look at wealth in terms of wealth per capita of the people living there, not necessarily how many people will the area hold. I think we have made an assumption that people would prefer to have wealthy people rather than a poor community. We have lots of poor people and that means we have to go and change it. Governments might not agree with that assumption but in the empirical work we have done we have assumed that people prefer to have wealthy people even if that means fewer people and that is the trade-off which we are trying to put our finger on.

The Hon. IAN ARMSTRONG: When you look back to the 1890s it has been an evolving process. When we had the Torrens Title in 1901, we had a whole lot of very small farmers. Then in 1901 it suddenly built up then in the north with overseas companys titles holding money overseas. Then after the Great War there was soldier settlement and much of those big holdings were cut up, and then after the depression many of those people went down the financial gurgle hole, particularly horticultural industries and so forth. Then there was a slight build up after World War II and we had soldier settlement again, a big cut up, and in the 1950s small farming became very popular indeed. Then in the 1960s after the credit squeeze again a lot of people started to fall out the bottom and we have seen that in the last ten years. We have seen now, as you rightly say, a very big build up of aggregation of properties and we have people such as Ron Greentree. According to *The Land* last week, Ron Greentree in 1981 had a small bulldozer, that is all he had. His mother was recently widowed and now he is Australia's largest wheat grower. So it is an evolving process and I am not too sure of the outcome. I am not too sure whether the Government should be in charge of that or not. I expect not.

Dr McCOLL: If I could make a comment. It is very much a personal one. There is quite a few of us have got grey hairs around the table here. When I started professional life in northern Victoria in the soldier settlement area half way through the Murray irrigation district, one of the problems that we had in all those settlements was the determination administratively of what a living area is and at that stage it was 60 cows a farm of 100 to 120 acres, depending on how much was irrigable and much was not. Just think of what it is nowadays in terms of a respectable dairy farm. We are talking hundreds.

The Hon. IAN ARMSTRONG: Yes, at least 300.

Mr McCOLL: I have been over those years through, as described, all these stresses and strains and the socio-economic impacts and so on and I suppose all I can say is that the rural communities and regions have coped admirably with all those trials and tribulations. I cannot think of one area that was really in disastrous trouble. Some are under greater pressure than others. I think the worst period, and I think you referred to it earlier, was in the early 1970s when wool collapsed and Britain went into the European community and we lost that capital market and we immediately had to go and seek other markets and it was then I think there was a realisation that the Australian economy, including the rural sector, had to be opened up to real competition so we could actually capture and present ourselves properly into these other markets, and we have done that very successfully, hence the process of reducing barrier protection and the move away from the McEwan era, if I can put it that way, to a more open competitive economy right across the board.

The socio-economic effects have meant that substantially, as Mike has said, there has been a shift off the land. There has been in many areas development of what I would call excellent and

vibrant regional towns and cities. I lived for many years in a little town called Numarkah just north of Shepparton. This has been a natural evolution and many of the towns that we tend to talk about were put in place when we still had horses, and the improvement of communications and the capacity to travel and so on are the things that really influenced the structure of where people live and so on in rural sectors. I reckon the amalgamation of two bitter enemies of Australian Rules football sides in the country is the worst thing that could possibly happen, but they seem to have got through that. So I am not necessarily taking the position of saying that these issues are not important, but really what I think Mike and I have tried to emphasise in our report is that there is enormous capacity and resilience out there, proven capacity and resilience out there, to cope with substantial autonomous adjustment and that there are situations where government intervention and assistance is appropriate but that we should look very carefully at designing these assistance programs or adjustment programs with very specific objectives, carefully looking at the right instruments to put in place, have a proper process with industry within the area that we are focussing on, a process of discussions and consultations so that the development is clear and transparent and people have confidence in it, monitoring achievements, reviewing progress and so on, so program design or package design.

The dairy industry adjustment package is a good example actually of a range of positive instruments to facilitate change, facilitate and even expedite change. I suppose our approach is it would be better for governments to focus on those specific targeted packages in terms of assistance with clear objectives and that as far as regional communities and district communities are concerned there are other mechanisms, other programs through regional development and community development to improve on the resilience capacity of communities, and we have made mention of those in our report, that would be again a better focus for facilitating and expediting adjustment.

Let's remember that the areas that find adjustment most difficult are those regions with farming still the dominant economic activity, but with the way the Australian economy and communities have developed, the number of those has decreased I believe in terms of the total scene and there are other opportunities arising in many of these areas for tourism, farm holidays, even access to mining. Many of these larger regional centres have opportunities for off-farming coming through other services being provided to the community and so on.

To sum it up, I think our approach is going back to whether adjustment should be impeded at the farm level through giving some assistance to some farm businesses as against others or whether government should focus on specifically facilitating and expediting adjustment benefits to the community as a whole, the national benefit and community regional benefit through other types of assistance and development type programs.

Mr YOUNG: One other thing that I think is important is a new term that academics are starting to talk about which is called "crowding out", and if you think about government policy and programs that crowd out, protection crowds out innovation because it actually takes the pressure off so people do not try as hard to find a new market and the next opportunity. Similarly, if you provide incentives for biodiversity, actually protection that is done in the wrong way, that means people stop looking after biodiversity unless they are paid to look after it and there is a lot of biodiversity protected in Australia by private people without any assistance from government. When government comes in, then there is a problem with the mergers or around what is known as "crowding out". So you are paying for what used to be done for free and you do not always get a net gain. The third one is assistance to businesses in drought. When you do that you crowd out the farm management deposit type frameworks and people sitting down and planning themselves to cope with these changes.

Mr APLIN: You touched on these issues to some degree but I would like to focus on them a bit more specifically. One of the Wentworth Group, Professor Peter Cullen, said that drought relief funds would be better spent paying farmers to protect native bush and manage their land sustainably. Would you agree with that or would you say that there are risks attached to that type of incentive, persuading people to voluntarily change water and land practices?

Mr YOUNG: I am a member of the Wentworth Group too, so I am very familiar with the feeling that is behind that. I think it is best to see them as separate issues, once again, and to address drought relief as a separate issue to protection of native vegetation and maintaining landscapes.

Designing programs that encourage maintenance of landscape, and particularly to manage the landscape in a way that it stays in harmony with its potential, and that is a change potential as a result of dams and all infrastructure that is in place, it is not holding it exactly as it is, is critically important.

We see a strong need for management agreements to be in place, conservation covenants as they are called in New South Wales to protect long-term interests, incentives and payments for people when they do work above the duty of care and also for payment systems to drive innovation and change, very carefully targeted to demonstrate feasibility to be phased out through time. They are the critical building blocks, plus access to things like salinity trading.

One of the things we have not yet done in Australia is to open up opportunities for private landholders to help solve salinity problems. At the moment we have a system in Australia wherein salinity is managed by government through regulations and controls. There is a salinity trading scheme in the River Murray for example between governments, but a private person who wants to change practice cannot receive credit for doing it. He has to give that for nothing to the government and the government gets credit for it. Opening it up and empowering people to be part of the solution is a very important innovation and that goes right through many of these issues.

Mr APLIN: That would be seen then as ongoing rather than transitional to achieve a different outcome. You would see it as more of a permanent incentive?

Mr YOUNG: Yes. I think this is really where the most opportunities actually lie, putting institutional frameworks in place that make it very clear that we want systems that stay in harmony with landscapes, with our waterways and river systems and designing systems that honestly and openly account for that is critically important.

This is why when we have been doing our work in the River Murray for example we have identified what are now conveniently described as the six risks. They are very serious risks associated with the way we account for water, and these are climate change and fire, which are currently dealt with now under the share system, but at the moment if you go through land use changes, like for example establishing forests in high rainfall areas, then that uses water that was previously available for irrigation and we have not put in mechanisms which identify which irrigator is going to stop irrigating when we increase the area under plantation. We need to put in mechanisms that make it clear where the risk is to be assigned for that, because irrigators need to be told that every time we increase interception by forests or whatever other process, they are going to have their allocation cut. If we do not do that, then we have to put in another mechanism. The other option is to say if you want to put in forestry, you have to buy water. Not being clear on that costs the economy, costs our river systems and costs the landscape.

Similarly, we have introduced water trading in a way that allows increases in water use efficiency, and as we increase water use efficiency, then what we are really doing is taking water that used to drain back to the river and went down and was available for somebody else to use. If we had a system which only accounts for the gross amount you extract rather than actually the net amount, then in lots of situations water trading is in fact doubling water use. This means that governments are going to have to go and get more and more water back in the market place because we are not wrestling with all these issues.

Similarly, with groundwater, groundwater and river systems are connected. The public perception is that a river is like a channel. It is not. It is actually sitting in a lake which is miles and miles or kilometres and kilometres wide, and if you access the groundwater, then you reduced flows of that groundwater into the river. If you add up all of these effects and some others as well, the amount of water that we can expect to lose in terms of environmental flow is probably another 3,000 gegalitres or so of water. If you administered it, the first step is to put 500 back.

If you put 500 back, while you still plan to take another couple of thousand out - and the effluence is still very rough, I must stress that, there is a lot of science going on to work it out - but with those sorts of errors in the way we define water at the moment we have some major challenges

and the recommendation which we have been making and the options we have been trying to present are that we have to face these issues and sort them out quickly in a robust set of incentives and a plan to put in place solutions for the long-term that deals with all of these issues upfront.

Mr DRAPER: That is a very good point you just made actually because the Mooki River that flows across the Breeza plains when I was a kid flowed and now it is a series of pot holes and we have got a massive irrigation industry in that particular area

You were mentioning earlier about the need to send clear signals and Jim touched briefly on exceptional circumstances. Would you say that exceptional circumstances funding in the case of drought tends to actually be a disincentive to the development of more sustainable land and water practices and what would your opinion be should exceptional circumstances funding ceased?

Mr YOUNG: We never use the word "should".

Mr DRAPER: "If".

Mr YOUNG: We supply scenarios and advice. We would also stress that there is a very big difference between assisting businesses and the business component of a farm or a farm business and the actually welfare contribution. Thinking with great clarity around those choices is important. We are very supportive and we can see strong arguments for maintaining welfare programs but at the same time the analysis that we have done so far suggests that assistance to businesses in times of hardship or stress actually discourages them from planning to manage those stresses, and so as a result of that, if you go back through the previous reviews that have been done, time and time again people have drawn attention to the fact that this costs the community and costs the region and this actually ends up making the region worse off, the landscape worse off and the Australian economy worse off.

Mr DRAPER: One of the things that Ian did not touch on in his contribution, which is something that I have observed quite dramatically in my area lately, is with the population moving into country areas and they are coming with money, it is forcing the value of rural properties up significantly, and I am talking about tripling in the last five years, to the stage where people are buying properties and the amount of outlay that they are putting into them they cannot justify the economic return they are getting out of those properties, and yet some of those people are the first putting their hands up for EC assistance when we get into difficult times. I am just wondering whether that is a trend which is being experienced more broadly across Australia or whether it is just something peculiar to where I am.

Mr YOUNG: The data which is around talks about a middle of Australian agriculture which is disappearing, and that is mostly the traditional family farm. I was raised in the south east of South Australia at Keith on the family farm. My mother basically fed the workers on the farm, when we had workers, looked after my father and it was a farm business full stop. Now the data shows that most farm families in fact earn more money off their farm than on their farm. In fact it was said to me the other day that most Australian farm families do not farm in the sense that they get more income off the farm than on it. That was an interesting way of talking about it. I have not got the data in front of me exactly, but something like 60 or 70 per cent of Australian "farms" or family households earn more money off farms than on farms.

The other thing that is happening is that there is a tendency towards very big, professionally run farm businesses where you find a team of ten or more people working on a very big property as a big business, where they have a separate office. When you visit a farm business you are not taken into the home any more, you are taken to the farm office, which is a separate building and things are run as a business, and the bit that is dropping out is the old traditional farm. You are going into the economies of scale world where you run a very vibrant, very successful, very advanced, the latest technology business or you get into what I think you are describing which is people living on farms doing actually a lot of the old more traditional practices, not being able to afford to get into the new technology but relying on off farm support and there is a difficulty there. We have got two opposite ends starting to emerge and the traditional heart of Australian agriculture is vanishing.

CHAIR: Mr Armstrong, I should mention for the benefit of the witnesses, represents the seat of Lachlan south west of Cowra.

Mr YOUNG: I know the area well.

The Hon. IAN ARMSTRONG: I have a couple of quick comments. The family farm where the two sons came home from school at the age of 16 and worked for their tucker and the use of the family farm once a fortnight are long gone and those two boys probably would have made much better plumbers or--

Mr YOUNG: Or CSIRO scientists.

The Hon. IAN ARMSTRONG: Or CSIRO scientists, and that is what is happening. I think that is the big change that has occurred. Those people's skills are being used and in the past there just was sustenance farming, as with the dairy industry on the North Coast. There has never been much money in farming. It has only been how would you buy and how would you sell. It is not about sticking seeds in the ground, it is only how would you buy or sell the product or bulls with cows, the same thing. They were the successful farmers.

Mr YOUNG: Could I just comment on that?

The Hon. IAN ARMSTRONG: Yes.

Mr YOUNG: I think the data is now showing that the big end of Australia is very profitable. The data is showing that the people who have gone into farming as business are making very vibrant returns.

The Hon. IAN ARMSTRONG: Because they buy well and they sell well.

Mr YOUNG: And they understand that they are trading in two things. They trade in agriculture products and also in land - and in water actually, three now. They are buying and selling water, buying and selling land. They are leasing a lot of land. If they see an opportunity to get into something for a while, they will do it, they will manage their risk and the data says these people are actually some of the most successful in Australian business.

The Hon. IAN ARMSTRONG: And that applies at all levels of farming. In *The Land* last week there was a story about two small farmers, that they do that very well. You are spot on. The question is: You advocated a voluntary buy back or compulsory acquisition is needed to increase the quantity of water available to enhance environmental flows. What do you see as the most effective way of securing water for environmental needs and how do you see it working? For example, would you see there is a role for a water trust?

Mr YOUNG: Several issues there. First in terms of buying back water - in our report we identify three mechanisms that are very important. The first is a voluntary buy back program, much like we have seen with the Commonwealth Bank, with Telstra and other similar names, Fisheries, where the Government just goes in and essentially writes a letter to everybody and says at what price would you be prepared to sell, and you inspect all your offers and you announce what the price is going to be. That is a very low cost, very efficient way to bring about the change that governments of Australia have realised is necessary.

If we are going to restore environmental flows and get flows back, and particularly to deal with all the risks I was talking about earlier, then we need to move and we need to move fast. Governments would be well advised to move fast and this is a very effective way to do it, and if you think through an incentive world, the farmer who is looking at opportunity to improve water use efficiency, unless they can be paid more than the value of water for it, they would not do it because it is not profitable. If it is profitable for them privately to do it, then they will do it and they will expand water. That can make the situation worse. We have got a mechanism in there to bring the water back in to enhance the flows. Buy back seems to be an important part of doing that.

If you do it voluntarily, farmers then are liable for capital gains tax for the value of water, and the value of water across Australia has gone up a very large amount in the last few years. So there would be a lot of capital gains tax to be paid. Hence, in our report *Managing Change* we included a discussion about the opportunity to **compulsorily** acquire water. If you use compulsory acquisition, then if the money is actually re-invested you do not have to pay capital gains tax, and we think that is a very interesting opportunity for rural Australia and for members of Parliament to consider. When push comes to shove people might prefer to have the water compulsorily acquired from them rather than going through a voluntary process, and there is an interesting dimension to that about impacts on the revenues of State Government and Commonwealth Government, which I will leave you to sort out.

The third option is to acquire options on use of water in specific circumstances, like for example in a wet year, and you can sign options or contracts. ABARE has been doing some very innovative work around opportunities to do that. So we think there are three ways of doing this. Flowing on from that the question then comes up, having sourced that water from somewhere, how do you manage it, and one of the issues that we have floated and written a report for the South Australian Government on is the opportunity of placing that water in a trust and appointing some trustees to manage it on behalf of the environment to take it out of politics.

The theory behind this comes largely from the theory around how you set up government structures for things that are critically important, and the best model in Australia for that is the way we actually structured the Reserve Bank, because we have actually set up management of the money supply in Australia through a reserve bank structure where there is an independent board of governors and the role of government is to appoint the trustees and they are now being told on behalf of Australia to make the decisions, however hard they are, to control inflation. If you were looking for a system which would guarantee improvement and management of flows in a rational way, then the best mechanism that we can find so far is to take management of environmental water out of politics and to put a set of trustees in with a very carefully crafted terms of reference that say when it is time to flood a wetland, you flood it.

As people have been pointing out to us, if you want to actually look after an endangered bird species it is wise to flood its habitat at least within the lifetime of the birds. Trustees know how to make decisions like that. If the birds need this area to be flooded next year, then it gets flooded next year, no matter what happens, and to make those trade-offs. These are difficult and hard decisions, but we see the structure of a trust as having a very important opportunity to set up water so it can be managed.

Mr McCOLL: If I might just add a couple of points to that, on the compulsory acquisition, perhaps the problem with the word “acquisition” is the inference that governments come and say, “We are going to take this and we are going to be pretty hard nosed about it and if you disagree with us you can fight us in the courts”, whereas actually the process quite frequently is one of what might be called reasonable negotiation on a price, and I think if a positive approach is taken to compulsory acquisition along the lines of the advantages that Mike mentioned, from a tax point of view on the one hand, and the process that governments go through in this compulsory type acquisition approach to water in a reasonable way, I would hope that it might be perhaps a little bit more attractive in terms of being worthwhile considering.

The second point is that one of the things we did mention in the report was in fact targeting, both in relation to buy back and compulsory acquisition. Mike mentioned what we might call the flaws in the current system, which is being run not on a hydrological cycle basis but on a part of the hydrological cycle. So there are a number of flaws in the system and one of them, for instance, that comes to mind is, as Mike mentioned, interconnected groundwater systems and there is quite a bit of sleeper water, as we call it, sitting in there with rights on groundwater that have not been fully realised, and it could be suitable for targeting if you like for a buy back or even a compulsory acquisition approach.

There may be certain parts of existing irrigation supply systems that are getting to a stage of

not really being economic to continue to provide the water to and/or very worrisome from the point of view of salinity and in fact putting a fair bit of drainage and salinity back into the river. It may well be worthwhile considering targeting again buy back or acquisition to those sorts of areas. So I just wanted to mention that it is worthwhile thinking about targeting to try and, at least in the short-term, minimise the impact of some of those flaws that Mike mentioned before we get the whole system properly in place.

Mr YOUNG: Can I point just out that there are two types of targeting. There can be targeting by choosing locations. There can also be targeting by offering higher prices. If, for example, the issue of groundwater is that you know there is groundwater connectivity and you end up going in and buying up surface water that is currently being used, then what will happen is the unused groundwater will then start being used. So if you are going to have to pay twice, it might therefore make sense just to offer a higher price for ground water that is not being used, because you know it is going to come into the system.

Similarly, going into areas where water is used, for example, for flood irrigation alongside areas which have been say used under drip irrigation, if you buy up drip irrigation water then the first thing that will happen in the economy is that the people who were using flood irrigation will sell that and you will end up using twice as much water. So all you are doing is buying up slabs and if you are going to buy up slabs it might well be wiser to target by paying a higher price for water which is used inefficiently, because you know the adjustments and the responses that will take place. As you take water out of the system and the price of water rises, it becomes scarcer. As it becomes scarcer people become more innovative, they will do things like laser levels, they will put in smarter equipment and all the new innovations, but under our current regime that means we will use more water, not less.

Mr McCOLL: If I could add to that, picking up Mike's last point in terms of raising the value of water and so on, what it will do, as is implied there, is it will speed up the shift of water to higher value, not only techniques of application but higher value uses as far as enterprises and what particular crops and so on are being irrigated. I think one of the problems in this area has been the feeling that the water source for the environment is going to be taken away from production uses, end of story, and that obviously will have an effect on output and socio-economic effects. In an adjustment sense, of course, as Mike said, the value will go up, the uses will shift, there will be innovation in the way it is used, there will be a shift into higher value uses and so on, which will generate higher income anyway.

On the other hand, and I am not sure whether Mike mentioned this, in terms of the management of environmental water which may be held say within a water trust, because there is quite a difference in, if you like, cycle of need between consumption and the environment - they are not running on the same railway line, they are running on different lines - there will be distinct opportunities for what is often called counter cyclical trading. In other words, the entitlements that are held within the water trust, some of those entitlements or the allocations from those entitlements in some years could well be made available into the market with all other allocations and effectively traded back and used within the production sector. So I think it is important to look at that as a whole and the dynamics between those two positions where water might be held and the flexibility in the allocation trading.

Mr APLIN: I was going to ask about the Living Murray and examples of dealing with the complexities but you did touch on those issues in the context of another question. Are there any other matters you would like to raise in that area?

Mr YOUNG: I think the only thing is it is important to understand that if you are going to get into counter cyclical trading type arrangements, which we think are very attractive, where you have a structure that makes water available to irrigation on the understanding it is going to take more water back in wet periods, that a trust structure gives you the capacity to build something which is at arms length from the difficult politics around taking the water for irrigation in dry periods and then forgetting to put it back in the wet periods. That is one of the real strengths of the trust structure. You set up a terms of reference and then you are divorced from the opportunity to have to make those hard decisions.

(Following documents tabled:

1. Robust Reform – Implementing robust institutional arrangements to achieve efficient water use in Australia.
2. Land Stewardship – Duty of Care: An instrument for increasing the Effectiveness of Catchment Management.
3. Native Vegetation Institutions, Policies and Incentives.
4. Robust Separation – A Search for a generic framework to simplify registration and trading of interests in natural resources.
5. CSIRO – Managing Change: Australian structural adjustment lessons for water.
6. For Our Children’s Children: Some Practical Implications of Inter-Generational Equity and the Precautionary Principle.)

(The witnesses withdrew)

BRUCE STUART GARDINER, Consultant, Liaison Officer, The Rural Block, P.O. Box 336, Armidale, New South Wales 2350, on former oath:

MR GARDINER: The Rural Block is a privately funded lobby group which tries to get some of these issues across to Government at State and Federal levels.

CHAIR: Would you like to make opening comments? We do have a number of questions which have also been put to you. We are fully aware of your background and some papers have been presented to the Committee.

MR GARDINER: I actually put together a little presentation which I was hoping you will get to have a look at while I am talking because a lot of the stuff I am talking about is a lot easier to understand if you can see the picture while I am talking about it. I have drawn some pictures because I am a picture person. I can write all this stuff as mathematical equations but it does not make much sense to me and I am sure it does not make much sense to other people as well.

My main business is in doing property management planning for farmers and over the last 10 years I have worked with more than 1700 farmers right across the northern half of New South Wales from the North Coast to the South Australian border. My role in doing that and the thing that drives me is that I want to come back to those areas and find those 1700 farmers still there, and if you look at the history of what has been happening across rural communities, without some pretty major management changes they are not going to be there. You have already heard that we have lost a quarter of them in 20 years. If you go back another 20 years, we have lost half of them in 40 years and that is a great concern.

If you look at the first graph you can see the reasons why. If you take the last 40 years between 1965 and now production has tripled, so farmers have been very good at adopting technology making a pretty ordinary resource perform pretty well, but in the process of doing that the real cost of doing it has doubled and the real income they have made from it has not changed. Basically, if you put a trend line through real gross value of agriculture production between 1965 now it is dead flat, and that has some important equities from where I sit and particularly with the native vegetation Act in mind, because if we start allowing more farmers to clear more land to make more income, then what I know is that that income is going to come from another farmer, because that is the size of the bucket that we have got to work with and I think that is an important equity issue. One of the really important issues that we have not dealt with over the last 40 years is the fact that there has been a substantial transfer of equity from old cropping areas to new cropping areas and from grazing to cropping industries within Australian agriculture. There are some pretty important equity issues in that and because the real income has remained the same, the real profitability of farming has fallen to 30 per cent of what it was 40 years ago.

I grew up in the bush in the 1960s when there was a bit of money around and it was a great place to be. I went to school with 30 kids at Gulgong Central School and 27 of them had jobs in Gulgong in the 1960s. You walk down the main street of Gulgong now you are flat out finding anyone under 45. That is the change that has happened. Mike was talking about the big farmers being really good. The profitability of the big farmers today is still less than the profitability of some of the poorer farmers in 1960. So there has been a pretty major change in what goes on in agriculture. I personally do not think that farmers, when they get up every morning, make decisions to do things on their farm to make them less profitable. I honestly do not think that is what they do. If it is not what they do, then why is it that we end up in a situation where the profitability of agriculture declines dramatically? It is the profitability of farming that drives rural communities. Make no error about that. It is the money that farmers have left over for discretionary expenditure that drives services and businesses in rural communities. If there is no profit, there is no money for services outside that which just supplies the rural sector in rural communities. It is the profit that keeps the car dealership going, the cinema going, the takeaways and restaurants and the pubs and all those other bits and pieces in the township.

When I was invited to come to this Committee I was asked to think about some of the big

picture things that I might like to talk about because I am a philosopher basically. I have got a degree in agriculture and economics, but philosophy is my strong point because I like looking at the big picture, and the thing about sustainability is that it is an all or nothing concept. You can't be more or less sustainable. You can be more or less not sustainable but you can't be more or less sustainable. You either are sustainable or you are not, and if you are not, you can be more or less not, but sustainability is an all or nothing concept and the thing about it is that it is a global concept, not just a State and national concept, but we cannot honestly expect to sit here as an island of sustainability in a world that is going down the gurgler and not be impacted on by that, and vice versa, we cannot be non-sustainable in an otherwise sustainable world and not expect our activities to have some impact on the rest of the world.

That is one of the issues that makes me wonder a fair bit about globalisation and some of the other things that are seen as being important to agricultural innovation and international competitiveness because in terms of international competitiveness Australian farmers are in the worst position of anyone in the world, and the reason we are the worst is because we have got the poorest soils and the lowest rainfall. So if you are in the business of agriculture, which is about using soils and rainfall to produce products to sell globally, then we are way back there in terms of what other countries have to offer. The other thing about it is that if other countries are adopting non-sustainable practices to gain comparative advantage to compete in world markets, then we have to follow suit to maintain our position in those same markets. So I worry a little bit that we get too bogged down in this idea of productivity, competitiveness and being a part of the world trade. I think there are other ways of getting around that problem, but that is another issue.

The three key factors that I have thought about - the first one is that sustainability, profit maximising, income maximising and production maximising are sequential outcomes and you cannot honestly expect to achieve maximising production and achieve sustainability at the same time. That is the order in which they occur. You achieve sustainability first, maximise profit second, income third and production fourth and I have got a couple of diagrams on the second page. One looks at farm level, and what I have got there is that basically when we look at agriculture in New South Wales and Australia we look at it in terms of a production function and try and get as far up that production function as possible. You cannot make any decisions about what is the optimal level of production from a production function on its own. You have got to have something else there that allows you to work it out, and the thing that allows you to work it out is a ratio that is known as the price of inputs to the price of outputs, and so what I have got there is a little production function, which is the curve, and I have some straight lines which are the price of input and the price of output, and it is the ratio of those that determines the optimal level of the output on any individual farm.

In the short-term, the very short-term, income and production are maximised at the same time. So if you maximise production, marginal productivity is zero. If you multiply that by the price of the output, your marginal revenue is zero and when marginal revenue is zero, you maximize income. That is an economic identity. If you want to maximise profit, then marginal revenue has to equal marginal cost. It always cost something to produce a product, and I cannot think of anything yet that does not cost something to produce and I have stretched my brain a fair bit to try to think of something. Everything that I know of that is produced on farms costs something, so you will always maximise profit, so your marginal costs will always be positive, your marginal revenue always has to be positive, so you will always maximise profit before you maximise income, and that is an identity.

When I deal with farmers, and I deal with a lot of them, they tend to talk about farm profit, income and production in the same terms. They will be talking profit, production, but saying they will be talking income and saying profit, they will be talking production and saying income. They think they are the same thing and they are not the same thing. To me that is the biggest single thing you have to get across if you want farmers to start being more sustainable about resource uses. You have to break that nexus between income and production, income and profitability because they are not the same thing and they are never the same thing. Whichever farmers are managing to maximise production, they will never maximise their profitability.

The next stage is that if you look at the environmental side of it there are a lot of costs to agriculture that are not being accounted for in farm financial data and there are things like chemical

resistance to weeds, there is greenhouse gas production, there is a whole range of costs that are not being met by the farming community. There is soil loss; the list goes on and on and on. What that means is that the true marginal cost of being sustainable is higher than the economic marginal cost for maximising profit, and so what that says is that so long as there is a single cost to the business that farmers are not meeting, then sustainability will be achieved before profit is maximized, and that is at the individual farm level.

My job is developing easy tools that will allow farmers to work this stuff out. As I said, I have worked with 1700 farmers. I have not yet met one who had a robust system of knowing whether what he was doing on the farm was maximising production, income, profit, sustainability or whatever, not one in all of those, and I have dealt with some pretty big organisations, I can tell you that. I was up at Boomi at an operation that was grossing a bit over \$5 million the other day and they did not have a process in place that will allow them to work out what was going on. So if they are not working it out, I do not think there are very many farmers out there who are working it out. That is good news because if you can get farmers to work it out, then you can achieve better results at a farm level without any cost at all. So that is good, apart from the education side of it.

If you go over to the next page, it looks at the same process at an industry level, and basically it is industry level, it is demand curves, it determines how much income, how much profit an industry makes. I have got simple living at the demand curve there. If you are trying to maximise income, then looking at the demand curve there, it is always slap bang in the middle. So that is nice and easy. People tell me that the demand curve for agriculture products are not linear. I have done a fair bit of research and I cannot find any evidence that suggests they are, that there is some different form. If we know what level maximum income is and we know what level of quantity will maximise income, profit is always maximise before income, so we need to know where that sits and production can go anywhere.

At an industry level it works and this is what happens, if you look at the history of Australia, from 1788 to 1965 we kept increasing production in a fairly general trend and over that period both the total income from agricultural production and the profitability of agriculture increased. If you look at the period from 1965 to 1980 production still continued to increase, the trend continued upwards, the real gross value of agricultural production continued to increase but the profitability of it fell and it nearly halved over that 15 years period. So there was a dramatic change. What this started to tell me is that that is not too bad a representation of what is happening in the real world because I built the theory first and then looked for the data afterwards. Then if you look at phase 3 from 1980 to the current period, we have continued to increase production, the index of total production has continued to go up, but we have actually had a decline in the real gross value of agricultural production and the profitability of same.

So what we have seen in agriculture is a move through that diagram as an integer, so we have moved from phase 1 to phase 2 and now we are sitting in phase 3. The interesting thing about that is that at any point in phase 3 there are alternative outcomes above that maximum income line that give you exactly the same amount of income at less production. So to me, the first important thing that we need to accept is that there is a sequential thing involved with becoming sustainable. You cannot just stick “sustainable” in front of “cropping” and expect that to make the difference. You cannot stick “sustainable” in front of “grazing” and expect that that is going to make the difference. We have seen a lot of it happening and I can tell you, being out there working with it, there is a lot of sustainable cropping and sustainable grazing that is not sustainable and none of it, and this is the really important point, if you go to the State of the Environment report, none of that stuff that has “sustainable” put in front of it has made the slightest bit of difference to the net rate of degradation on farmland across Australia.

CHAIR: Could I just jump in first with a question which is probably more or less centred around number 3. I was very interested in your opening comments in relation to your own role, and that is 1700 farmers in ten years in the area of property planning. Question 3 talks about your suggestion of educating farmers as the tool to fix the problem. When you say you have dealt with these many farmers and you have worked with them to draw up a plan which looks at all the things in production, the costs, the environmental issues and so on, legislation, good governance, all those sorts

of issues—

MR GARDINER: It was back in the old Farming for the Future days that I started. So I had five years in Farming for the Future and for the last five years I have been doing this.

CHAIR: Is there any data from your own experience about people who, having adopted the plan, actually stick with it in the long-term?

MR GARDINER: My comment later on was going to be that property planning by itself is a very good tool for achieving the sort of outcomes you want but the most important part of it is the support mechanism that goes with it, because mostly you are dealing with older farmers who have been managing things in a given way for a lot of years and they do take a fair bit of shifting. I have actually got another report here that I will table later, which was for a group of farmers we worked with around Duri and it gives you some of the outcomes we got. We worked with that group of farmers for three years. I really do need to go back and have a day with them again, because if you do not keep going back and keep tapping them on the shoulder and saying, “Where are you up to with all of this stuff? How do you know how the business is going”, then they stop doing it.

CHAIR: So it is not about going in and giving them a plan and then you sign off and walk away and leave them?

MR GARDINER: No, you have got to stay with them. Starting out with Farming for the Future a lot of the planning stuff we did was pretty complex, financial stuff, human resource stuff, a lot of those things, they were all pretty complex, and I quickly learnt that farmers are not good at handling vast amounts of data and looking at vast amounts of indicators of how their business is going. What they need is a couple of very robust ones that will get them started on the process. Once they get started into the process then they will collect information from just about anything, but to get them started you have got to show them that it is quick, easy and the information that comes out of the bottom of it is valuable to the management of their farm business.

The Hon. IAN ARMSTRONG: Professor Peter Cullen of the Wentworth Group said the drought relief fund should be spent paying farmers to protect native bush and manage their land sustainably. Would you agree with this or would you say there are risks attached to and it would be better to assist and encourage people to voluntarily change practices in land and water use? Do you see such assistance as being ongoing or do you see it as being transitional to reach the levels of sustainability necessary?

MR GARDINER: I have a bit of an issue with all this because we tend to base most of our current thinking on current practice and if the current practice is not good then the systems that we develop to manage it are not going to be good either and so again I make the same comments that Mike Young made.

I am working with a farmer at Ben Lomond between Guyra and Glenn Innes, a very good cattle grazer, runs a lot of stock, but he is very aware of what is happening with his pastures and soils as droughts come in and so he is in a position where he has a third of his stock ready for sale at any point in time and as soon as his pasture gets to a trigger point, which he knows his country, the amount of pasture that he can let draw down before he needs to sell and at that point he sells a third and then picks out the next third and starts getting those ready to go. The interesting thing about that guy is that he has got white clover pastures that he established in 1952 that are still absolutely brilliant. He is really good at managing pasture and he never lets his pasture get below about a thousand kilograms of dry green matter. Now, over the last 50 years that he has been on that property, he has averaged about 17.5 dry sheep equivalents grazing on that property. His neighbours who do things differently, average between six and eight and they tell me that he is conservative. I do not actually think he is conservative, I think he is a good manager, and that is what leads me to believe that if we have people who are good at managing droughts, then we have systems that are far more resilient in droughts.

CHAIR: In your view those two farming examples you gave are basically a comparison,

chalk and cheese, in that the farmers are operating in the same district?

MR GARDINER: Yes, same soil, same district, same rainfall, same everything, and this guy, as I said, he established pastures in 1952 that are still going. His neighbours are re-establishing pastures every five years because they are grazed out on just over a third as many livestock. So a lot of it is to do with the way people manage what they have got.

I can give you another example from up there at the moment. During the last winter when things were dry, the country east of Walcha grazed down to about 2mm. It took just on 300 millimetres of rain and spring to get that pasture up to about 15mm. So what that tells me is that if you flog your pastures to death at certain times of the year, then they take a long time to respond and you lose a lot of the benefit of the rain that falls because your pastures are just not in a condition to take advantage of them. As part of my property management plan for graziers I have developed this very easy, look over the fence system which says that if your total green dry matter available per hectare falls below 500 kilograms you are not maximising your profit, because once pasture falls below 500 kilograms of green dry matter per hectare, photosynthetic efficiency declines rapidly and you end up using 70 per cent of your rain to get it up to a point where it starts to perform.

Mr DRAPER: Do you believe that markets actually deliver sustainable agriculture?

MR GARDINER: No, and I will qualify that a little bit. There are two reasons why markets will not solve the problem, and the first one is to do with the fact that most people do not know how systems work, they do not know how to use the information that is available in the market to make good decisions, and if you have imperfect information, then the idea that the market is working actually becomes a no-no as well because you cannot have good market outcomes if the information or the way the information is used is not good.

The second part of it is that there is a lot of the natural resource base that is used in agriculture that has no value. Farmers see it as having zero value. If you see something as having zero value, then the rational economic approach to it is to utilise it to the maximum available. If you read through the document I have put in there, you will see that under those circumstances it actually becomes rational to exhaust all existing soil fertility before you actually add any fertilizer because you do not value it. The same with native vegetation, and I think the problem with the native vegetation is that because people perceive it as having negative value, they utilise it beyond the point where it maximises production to try and get rid of it. I suppose it is probably not the right forum here, but I think the farmers got a very good deal out of the native vegetation legislation and regulations because if you are allowed to take out regrowth then you have effectively got a licence to clear the whole of the State, because without regrowth every single stand of timber we have on farmland is terminal.

Mr DRAPER: Just following on from that view, you have said that there is no evidence that native vegetation clearing is of benefit to farmers.

Mr GARDINER: That is right.

Mr DRAPER: Could you expand on that a little?

MR GARDINER: Between 1965 and 1995 there is a nice 30 year period when a bit over 30 million hectares of farm land was cleared in Australia. Over that period, the real gross value of agricultural production actually fell \$2 billion. So we put 30 million hectares more country into production and lost \$2 billion in the process. I cannot tell you how that equation leads to any benefit to farmers. Over the same period the profitability of it fell by just on 70 per cent. That is, the profitability ended up being 30 per cent of what it was before we started that particular round of clearing.

One of the comments I made about ABARE's native vegetation paper was that they made the comment that if native vegetation regulations restrict productivity growth then farmers would expect to be worse off in real terms, then the opposite must also be truth; if productivity growth is not restricted by regulations, then real farm income should increase, and if you look at that 30 years

period when there were no restrictions, real farm income did not increase. So to me the idea that farm profitability or farm income and the native vegetation Act are in any way tied is a complete furphy.

Again, with my experience with 1700 farmers I cannot find a single example amongst any of those where clearing of native vegetation would make the slightest bit of difference to their farm performance and in most instances they are far better off doing less.

Mr APLIN: You stated that farmer decisions are based on myths and assumptions that are perpetuated at policy, advisory, extension and education levels. For the Committee's benefit would you outline some of those myths and assumptions and why you believe agencies are encouraging them?

MR GARDINER: I suppose farmers are not all that different to any other business people and one of the things they like to do is to shift the perceived blame for the failure of on-farm management to some point outside the farm, and preferably as far away from the farm as they can get it. So instead of blaming the neighbour, you blame the supply chain, because Woolies are making an absolute motza out of agriculture, aren't they?

It is very interesting that when New South Wales farmers got a heap of money from selling assets it did not see them going out buying shares in Woolworths, and the reason they did not buy shares in Woolworths is that Woolworths make 2.5 per cent on turnover. So there is not a stack of money. If you own a corner shop you would not survive on 2.5 per cent on turnover. Elders is the biggest merchandiser of rural inputs. What sort of return do Elders make? 2.5 per cent on turnover. So it is a myth. Farmers can say the supermarket is screwing us over or the input suppliers are screwing us over, but it is not the case because there are very tight margins in all those things, and if there was a squillion dollars to be made in there we would have more than two big supermarkets trying to make it, we would have more than two big rural merchandisers in the business trying to make a quid out of it.

Most farmers will tell you that rainfall is the thing that most limits production on their farms. I have come across one farmer out of 1700 where that was approximately correct. On average, and I have just done the numbers for this, on average right across Australia, in broad acre agriculture we use 45 millimetres of rain in production, right across Australia. If you look at New South Wales, on average right across broad acre farming in New South Wales, 65 millimetres of rain is used in production and all the rest goes somewhere else. And the places that it goes; it goes into run-off, it goes into deep drainage, into evaporation and inefficiencies, but it does not end up as production. If we are using somewhere between 15 and 20 per cent of our total rainfall, I do not see how we can actually claim that lack of it is the biggest single problem that we have got, and, as I said, I have seen plenty of examples of farms that are managed well where they do achieve high rainfall use at the place where it falls, that do manage the dry periods very comfortably and rainfall is not what is limiting, what is going wrong. There are other things that are far more limiting in Australian farms than rainfall.

If we look at low exchange rates, farmers seem to think a low exchange rate is good for agriculture. Right or wrong?

CHAIR: It is said many times.

MR GARDINER: It is said many times and so it takes on this aura of truth but the fact is that Australian farmers actually import more value of agricultural inputs, when you take into account tractors and headers and all those other machines they use, than we export. So in fact a high exchange rate is good for us because it makes all those imports cheaper rather than making our exports easier to sell and our imports dearer. What you would expect if a low exchange rate is good for agriculture? You would expect that real farm incomes and real profitability of farms would go up as the exchange rate goes down, and if you look at our exchange rate, it has gone down pretty much consistently since 1974 and farm profitability and real gross value of agricultural production have fallen at the same time. If there is a relationship in there, I cannot find it. That is what the data shows.

So there are all those sorts of things, but as I said, they are perpetuated. If you look at DPI New South Wales, the prime focus of the extension of DPI is production based, productivity growth, and if you look at the graph on page 1, I do not think lack of production is the problem. I do not actually think that that is where the problem is. The evidence would certainly suggest that that is not where the problem is. If you go to the school education system and a lot of the university education system, rural science, ag science and agriculture in high schools is still very heavily production oriented and productivity oriented.

A lot of people tell me I am anti technology and those sorts of things. That is not the case. I am as pro technology as the next bloke. What I am anti is the carte blanche approach of applying technology to everything we are already doing, because what we really need to know is how much of a particular technology actually makes money for farmers and utilise that much of it. If you think up a new technology that gives you 10 per cent more production in wheat and everyone goes out and does it and 10 per cent more wheat drops its price by 15 percent, which it will do, then you are five per cent worse off. So it is whether the technology you adopt actually made money at the end of the day and that is again what my business is about. It is about showing farmers how they can work out whether the management changes they made or the technology they adopted or any of the other things that they put in place actually made money at the end of the day or whether people are making these assumptions because they have been so oft repeated. We are the most efficient farmers in the world. Are we the most efficient farmers in the world?

CHAIR: There is a report before this Committee that actually points that out.

MR GARDINER: With labour efficiency we are very good but labour efficiency is only one. In terms of land efficiency we are not the most efficient, in terms of fuel efficiency we are not the most efficient, in terms of a whole range of other ways of measuring efficiency we are not the most efficient. We are very good at producing a lot of stuff from a small pool of labour, but that is it. If you are looking at what is happening in the world today, I am thinking that fuel is one of the issues that we really should study very carefully and see where we fit into the overall scheme of things in terms of fuel efficiency.

The Hon. IAN ARMSTRONG: If our terms of trade over the last 30 years have been so dismal, why then has the value of agricultural land like broad acre land increased by something around 900 per cent?

MR GARDINER: I do not know. I do not have the answer to that. For the most part it is like what happened with land clearing back in the 1960s and 1970s, it is the existing farmland that is subsidising the purchase. It was existing clear land that subsidised the cost of clearing land back in the 1970s. It is existing farmland that is subsidising the cost. I will defy anyone to go out and borrow the full 100 per cent of value of land today and make a living from it. It is nothing to do with the amount of return. I think there is a capital gain component in there, and again I worry about consistently using capital gain as a method of valuing profitability of agricultural land because capital gain is not income until it is actually realised and if every farmer tried to realise their capital gain tomorrow I do not think it would be there. I think the reason there is capital gain is because there is a relative scarcity of land that comes on the market and is available. If it all came on the market, I do not think anyone would actually realise any of that capital gain.

Mr DRAPER: In your submission and your second paper there is some economic consideration relating to the vegetation clearing debate. You say that marginal lands are the most vulnerable from both economic and environmental perspectives but that marginal producers will trade environmental amenity for economic survival in the short-term.

MR GARDINER: What I actually said in the paper was that "and those producers will trade environmental amenity for economic survival in the short-term". What that means is that the more marginal the producer is, the more likely they are to over-utilise the natural resource base to try and stay in business, and so those more marginal lands will become the most degraded the most quickly. That is the point I was trying to get across at that stage.

I was at a conference here in town probably five years ago run by the environmental defenders office, and Charmaine Stone was here representing the Federal Government and she made the comment right at the very start of the keynote address to that conference that the major reason for incremental degradation in Australian farmland was the inability of farmers to feed their family. It is an ongoing thing and I have been taking that message to Canberra for a number of years now. It is pretty well generally accepted, both within the public service and I think at reasonably high political levels, that the reason degradation does continue to happen is that farmers do struggle to feed their families. I have made the comment to them: Well, if you want to stop that, why don't you just feed their families?

Mr APLIN: Following up from that then, in your submission you stated that a form of payment to farmers should be provided to achieve those environmental outcomes and that it would help maintain their financial security. During the course of our inquiry we have heard that payment from the public purse for environmental services for ecologically sustainable use of land and water should be provided. Is that what you have in mind?

MR GARDINER: If you go to the document that I delivered to you at about page 5 there is a little diagram that looks like that, and what I have claimed or the statement I made is that there is incompatibility between agricultural sustainability and national economic growth, and the basic incompatibility is that the more of the primary product you can put on the market, the more consumer surplus you generate to spend in other businesses, industries to keep the economy growing. So in terms of national economic growth and GDP growth, what people actually like is for all primary producers to be operating at zero cost because that would maximise the amount of consumer surplus that is then available for people to spend on other things.

What we have, I think, is a pretty deliberate attempt to push productivity growth and production growth because of what it does to the consumer surplus, because if consumers can buy the same amount of product for half the amount of money, that means they have got another half of it left to spend on other stuff which generates growth in other sectors of the economy. So yes, I think there is a basic incompatibility between the two. That is why I do not think the market will work because there is incompatibility at a national level to generate economic growth.

But the really interesting thing about it is that once you get past that point where income is maximised, then consumers always gain more than producers lose. So you can actually tax consumers for less than the total amount of consumer surplus that is generated by that additional production and pay farmers to maintain their position within the economy, because what has happened is that farmers have stood still over the last 40 years while the rest of the economy has grown about fourfold, it has just about quadrupled, so there has been a pretty substantial equity shift. You have to ask yourself whether 40 years ago farmers were four times better off than the rest of the community and we deserve to lose what we have lost up to this point or whether what was happening back then was a reasonable balance and what we should be doing now is putting something in place to even things up.

Since 1965 that change in consumer surplus has been worth about \$1.2 trillion to the Australian economy, which is a fairly substantial amount of money.

CHAIR: I was just trying to assess the papers you have given us. You would say that our recommendation to government should be to draw away from a lot of the business subsidies and transport subsidies and so on and put more resources into planning and maybe have a bit of welfare money there for those who really need it, the food on the table type issue. That is what you are really saying.

MR GARDINER: I suppose where I am coming from is that I think there are some equity issues in there. I think the Federal Government is using primary producers as a means of generating ongoing economic growth in the economy to meet other political objectives, then I think there is a really good argument to be returning some of that to primary producers. If primary producers are actually knocking the natural resource around as a consequence of it and that growth in agricultural

production may in fact be curtailed at some point in the not too distant future because of the loss of productivity of the natural resource, we may then actually be in a position where the Government will pay for that in the long run simply because there will not be that consumer surplus there for other purposes.

I do not necessarily see it as a welfare payment. I see it as a legitimate way of getting natural resource outcomes. I have the view that there are two ways of getting that outcome. One is through the process of voluntary land management contracts, and the voluntary land management contract, as it says, is a voluntary agreement between the landholder and the Government. The Government purchases environmental services from that farmer on behalf of the people of the State, because I suspect that part of the political imperative is there is a fair chunk of this State that does want environmental outcomes and that is why we end up with the native vegetation Act and a few other things going on, so the Government does purchase. Most of the environmental degradation that happens on farmland is about water use. The three things that we do not want to happen to water are we do not want it to be drained because that causes a salinity problem with rising water tables, we do not want it to evaporate because that also causes salinity problem. It depends on where you are, but this idea of recharge, discharge, salinity is a bit of a model. It is not the only way in which salinity happens and there are a number of areas, particularly around Duri, where it is **evaporation that is the big problem when you have very low levels of salt** right through the soil profile but once it evaporates onto the surface it becomes very significant and you do not want it running off or vast amounts of it running off because that is what carries soil across the landscape and diminishes that natural resource and also diminishes the water quality of the water that is available out there in the system.

So to me good agricultural management is about using water where it falls and the two easiest way of getting there are minimum 70 per cent ground cover, because we know that slows down the flow of water across the landscape, that if you have got more than 70 per cent ground cover there is a pretty fair chance that you will actually stop a fair bit of water from draining and if you have got 70 per cent ground cover you have got a lot less bare area to evaporate water from, and you need I suspect a minimum of 20 per cent woody vegetation in the landscape. A lot of people throw up their arms about woody vegetation in the landscape, but again some very intensive research on four farms, again down in the Duri area, suggests that even though it is a fairly uniform area in terms of soil type and topography and all of that, there is 40 per cent of that land area that is not making money in farming. The quickest way for farmers to make more money is to stop what they are trying to do on it and shut the gate. If you convert it into environmental services, then to me that is a bonus all around.

The Hon. IAN ARMSTRONG: When you talk about the farmers not making any money, is that after their own personal costs have been excluded or is that including their personal costs?

MR GARDINER: That is just the variable overhead costs of production. It does not include an income to the farmer.

The Hon. IAN ARMSTRONG: So in other respects there is no farmer's motor car or no son's utility type thing?

MR GARDINER: No, it is just straight overheads and variable costs that we can allocate to that productive unit. In that trial there were four farms involved. There was one that was a straight cropper, one that was a straight grazier and two that were mixed farmers, so it was a bit of a mix of different people in there. Across those farms rainfall use efficiency, which is the percentage of rainfall that fell on the paddock that was converted into production, ranged from nine per cent to 74 per cent on the one farm. Between the four farms it ranged from 18 per cent to 28. So there was a far bigger variation between paddocks on the same farm.

The interesting thing from our perspective, that is the people who did the work, was that all of those farmers thought that all of those paddocks were doing about the same. So that is why I say if you do not have a robust system for monitoring what is going on, then it is very difficult to make good decisions about what you should be doing on that land. I know one person who has taken a hundred acres out of production and is making \$7,000 more money.

CHAIR: What is he doing with the hundred acres?

MR GARDINER: Nothing, just sitting there, because it was losing money in the first instance. So you do not have to do anything with it. You just leave it sit there. You can let it regenerate and grow a bit of organic matter and get carbon credits that have come in. There is an option to tap into that sort of market. If there is woody vegetation that needs going into the landscape, that is a great place to stick it in the landscape, and the Namoi CMA or NHT or the taxman will do the fence for you.

CHAIR: You have given us some really good documentation. If there is anything you would like to add to it, you can put it in writing to us. We certainly would appreciate that. As I say, I was very impressed with the work not only that you have done, 1700 in ten years, but there are so many, and you are only one person, one business, quite a number of them working in rural New South Wales. So I suppose the Committee can glean from that that there are a lot of farmers now taking up management plans, business plans for the operation of not only their farm but also in controlling and managing environmental issues as well.

MR GARDINER: I think the commercial concern is that it is not generally accepted through all the CMAs. There are some CMAs in New South Wales that are not terribly heavily into property planning as an instrument of achieving CMA outcomes, and the other thing is that there is nobody out there doing it (PMP). The only reason that I keep going back to farmers is because I want to and I make enough income doing other stuff that I do not have to get paid for doing it, but there is just no support out there for people who want to keep going back to these farmer groups and keep tapping them on the shoulder and saying, "Have you done this, have you done that? Can I come and have a look at how your business is running", and those sort of things.

CHAIR: That follow-up is important.

MR GARDINER: Yes, I would continue to do it whether there was money available or not because that is the sort of bloke I am. I think it would make it a lot easier for most of the people in the same business as me, if there is no money, no money, no show, that is the way it works.

CHAIR: Could we just have that tabled?

(Document entitled "The Influence of Property and Subcatchment Planning on Achievement of NRM Targets – a case study of the Duri Area of NSW 2001 to 2004" tabled)

Mr GARDINER: It is an independent survey within a very big group of farmers around Duri two years after the event as to what happened and what changed and how it fitted in with the Namoi catchment management blueprints.

(The witness withdrew)

(Luncheon adjournment)

JEFFREY OWEN SMITH, Director, Environmental Defender's Office, 9/89 York Street, Sydney, affirmed and examined:

CHAIR: Thank you for coming along and we look forward to hearing what you have to say, and to help us out with any questions, we have given to you some indicative questions which the members will ask. If we do not get through all of those, we would certainly like some responses, anything that you feel you have not been able to get across today, you will be able to respond to them after today.

I am advised that you have been issued with a copy of the Committee's terms of reference and also a copy of the Legislative Standing Orders 332, 333 and 334 that relate to the examination of witnesses. Is that correct?

Mr SMITH: That is correct.

CHAIR: Would you like to make some opening comments before I ask some of the members to raise some point or to ask some questions?

Mr SMITH: I am happy to make some brief remarks. I was wondering whether it would be useful if I just very briefly explain what the EDO does? The Environmental Defender's Office is a community legal centre that specializes in public interest environmental law. We have a range of functions. We do legal advice and litigation. We do policy and law reform work and that is the basis upon which we are here today. We do community education and we also, more recently, do scientific advice. We have a scientific advisor working in the office.

We are one of nine offices around Australia, one in each jurisdiction, two in Queensland, but we are by far the biggest and it is just an informal network with the others, we are all independent offices.

In terms of the terms of reference here today, I did not really have that many introductory remarks to make because by the nature of the terms of reference you are really trawling across a whole range of issues and it is difficult to find systemic things that tie all that together. I guess what you could say is that we are seemingly at a mid point at the moment where there are a range of remaining disincentives that have been there for many years and a range of incentives that have been introduced in recent years, so I guess in terms of providing incentives, which is obviously where we want to get, they tend to negate each other and we really need to keep moving down the path towards those incentives so that we can really provide land owners with some mechanisms by which they can make more productive use of the land. Certainly there have been changes made and we have made progress but there is some way to go.

CHAIR: Before I hand it over to the members – I will not hit you with any unfair questions about statistics and so on – the number of issues generally as opposed to your whole book, that would relate to rural related matters, farm issues—

Mr SMITH: Are you talking about the Environmental Defender's Office?

CHAIR: Yes.

Mr SMITH: And the nature of the work that we do?

CHAIR: Yes.

Mr SMITH: We, in recent years, by virtue of our clients and we have a telephone law inquiry line for example and a deliberate decision made at board level has been focussing much more squarely on natural resource management issues. It is clearly where the acute environmental issues lay and the real debate for us is how do you engage in those types of issues in a systemic and proper way when you are based in Sydney? So we have put in place a number of things that we do and

practices that we adopt so that we squarely address those issues as much as we can.

If we are talking about inquiries to our office, 60 per cent would be from outside of the metropolitan area. That is outside of Sydney, Newcastle and Wollongong, so the public is concerned about natural resource management and that is why we have responded to that. The short answer is we do a lot of it.

CHAIR: It is a very high figure actually, much higher than I thought. I will ask a couple of the Committee members if they could go through a few of the questions. I will ask Peter Draper, who represents the electorate of Tamworth.

Mr DRAPER: Given your opening remarks Jeff and with regard to removing disincentives and natural resources law, you say that the Native Vegetation Act 2003 attempts to provide for sustainable management of native vegetation and that it provides incentives for landholders to maintain or improve environmental outcomes with respect to native vegetation. Do you have a view of the effectiveness of this approach and what do you think can be done to improve it?

Mr SMITH: We have been involved in the native vegetation field actively. As you undoubtedly know, the proposed Native Vegetation Act which is yet to commence is based on the Wentworth model for landscape conservation, which the Government adopted going into the last election and in winning the election they sought to put that model into practice.

We have been involved as legal advisers to the conservation groups in developing that from a model into legislation and for much of that whole process that advice has been tabled so that the New South Wales Farmers Association has been privy to that advice as well, so we have been fairly actively involved. We certainly do have a view on all those issues.

I guess if you start with the Wentworth model, which in essence proposed that there were two types of vegetation, there is remnant vegetation at one extreme, which should receive the highest level of protection and then there is regrowth at the other, which farmers or landholders should be able to do with what they will, unless the Government feels that it is appropriate that they recompense them in some way.

We have always said that that is essentially a quantum leap forward in the way that we have sought to address those issues. The issues for us, being lawyers, has always been about the details and the way that we transplant that logic of having remnant and regrowth over the essence of a scheme, into a practical working scheme on the ground on each plot of land – and that is I guess where we would see that there are potentially some problems further down the track. But we were always attracted to that model and it is really about some of the exemptions that have been brought in the last couple of years around routine agricultural management activities.

Some of the compliance and enforcement powers under the legislation are actually a retreat from what is presently existing at the moment. Some of the things that we have been concerned about are in terms of what the Department of Natural Resources purported compliance policy is going to look like and the way that they are going to approach these issues.

It is with those details that we have concerns, but in terms of the structure of the legislation, the logic and the principles of it, then we think it is a model to pursue.

In terms of the latter part of your question, what do you think could be done to improve on it, it would be eventually about moving back towards a much simpler model, which was originally envisaged, making it clearer to people what land is on their property locked up, what land there is that they are able to do what they will with and what land the Government is prepared to come in and help them with and recompense them with and just essentially making a simpler and stronger regime, which is very much part of that Wentworth model, that is what they said they wanted. The existing laws were full of red tape and complexities, exemptions, loop holes and so on, we have to move away from that.

Having said all that, I do not really think now is the time to get involved in that. We would say there are improvements that need to be made but what we also say is that we need to get on with it. Lets pass the legislation and lets see how it works. It is about to start on 1 December I understand and now is not the time to keep stalling and keep negotiating. We have been negotiating for two and a half years now, or the conservation groups have been negotiating and we have been the legal advisers on their behalf.

I think we should accept it for all its flaws or purported flaws and see how it works, and then review it in twelve months or two years down the track.

CHAIR: Do you think the exemptions to allow clearing are too generous?

Mr SMITH: Yes, basically and the logic of the Wentworth model was originally that you would take a snap shot of New South Wales at a property level and you would say okay, well those bits of land on a property we want to keep, those bits that the landholder should feel entitled to continue their use and those bits the landholder is entitled to continue their use but as a broad issue of public policy, we will preserve those and we want to throw money at those. At the moment the exemptions eat into, if you like, the remnant vegetation and the higher level of protection and they could be done cumulatively and so on and so forth. So I think there are some issues there.

CHAIR: Greg Aplin, who represents the electorate of Albury, has a question.

Mr APLIN: In your submission you raise a number of key issues which you say are disincentives to ecologically sustainable land and water use, for example, taxation on activities on land used for conservation, agricultural subsidies and aspects of the operation of the Water Management Act. Do you think that the existence of these disincentives indicates that the community undervalues its natural resources and if so, what is your view on Ecosystem Services being used as a tool to remedy the situation?

Mr SMITH: In terms of whether the community undervalues its natural resources, I guess – without meaning to sit on the fence – you would probably say yes and no. It is clear that the existence of those disincentives is due to a broad range of factors and as I said in my opening remarks, you cannot really say that the underpinnings of, for example, drought policy, are the same as the underpinnings of agricultural subsidies and some of those things have moved forward and some of them have remained the same.

As I explained, or argued, we seem to be in that kind of mid point at the moment where there is perhaps some institutional lag where we do need to catch up to the community's understanding and increased valuation of those natural resources, but it is also fair to say that there are elements of the community that clearly do undervalue natural resources. I am not sure what Ecosystem Services is – I can probably guess by the name of it – and I think to the extent that it promotes the value of natural resources and there are the environmental services that they provide, then we would fully support that.

Clearly things like the native vegetation legislation contemplate a valuing of environmental services, because they talk about soil quality, salinity and water quality, which are in the Department's own interests to preserve through protecting the environment. I presume it is a tool to facilitate an understanding of natural resource management, as a community, some members are there but others, it could be a useful way of more properly valuing it and in this area, of course, properly valuing the environment, as against the economy and social and political factors as part of sustainable development. It is somewhere that we want to go.

Mr DRAPER: In your submission you raised a number of issues around non-compliance and the need to enforce the rules and you raised the concept of offsets and trading schemes. Given that many farmers are critical of the Government's approach to regulating the use of natural resource bases, arguing that such regulations 'cost them their livelihood', would you say that providing for offsets and trading would have the potential to increase sustainable outcomes with more flexibility and at a lower cost?

Mr SMITH: I can well appreciate many of the arguments and submissions that farmers have made over the years about the regulation in this area and I can well appreciate that that may have fairly fundamental impacts on the ground, but the starting point from the Government's point of view is that they have the right, and indeed duty, to regulate in the public interest and regulation is not a new concept. In fact, even in this area it is not a new concept. We have had natural resource management legislation around Australia for fifteen years and in New South Wales negotiations started in the early nineties, so I would not have thought that you could argue, in a sense, you did not know this was coming and this was about the new way to go about it. Essentially that seems to be a cultural issue, that resistance to regulation.

We need a system whereby the environment is just the same as public safety as an underpinning for the costs of production or occupational health and safety, just one of the costs of production. That will have impacts further down the line and they should not necessarily be borne by landholders but they should be factored into the system.

In terms of offsets and trading mechanisms, then I think we should explore those and we have always argued that. What you need to be careful of is that they do what you want them to do and certainly I think you asked about mechanisms that can deliver flexible and low cost solutions. You cannot argue with that, I mean, everyone wants that. You can only argue against it on ideological grounds, but we should be looking at all the kinds of mechanisms that are appropriate and seeing whether they work.

I think that is a different answer to actually saying, yes, let's use them, and I think with offsets we have had a view that offsets should be tried, should be examined first to see whether they are appropriate in this area and then piloted, trialled, evaluated and so on, because I think we should be looking at all the types of things we can do to resolve this that works for everyone.

There are real issues around offsets. We have supported them in a pollution context. We say, okay, this is the environment of the metropolitan area and we are going to have a pollution scheme within that. This is the level of pollution that we will tolerate and we will bring it down in this particular way. We can actually design a scheme which is quantifiable and enforceable and works, but in terms of biodiversity, how do you compare landscapes, how do you compare plants and animals and how do you make trade offs amongst those things. We would want to see the details of that but I do not think we should rule anything out.

CHAIR: Can I just ask a question based on what you were saying earlier on about the new proposed legislation, the remnant and regrowth and so on. What is your view on how the legislation treats the regrowth issue? Are there concerns that before it was a very attractive proposal for a farmer or whatever to be able to clear that virtually unfettered to some extent. How do you feel the new legislation will address that or whether it does sufficiently?

Mr SMITH: Well the current legislation, as in the Native Vegetation Conservation Act 1992 has long had that perverse incentive within it whereby if you clear within ten years, then you maintain something as regrowth. If you let it go for over ten years, then it becomes protected. So clearly that is a perverse incentive that you do not want. The new proposed legislation does away with that perversity and so it is a much better approach to dealing with regrowth and I certainly do not have any problems with the way that regrowth under the legislation is conceptualised, as in, either you can do what you want, you have got an existing or ongoing right to develop that land or the Government steps in and says we will give you some money to protect this because there is a broader social policy behind it.

CHAIR: That was always a very critical aspect of the old legislation that the environmental lobby, the conservation groups were always very critical about.

Mr SMITH: Yes, in terms of the regrowth, I cannot recollect whether we did have any fundamental problems but it was mainly in the area of remnant and the exemptions cutting away at that that our concerns lay.

Mr APLIN: Your submission says that current water pricing is a disincentive to ecologically sustainable land and water use because the price does not account for all associated costs, including environmental costs. Can you tell the Committee what options exist to ensure water is priced more efficiently and in a way that deals with those externalities not factored in and what consequences would result?

Mr SMITH: I guess what we suffer from at the moment is that we are still hanging to that tradition where water has historically been treated as a common resource and notwithstanding the changes that have been made under the New South Wales legislation, which are pursuant to the COAG reforms but there are still vestiges of that logic, if you like, that underpin the system.

There is no real disincentive for that idea of the tragedy of the commons. There is no disincentive for people to use less of a common resource. There are no real disincentives because you do not have that full pricing and we would say that if you move towards – and you would have to move towards it, it would be something that you would do over time – to more fully costing the price of water, then you remove that disincentive and economists would be in the best position to tell you how you actually fully cost water, what types of things you need to take into account but you will remove most of the perversities out of the system.

What you would do – and I think that was the other part of your question – is what would flow from that – is that would raise a series of questions around equity and how you deal with that. I think you just need to design that into the scheme. I think IPART looked at this at length, this issue and I must admit I have not done so, but if you recognise that water is different things in different contexts, and we need to design a system whereby the basic rights of people to have water as a drinking resource, to wash and bathe, and all those everyday activities, while water is also used as part of the means of production, then that should be perhaps passed onto others and water as leisure, if you like, a different set of considerations should apply to using water in those contexts and just move towards a much more meaningful system. I think people would support that, if you provided a safety net ensuring continued access to basic everyday amenities but then more fully pricing water usage above that.

CHAIR: IPART makes these recommendations, particularly on the rural water pricing and they have always come in at a lower rate than that that has been applied for by the agency responsible, whether it was BW, Land and Water Conservation, Water Resources and so on, and farmers and irrigators particularly have argued that water pricing has jumped quite a lot over the last number of years, from the ridiculous prices that were being charged round about the late eighties or early nineties. So you are saying that you feel that this process of IPART making the recommendation which are probably higher increases than they were in decades gone by is not doing what you are trying to achieve, that is eventually catching up with the real cost of water.

Mr SMITH: Well, I certainly do not think we are there yet.

CHAIR: I know the agencies would like to jump with a bit longer strides I suppose.

Mr SMITH: Do we know – maybe this is not the appropriate forum to discuss this – is IPART putting the brake on equitable grounds or do we know why they are not responding?

CHAIR: We could not answer that. I just know that the agencies have a formula for real cost recovery as opposed to that which is often granted. I am not saying it has happened in the last round, but it certainly has happened on a number of occasions over the last ten years, but I am just wondering whether – even irrespective of what formula we front. I mean, you are arguing very strongly that we should be moving to a real cost recovery on water or a real value on water. Are we arguing about the time factor? I assume that by the way the prices have been going this past decade or so that we are probably getting there at a much slower pace than some people would find desirable.

Mr SMITH: It is ultimately a question of high social policy really but if you do it overnight, then you are going to increase the issues around equity dramatically, if you do it in a much

more staged way then you can presumably manage those equity issues over time.

Mr DRAPER: State Water's submission to IPART which was released a month or so ago proposed full cost recovery within a five year period and their suggestion increases the cost of water from between 100 per cent and 4000 per cent, so communities who are facing a 4000 per cent increase are going to be significantly disadvantaged under the proposal I would imagine. I know in my area they are looking at 344 per cent increases.

Mr SMITH: Is that for domestic use?

Mr DRAPER: It is for all water. It is for high security for your towns and it is for the irrigation industry. For the irrigation industry the recommendation was substantially lower than the recommendation for the townships.

Mr APLIN: Just following on from all this, it could be argued that producers simply run a business in response to consumer demand, whether that be domestic or international, but consumers do not pay the full cost of the produce, the fibre or the food, so this consumer demand is an expectation that is ultimately degrading the environment I suppose through unsustainable practices, could be the argument. Would you agree with that and if so, do you have any thoughts how the real cost of production could be passed on to the consumer and obviously look at some of those examples that have been raised.

Mr SMITH: There is no doubt that more fully costing water will have affects on the market and on the provision of goods and services and will presumably price out certain water intensive products. They will become unsustainable or unprofitable to continue to produce those goods in Australia for the Australian market. The equity issues do need to be dealt with if you are going to go down that path, and we are talking about water so we are not talking about stewardship type arrangements, and I am no expert, but there is a way you would deal with that. In other industries which have been dramatically affected by Government policy, then you have structural adjustment programs and exit strategies for particular communities and those types of things and I think in the long term that is the kind of thing that you need to look at for the areas where there is the most inequity raised.

Mr DRAPER: A number of submissions that have come before the Committee have argued that marginal lands are most vulnerable in terms of both economic and environmental outcomes because marginal producers basically trade environmental amenity for economic survival, that is the reality. Would you have any ideas about how we would get around that particular situation?

Mr SMITH: Probably not beyond what I have already said. We have essentially touched on those issues in the last couple of questions. Continuing down the path towards more fully costing natural resources will bring those marginal lands into relief by definition and then it is a question of where you go from there, what social policies and programs that you pursue to deal with those issues but I do not think it is sustainable to continue to prop up those industries.

CHAIR: Going back to your client base and so on, as I say, I was not aware that it was 60 per cent outside of Sydney, Wollongong and Newcastle.

Mr SMITH: That is our inquiries.

CHAIR: Again, just teasing out the people who are concerned about breaches of environmental laws and regulations and so on. Would you have any idea how many of those concerns actually come from the farming community? You are fully aware of the debate in rural areas that it is always Sydney based conservationists trying to tell farmers that things are not going the way they should but the fact that you are getting so many inquiries from regional areas would seem to suggest that there is an environmental conscience much higher in regional areas than many people would think.

Mr SMITH: I do not think we have done any kind of analysis around who those particular

clients are and clearly a lot of them are, for example, regional conservation groups. We get a fair amount of calls and we have done a fair amount of work, whether it be advice work or representation for farming groups who raise public interest issues. It is not just conservation groups that raise public interest issues.

Farmers are reluctant, for example, to do in their neighbours. It is not really the done thing but there are number of our clients that we have got through the inquiry line and they have become ongoing clients who are farmers in an area and they are increasingly upset about the way that particular industry groups, for example, are using natural resources or doing particular activities.

It is a fairly central part of our practice I must say. Classically I guess they are more the land care type farmers which we come into contact with.

Mr APLIN: You say that existing natural resource management legislation, specifically water and native vegetation legislation, essentially establishes “property rights” in water and defines property rights in land with respect to clearing. Another submission to the Inquiry has argued that there is a need to develop a “very clear understanding of basic property rights and of duty of care”, which will in turn provide a basis for rewarding good stewardship. Could you explain to the Committee what is meant by “property rights” and “duty of care” in the natural resource management context and do you see those concepts as providing a good basis for stewardship and perhaps sustainable land and water use?

Mr SMITH: There is a lot in that. In fact, we have done quite a lot of work on property rights, because it is central to this area, what does it mean to have property in land and what does it mean to have property in water in New South Wales today, and really the live question in that area has been around what flows from that – do you get compensation, for example, those type of issues. We have done a submission directly on those issues, so I would be happy to give the Inquiry that if that would be useful.

Mr APLIN: It would be.

Mr SMITH: And that, in a descriptive sense and in a dispassionate sense says, this is what the law says property rights are and the way courts have interpreted that. But if I could try and particularly explain what it is. Property rights are essentially the legal recognition of a right to exclusive use of something. Generally you are able to trade or pass that on. In terms of land and water, in New South Wales today the basis of that property right now almost exclusively derives under statute. It used to be under the common law but we have moved beyond that, particularly water, which used to be linked to land and the water has now been separated out.

As I say, the issue generally arises in the context of, the Government is intending to do activity X or regulation X and that will impact on my property, whether that be land or water and we should be compensated for that.

The law has always said in Australia that the governments should legally and often morally compensate where you take someone’s property away, where you acquire the property from them. The classic example is where you are building a freeway and you go through someone’s land, but it is also said equally as strongly that the law should not compensate you when you do not quite take it all away, when you diminish or regulate an activity, then you should not be compensated, not in a legal sense. As we have discussed already, there might be arguments for structural adjustment or assistance from the Government but where you are merely regulating as opposed to acquiring property, then there is no basis in law or policy for actually providing that kind of backwards compensation and that is what the submission sets out in much more detail.

In terms of the duty of care, duty of care is one of those concepts that is all things to all people. I do not know whether you have come across that yet in terms of the submissions, but again if we can start from a strict legal perspective, a duty of care historically is something that arises under common law and just applies between people. I may owe someone else a duty of care because I am an employer, for example, but you do not owe the environment a duty of care. That has never been a concept at common law.

Those kinds of ideas about having a statutory duty of care have started to take place around Australia. They do not exist in New South Wales explicitly but generally again it is in the pollution context.

In terms of duty of care in natural resource management, as far as I understand it – I could be wrong – it is really just an idea that has been batted around and written a lot about. The best source of summarising that whole set of arguments is probably an article by Gerry Bates for the Productivity Commission and he was actually commissioned, I understand, by the Commission to talk about duty of care and the conservation of bio diversity and in that article he looks at what a duty of care means, what it could mean, where there are examples of it and what flows from that, what kind of consequences flow from that, and importantly I guess from the Inquiry's point of view, looks at all the literature and all the other papers from various people that have addressed this question.

Really, the arguments between all those experts have been around what flows from having a duty of care to the environment. Is that something that the public should pay for and what does that mean? Basically the debate has been if a duty of care is simply what is good regulation, then you should have to pay someone some money. Just like you would not have to pay someone some money if you had stricter occupational health and safety laws, but if you are asking for something over and above that, some kind of public good that the people of New South Wales and Australia want to get out of this whole thing that is going to impact on landholders, then there should be a basis for paying those people.

The native vegetation legislation obviously accepts the logic of that in seeking to provide those incentives, but it is a complicated debate, which, as I say, that article by Gerry Bates trawls across.

CHAIR: Thank you very much for that. There are a number of indicative questions, of course, that we have not been able to touch on and you might treat them as questions on notice in the Parliamentary sense, so we could have any expansion on any of those points in your submission that we could use as far as deliberative meetings later on. We would ask you to do that if you could.

Mr SMITH: Yes.

CHAIR: Also, as you are aware, you will get a copy of the Hansard transcript and any alterations you wish to make, we will be seeking your corrections in that regard. I certainly do appreciate you coming before the Committee and we find that the information you have given us, plus the submissions that you have given us are very helpful in putting our report before the Parliament.

Mr SMITH: Do you want me to table that submission?

CHAIR: Yes.

(The witness withdrew)

PAUL TREVETHAN, Board member, Murray Catchment Authority, RMB 4030 Howlong 2643, affirmed and examined:

CHAIR: I am advised that you have been issued with a copy of the terms of reference and also a copy of the Legislative Assembly Standing Orders 332, 333 and 334 that relate to the examination of witnesses. Is that correct?

Mr TREVETHAN: That is correct. I would have to say though that the request for me to attend today was made without sufficient time to discuss the entire contents of the document with the board of the CMA and consequently there may be some material that I would present to you which I would have to say is as a result of my memory of discussions with other board members from time to time and may in fact be flavoured by some of my own experiences as a primary producer and with involvement with land and water management over a number of years.

CHAIR: I appreciate that and certainly apologies for any time problem with that. Could you firstly in relation to that, if there is anything that you want to clarify afterwards or anything that you say today is not representative of the board, although you are here today very much in your professional capacity as well and we would look forward to any comments you would like to make, but if you would like to clarify it as far as that opinion as opposed to the board, by all means, do so.

There has been a problem of communication with the indicative questions, so therefore, I want you to take them as questions on notice, although we may have to tease out a couple of aspects of them today. Would you like to make any opening comments?

Mr TREVETHAN: Just briefly, since I have not had these specific questions here to look at, there were a number of things that I wrote down as areas of disincentives that I see as applying to better management of land and water resources in New South Wales in particular and I put them under six different categories. One is administrative matters, secondly, legislative and regulation policy matters, thirdly, the psychological cultural issues, fourthly, the political nuances, fifthly, the technological advances that have been made, sixthly, the financial pressures and finally the awareness raising issues that exist and may be a disincentive to better land and water resource management.

What I will try and do in addressing your questions is to bring any of those examples that I have there, forward in answering the questions. If we do not touch on them, I might be able to respond in writing at a later date.

CHAIR: As a matter of fact I find those issues very consistent with what we are actually discussing at the moment.

Mr TREVETHAN: With your indulgence, Mr Chairman, would you allow me to just go through some of those points and to illustrate where I believe we can make a distinction between where things can actually be achieved, where we can do something and other areas where there are these pressures are such that really, it is going to be very difficult for us to fight against the tide and achieve anything. But we must recognise that these are the pressures that are there.

Firstly, on the administrative side of things, at present in New South Wales, the payments for work done by landholders are complex and bureaucratic. In previous arrangements to the catchment management authorities being created, a lot of the payments were made as pre-payments to land owners or devolved payments to land care groups and consequently the payment occurred before the activity commenced. The new system is that the payment is only made on presentation of a tax invoice once the works have been completed satisfactorily.

The payments in addition are centralised through the Sydney office of the department, they are slow to be processed and to the best of my information, it is a very inefficient process, taking somewhere in the order of 43 steps to process one payment.

I agree with the need for accountability but the delay between the outlay in terms of financial

expenditure and physical exertion at the landholder level and the time in which the payment is received for those activities is a real disincentive for people to participate in better land and water management practice.

I believe that there are also many positive outcomes that relate to decisions made by older people where the financial pressures are off them, and I can cite a personal example where an older member of my extended family was prepared to devote a number of hundreds of hectares for conservation purposes but there is no way in the world that that person would not feel – because of age, she is well and truly over 80 and she is by herself – comfortable in issuing a tax invoice. That is not the sort of activity that she conducts, and yet she would be prepared to devote a significant portion of land for positive environmental outcomes, to fence it off and manage it for better environmental outcomes.

If I can make suggestions here as to how the system could be improved. Firstly, I believe that the payments should be able to be generated regionally at the CMA level rather than having to come to Sydney, and that the report be sent to Sydney centrally. So that the payments are generated locally. That is the first thing.

The second thing is that I believe that there should be the capacity for the catchment management authorities to generate recipient created tax invoices. This is particularly important where people have to report in a certain format with project numbers and a lot of detail that if they were to try and generate the tax invoice themselves, it would not be acceptable. For Heaven's sake, why can't the CMA have a system where it generates its own recipient created tax invoices?

CHAIR: Currently that is done by the agency?

Mr TREVETHAN: Well, the payment is made by the agency but there is no capacity for the generation of RCTIs and in a large number of organizations that are conducting an amount of business where some intricate information has to appear on the invoice, the decision is made by those organizations to create their own tax invoices and then all the administration is in hand anyway.

The third suggestion we would have is that favourable consideration be given to the payment of progress payments rather than all the payments being made at the completion of the project.

So on the administrative side of things, there are three suggestions that I believe would remove some of the disincentives that currently exist from an administrative perspective.

CHAIR: Before you jump onto the next one, that progress payment issue and the 43 steps to make one payment, have you got any idea what that has done to the time delay in getting a payment as opposed to the old scheme? The whole idea is correct I suppose, to make sure there is accountability and so on. Sometimes that can be a bit over zealous in the way that you comply with all these auditing processes but under the new arrangements would you have an idea about the time frame to go through those 43 steps, as opposed to the old scheme, obviously you were paid in advance and that is the quickest way possible, but under the new scheme from the time a project is started how long is it before someone gets any money?

Mr TREVETHAN: Actually from an initial perspective I believe you have got to have the accountability in the system, which was not there in earlier times. If we are looking at the time in which it takes for a landholder to receive payment now, from the time the invoice is submitted, there would be people who were hanging out for two to three months before a payment works its way through the machinations of the department in Sydney.

My belief is if it were handled at a regional level by the catchment management authority, there is no reason why this could not be reduced to seven days. After all, from my experience of local government, if an invoice is submitted to local government, you can get a very quick turn around with it because essentially the cheque writing capacity is right in house, regionally or locally, and all the accountability occurs at the regional level. Once it comes to Sydney it is really a process thing. The person that processes the information into the SAP system really has no idea at all as to whether the

project has been completed satisfactorily or otherwise, so the accountability is already resting back there with the CMAs. They have been created as statutory authorities, they have responsibilities to comply from an accountability point of view and from an audit point of view, and surely we must have some faith in them through the audit process that they are going to be able to do the job correctly and bring that time from two to three months back to seven days, or at the outside, thirty days, which is current terms of trade, and most landholders and people involved in those sorts of works would appreciate a thirty day turn around.

CHAIR: The other one too is the issue about progress payments and also you mentioned CMAs doing the processing of it. Do you need both? If the progress payments were available, would that eliminate the need, or vice versa, would you need both?

Mr TREVETHAN: You do need both and I believe that payment should be made where the accountability occurs. The accountability occurs back at the CMA. That is where the inspection occurs, that is where the project has been agreed to, that is where the memorandums of understanding of the project have all been held. Put it back in there and if landholders are finding that they are engaged in a project that may take six months to complete, make it 10 per cent up front and 40 per cent or 50 percent, as progress payments but I seriously believe that localising of the payments within the CMAs will greatly turn around all payments.

CHAIR: With the report to Sydney.

Mr TREVETHAN: Certainly keep that reporting mechanism to Sydney. Number 2, if I might, are the legislative regulation of policy matters. The Committee would be aware of the Native Vegetation Act and the regulations that have just been brought in. There is a level of community distrust of government agencies and with statutory authorities – I do not think that is a secret to any of us. The further issue is whether to try to get the regulations perfect before putting it into practice or to proceed and admit that the changes and modifications are permissible within certain limits of those regulations.

We have moved a little bit further from that just now but I cannot see anything in the regulations that suggests that some discretion is going to be given to the CMAs around some of the finer points with the regulations.

The first suggestion I would make is that there is a formal statement of some discretion being able to be given to the CMAs in practice and that as long as it is documented, that should provide reasonable justification for allowing that to come into play.

The second thing I would suggest is we should look to a system of independent accredited providers to handle the property vegetation planning process, so that if a landholder has a distrust for government agencies or for statutory authorities –and CMAs can well be lumped into that – then at least there is an alternative that still provides the same degree of rigour and accountability but takes away some of the stress, and therefore, would allow better landholder involvement in better resource management.

CHAIR: Like a private consultant or something like that?

Mr TREVETHAN: Exactly.

CHAIR: That is a pretty strong recommendation.

Mr TREVETHAN: Perhaps I should take that one on ‘waiting’ and we will correspond in six months’ time. I really do think that there are going to be some fairly serious issues. It may not be so much in Murray but I am aware that it is likely to be quite contentious in other parts of the State and certainly by the establishment or the capacity to have independent accredited providers would overcome some of that disincentive.

If I might continue further with the Native Vegetation Act. The advice to date indicates that

there is going to be a similar process for both land clearing applications and for incentive payments, the latter being for positive environmental outcomes. I have sat in on a couple of the assessments, some for clearing and some for incentive payments, (where somebody wants to do something positive) and I found that the time taken to conduct those takes about the same time. We had thought originally that it would be a matter of half a day or something like that but quite often we would walk away after a very long day and realise that there was still work to be done.

When you compare the system that used to occur where an application for an incentive payment was quite a rapid process, the proposed system would seem to be a significant disincentive for landholders to participate in a request for a payment for incentives to actually manage some land for better biodiversity and water outcomes.

The suggestion that the board has is that some aspects of the PVP developer, that computer program, should be able to be turned off when considering incentive applications, so you do not need to go through the whole process of looking at the salinity outcomes and the biodiversity outcomes, and so on and so on to look at incentive payment. You might be able to still go in there, record the essential information on the property plan that will enable a management agreement to be drawn up and be out of that person's place with a signed document within two to three hours but still have all the necessary things done. It is a completely different process when you are dealing with people who want to do something good as opposed to somebody who is looking to do something that is actually going to remove vegetation through broad scale clearing and they are looking for some offsets.

The other thing that I believe that is not in the system that we should be looking at, is the ability for people to trade offsets from one farming property to another and that the CMA should be given the ability to have a register of some sort where it records both the people who have an interest in clearing vegetation and people who have an interest in providing offsets so that the CMA can then act as an honest broker between the two parties and can say to somebody who wants to clear and has not got the capacity to offset, you don't have to get a red light. What you can do is buy some offsets on somebody else's place and draw up a management agreement that can be formalised in that way. I believe that that would go a lot of the way to helping better resource management.

If I can move onto water policy I refer here in particular to water recovery for environmental purposes and current policy that is being developed in New South Wales. The present water policy relies heavily on infrastructure improvements to achieve water savings but most people with practical experience in the industry would suggest that such activities with just infrastructure developments are unlikely to free up the amount of water that is going to be required for the outcomes to be achieved.

The issue actually is that there may well be an undesirable impact of access to consumptive water in affected communities and because of the adverse social environmental impacts people will not want to participate in providing water for environmental flows to rivers and so on. That is in the absence of a good water trading market and market based mechanisms to be developed. I sense that at both Commonwealth and State levels there is a political reticence to participate in water trading for obvious reasons and that really we should be putting that on the table and looking at some very good mechanisms of water and market based water recovery.

Essentially the suggestion that we progress the work already initiated on market based mechanisms for water recovery and involve water users at an early stage of policy development. Unless we involve those people who are going to be affected at an early stage, they will feel disenfranchised and will not be prepared to participate, and the adverse vibes that we are getting from those community people will be increased.

If I might just touch briefly on the need for establishment of property rights for ground water as well as surface water; that is a considerable issue. The absence of firm property rights, particularly for ground water is a disincentive for people to invest in better land and water management practices.

If I might touch briefly on another aspect of policy and that is drought policy. This is where money is frequently advanced to eligible farmers during drought. There are some positive aspects of it that are well known. It is intended to keep people on the land, but there are some negative aspects as

well, some of which would be the increased number of watering points provided through such programs. But that does lead to people holding onto livestock longer than perhaps they really should and when the drought is over it can very well lead to a proliferation of feral animals. There is also the negative aspect of it that is presented, that it may prevent the market forces from operating and that the ability for other people to buy the land that has been supported. It is argued that in the transfer of land very often you have new management that comes in with better capital resources, better efficiencies that they are able to operate with and also better management expertise.

I realise that that is a contentious issue Mr Chairman and I do have a view on it but I would prefer to just leave it as a contentious issue and if you were to press me hard on it I could probably give an answer but I would have to stress it would be a personal view.

CHAIR: We have had fairly substantial discussions this morning about the drought and the assistance. There were a couple of witnesses coming through and we heard from many of those on that point. Some of the witnesses also from the CSIRO this morning talked about that if it is a major problem getting food on the table, there should be some assistance there but there should not be so much supporting of the business aspect of the farming operation.

I think that underpins the principles of a lot of national discussions, until of course a severe drought hits, and then it makes it very difficult politically to manage it. I think maybe where the farmers have some ownership of it might be more desirable, ownership of how the money is distributed and for what purpose and so on.

I certainly would not want to stop you from making a personal comment about that. It is very much an important part of natural resource management.

Mr TREVETHAN: If I may have it recorded as a personal comment and that is that I do believe that the present drought assistance measures actually do have a perverse impact on outcomes for land and water management and very often I believe that if a farm were to change hands and market forces were to take sway, that in the longer term the structural adjustment process would lead to management of that land, which is much more pragmatic and evaluates and assesses the impacts of agriculture, a viz the natural forces of drought.

Number three, the psychological and cultural disincentives that apply. There are a number of disincentives that landholders have to participate and contribute, brought about by a number of factors and if I can give some examples here. There is a loss of ownership of land care co-ordinators through the direct employment by catchment management authorities. This has occurred over a number of years where land care co-ordinators used to be employed directly by the land care groups. Under the new arrangements, in most cases, that does not exist any more and a lot of the communities feel disenfranchised.

I think there is something we can do about it and I do not see it being demonstrated, and that is an increased awareness of the catchment management authorities themselves to exhibit empathy and work through the issues locally. I am just making that as a suggestion for CMAs rather than something that needs to happen at a government level.

CHAIR: To the other members, any time you want to jump in.

Mr DRAPER: No problem, it is interesting.

Mr TREVETHAN: The second thing is this thing about re-invention of the wheel. In the early days – and I go back to 1988 with land care groups – the land care groups themselves developed their own targets after identifying the natural resource issues in their own area and they then went out and took actions. The catchment management authorities have now gone out to re-engage those communities and there is a feeling of frustration of, “here we go again”. We did all this work years ago, what’s wrong with you catchment management authorities? Haven’t you read the papers? Haven’t you done your homework? Why the hell are you coming back to see us again?

This is also part of the thing where the catchment management authority has been charged with the responsibility of providing the big picture and getting the whole lot to work in together. I think that the catchment management authorities should dwell on the big picture and realise that for the local communities their own local issues are the things that are important and it is up to the catchment management authorities essentially to try and blend all those local views together, because those people out there, they have already done their work, they are just going to become very disenfranchised, disenchanted and feel as though they do not want to participate in further activities.

My recommendation would be that the catchment management authorities draw on a lot more of the information that is already out there rather than going back to their communities and asking for a re-hash.

There is a view that I believe our board shares, that the views expressed just above are actually exacerbated by the Natural Resources Council Commission process. The Natural Resources Council Commission has been charged with the responsibility for developing State wide standards and targets but over a period of time that organization seems to have shifted ground and, in the view of a number of board members, has opted for the easy option of measuring outputs rather than outcomes.

There is a risk of encouraging very accurate recording of the process rather than the physical achievements and if I might say so, even worse, the risk that resources could be absorbed in this activity, that is recording process as opposed to ensuring that progress is made towards physical targets.

My recommendation is that there needs to be a review of the role, function and activity of the Natural Resources Council Commission.

The other example of psychological cultural disenchantment relates to the discrepancy between the management of public versus private lands. Here I am referring to noxious and invasive weed species.

The landholders frequently observe and experience the lack of effort and management by agencies and statutory bodies in managing noxious and invasive weeds on their land and wonder why they should devote so much of their own resources to controlling similar sorts of weeds in the country under their control.

Again, this is a disincentive to people because they look over the fence and say, it's not being done by them, I'm feeling really awkward about spending a lot of my time and money, both controlling it on my place and stopping the incursion from outside. So the recommendation there – and I am sure I am not the only one to feel this way – that increased weed control on public lands needs to be carried out by the authorities responsible.

Since we are in a political arena, if I might cover off on some political issues? The protracted negotiation between the Commonwealth and State jurisdictions with respect to bi-lateral partnership agreements and the release of funding for natural resource management is an issue. The particular things that I refer to here are the disenchantment in local communities with the payment of contracted staff, in that very often what has happened is that the agreements have not been signed in time and you end up with contracted staff, people who have been taken on for a three year period, getting to the end of year one and the Commonwealth and State have not signed on to the payments to continue. Therefore that person is left in limbo for a period of three, six months and the local land care groups used to wonder what was going on. That has been overcome a bit with the CMAs and they have worked out carry over finance.

At the local landholder level there are projects that span several years and this sort of argy bargy between State and Commonwealth and the delay in funding coming through very often means that there is a significant discontinuity in projects and untimely setbacks in activities that are reliant upon seasonality, such as tree planting. If you miss out by three months then you might as well say you have missed out for the full year. The problem then is that the State and Commonwealth come

back and say, we've got all this money for you, what's wrong with you? Haven't you been able to spend it, and it is getting to the stage now where we have got to spend two years' funding in one and I suspect that that two years' funding also involves some back from three years ago. The implications of that are that we have only so many projects that we can put on the table and as you try to spend the money to satisfy the funding authorities who gave it to you late, the types of project that you put forward run the risk of not being quite as good as the ones that you otherwise would have funded.

For example, there would be projects now that are coming forward that are being paid for pretty well entirely by the catchment management authority, whereas three to five years ago those same projects or projects of the same nature would have been funded either 50/50 by the landholder or some aspects funded 100 per cent by the landholder.

When that sort of thing happens, landholders will say, well hold on, if I just hold on for a few more years, perhaps they'll pay the whole lot and give me something else as well. I see that as a disincentive towards good land and water management practice because somebody who was negotiating between State and Commonwealth did not realise that these people are practical people and they move with the seasons and times and so on.

The recommendation there really is that the Commonwealth and State bodies responsible should be moving through the bi-lateral agreements and ensuring that the funds flow to maintain continuity of projects.

I am aware of the time Mr Chairman.

CHAIR: That is right. Any questions in relation to those points at all?

Mr DRAPER: No.

Mr APLIN: No.

Mr TREVETHAN: If I might touch on some technological aspects that act as a disincentive and give a couple of examples. In the west of the State there are areas where crop is presently being grown which say even ten or fifteen years ago, the attitude would have been by a number of people, because you can only get one successful crop in five to seven years, you are probably better off not operating in that country, walk away from it and leave it to the kangaroos or to extensive grazing or something like that.

With improved technology such as moisture testing, neutron probes and so on, those people can say, we will avoid spending money on planting a crop unless there is a fair degree of certainty or a very good degree of certainty that we are actually going to be able to harvest the crop.

So, that technology has meant that we can now push into areas for productive purposes, whereas sometime ago you would have stayed out from that. That is a disincentive to setting aside land and landscapes for environmental purposes but I do not believe that we can say, no more neutron probes, you cannot use them. It is something that I highlight because it is something that we should be aware of that is a pressure on the environment.

To continue with that same sort of theme, if you look at agriculture equipment that is about now and the sort of efficiencies, economies of scale that are out there, that same sort of land which could only be worked by the same size equipment that you would work in more intensive areas, is now subject to the use of considerably larger equipment, the harvesting equipment, the sowing equipment, the spraying equipment, would probably handle somewhere between three and five times the area that they could just a short number of years ago and consequently the pressure on the environment in keeping those areas as set aside or under less intensive agriculture pressure has been compromised again.

I do not think there is anything we can do. We cannot stop people buying bigger headers, we cannot stop them buying bigger seeders or using technology. It is a pressure that we are going to see

and we are going to have to work out some of those earlier things that I spoke about, about tradable offsets to account for that. If somebody wants to clear a lot of country somewhere and we can work out what the environmental values of it are, perhaps it is going to be worthwhile to let them clear that, because of the technologies that are available and have a trading mechanism where we can really set aside some country that is worthwhile holding onto. It does not exist just now.

Another example would be the use of centre pivot irrigators and lateral move irrigators and considerable structures that do not mix well with trees and native vegetation and so on. Once you have invested that sort of money, you really want to be getting production from them. There are a lot of people who are looking to put those sorts of things in from the point of view of better water management, but that compromises land management. I do not think we can ban people from doing that sort of thing but I believe we have to be aware of it and once again, put in place those offset trading mechanisms to cater for it.

CHAIR: You use the words 'set aside', did you have in mind the programs, say in the UK, I do not know whether it is the UK authorities or the European union are involved in incentive payments for land to be set aside. Is that what you are talking about?

Mr TREVETHAN: Indeed. I think that one of the main things that we have not yet identified is the mechanism, the process, the procedures for identifying the public good component of activities that are conducted on private land. There are certain methodologies out there but I do not believe that we have something that is sufficiently concrete to enable trade to occur and once that can be done then you can say if we allow somebody to clear in this area and that person, in order to be allowed to clear, should be making some sort of a contribution to somebody else. So then we can match his payment, perhaps with some public funds to achieve a more enhanced outcome, then we can start to move forward.

At present we do not have that methodology in a pragmatic form that somebody can pick off the shelf and say this is what we can move for.

CHAIR: We are probably pressured for time but Peter have you got any questions?

Mr DRAPER: You argued that the benefits of certain environmentally sound practices, for example the maintenance of remnant vegetation are often reflected at a regional or a catchment scale, not actually on the property itself, so this provides a bit of a disincentive for the farmer. Do you have any ideas about how?

Mr TREVETHAN: I think it relates to that comment I made just then Peter, that if we can work out a methodology to identify the broader public good, referring to what is happening at a regional scale for instance, I presume you are picking up on this sort of thing, such as salinity, where the outcomes are right away from the farmer who is maybe creating it. So there is a public good to be created somewhere. The fellow who has got the land, well, he might as well just keep farming the thing. What incentive is there for him to do that? But until we work out the mechanisms—

Mr DRAPER: That is the difficulty, isn't it?

Mr TREVETHAN: Yes but I would have thought that we want to spend some money to provide grunt in that area. What I am seeing is the expenditure that we have in the NRC as opposed to nothing happening in this area that I am speaking of. Perhaps we ought to have a bit of a re-evaluation as to just where our priorities are and where we want to be in five, ten, fifteen years' time.

CHAIR: Greg?

Mr APLIN: Have we got time?

CHAIR: Paul is at a bit of a disadvantage that he did not get the indicative questions, so just to let the members know, I have asked him to take them as questions on notice and respond to them, although I think in the six points that you raised you have covered quite a lot there. That might be the

best way to go about it because I am looking at the time pressure and I do not know what flight arrangements there are for some of the other witnesses. Unless there are any other comments or questions—

Mr APLIN: I would be happy with that.

CHAIR: I think we very unfairly did not get the indicative questions to him until he walked through the door, which was a bit unkind.

Paul, also, you have raised some issues to do with bureaucracy and administration. When the Committee meets next week we might just talk to some of the agencies about some of these aspects that you have raised just to see what their views are. I think that issue about the new payment schemes, the incentives schemes and the like are something that I am not fully aware of. I am not aware of those difficulties being raised with us before and also the issue about public and private weed management. We have to see how much progress, if any, in the last few years we have made on that. It has been a bit of a touchy issue.

Could I ask you to take those questions that we have given you today and we will also give you a copy of your contribution from Hansard today. You can balance it up with what you have said today and what the questions are on notice, if you could just clarify any aspects of it with those questions.

(The witness withdrew)

DAVID GREGORY CHARLES WALKER, Executive Officer, Liverpool Plains Land Management Committee, 35 Abbott Street, Gunnedah, 2380, sworn and examined:

CHAIR: I know you have been here all day listening and I was hoping, very optimistically, that maybe there would have been a gap in the day and I could have got you on earlier but it did not happen, as you witnessed yourself, but we certainly look forward to hearing what you have to say.

I am advised that you have been issued with a copy of the Committee's terms of reference and also a copy of the Legislative Assembly's Standing Orders 3332, 333 and 334 that relate to the examination of witnesses. Is that correct?

Mr WALKER: That is correct.

CHAIR: Would you like to make a few opening comments?

Mr WALKER: Yes. The Liverpool Plains Land Management Committee is a farmer instigated and managed organization that is concerned with natural resource management, so this Committee is very much where our interests lie. The group started in the early nineties, at about the same time that landcare kicked off, in response to concerns about increasing salinity across the very productive Liverpool Plains landscape and also worries about flooding and soil erosion.

From that time the Liverpool Plains Land Management Committee has been very active in finding out what actually caused all these problems in our landscape and they sponsored and co-ordinated a lot of research and were very lucky to have a good relationship with CSIRO and universities. Every second PhD for a period there was done on the Liverpool Plains, so we have got a pretty good understanding of the processes that are going on there.

From all that we produced our catchment investment strategy, which I have got a very brief précis of for you all. That understanding that we have got of what is going on in the landscape has enabled us to work out the way we have to change our management so that the landscape is sustainable and also so that we can improve our nature conservation. We were pretty lucky in that area but of course there was a time in the early nineties when landholders or land managers were being told that we had made such a mess of Australia that we really should pack up, plant the whole thing to trees and stop farming it.

Luckily the was not the case there, there were just a couple of really quite simple things that we had to do on the Liverpool Plains and most of them involved enhancing productivity, not stopping productivity by adopting best management practices and things. The two things we had to manage were ground cover and perenniality – perenniality being the proportion of the plant species that are growing on the landscape that are perennial. That actually pretty well got the degradation issues covered.

The other thing that we had to do was try and look at improving the way we conserved nature so that our grandchildren would see the plants and animals that we all grew up with. Again, I think we have taken a different approach in many ways, because we think that the best way to conserve nature is to do it across the whole landscape on all farms rather than locking up bits of it as National parks and getting land managers, once they understand what they are doing, to incorporate nature conservation as part of their general farm management. To my mind that works very well.

Very briefly what we have been doing in recent years, following our catchment investment strategy, we have been looking at ways of providing incentives to farmers to adopt these better management practices. Environmental management assistance and things are mentioned in the submission but the thing that has really worked well are our land management tenders, where landholders, once they have got an understanding of what we are looking for, put up a project and the projects are funded competitively and sequentially for the ones that are giving the greatest public or greatest community benefit.

Here again, this one is a very recent document, only released in July this year of our land management tenders. Paul Trevethan, a little while ago, was talking about some of the problems of current funding and also of devolved grants previously. The farmers put their price up and the ones that give the best community benefit, we sign a contract with them and we have a system where we give them 30 per cent upon signing of the agreement and then subsequent payments are based on them achieving milestones in terms of the implementation of their project. There is a very strong incentive for the farmers to implement their project, they do not get more than 30 per cent of their money until they do that. In fact, it makes it very efficient in that the land owners drive the payments, in that when they get their work done, they know that they are due for the money, so they have got an interest. We do not have to push them to get their projects implemented, they push themselves because they are wanting for the money.

CHAIR: You mentioned something about 30 per cent up front. Do you have a start up fund?

Mr WALKER: Yes, 30 per cent to give them enough to start. Paul mentioned the problem of people trying to implement projects and then putting their invoice in and not having enough money to do it. Our 30 per cent is, if you like, is seed capital and thereafter they have to complete various stages of their project before they get further money.

That has actually worked very well. We have not had any projects that have not been implemented and the farmers themselves applaud the accountability of it all. They are often the ones who say they did not like the landcare system because the money was up front and often the fencing material sat in the corner of the paddock for five years, then they sold out and it went through the clearing sale. I think that overcomes that problem.

They are the introductory comments about where we are up to at the moment. We are working with the Namoi Catchment Management Authority closely. I think that there really is a position for community based organizations. One of the witnesses earlier also spoke about a little bit of suspicion to do with statutory bodies. I think that we can be seen as being very much for natural resource reform but at the same time, because we are locally based, we have a really high degree of trust with the community.

CHAIR: Where do all your funds come from?

Mr WALKER: We are just finalising implementing NHT projects.

CHAIR: You have got NHT, any other sources?

Mr WALKER: We are in the process of negotiating with the CMA to perhaps do project management work for them as a sub-contractor.

CHAIR: You certainly well and truly answered number 1. As I said before David, we do not sort of tease out all the questions, what the Committee has been doing is just to get some information based on the questions, and whether you give it today or give it later on, so as to expand on the submission that you have already lodged with us.

Mr APLIN: Some argue that sustainable land and water use is a matter of getting the balance between production and conservation right. Your submission asserts that there is a "broadly held view that productivity and ecological sustainability are mutually exclusive." Could you describe "broadly held" in the context, how broadly that is a view and what are the implications for agriculture if they are mutually exclusive?

Mr WALKER: Firstly I would say that we strongly believe that they are not mutually exclusive. In fact, I think that they are very dependent upon each other. Where we say that it is a "broadly held misconception" is probably that problem that farmers keep on talking about, how misunderstood they are by cities, how the media jumps on them for supposed bad practices, that they are said to be abusing the land and only using it for profit.

I think the “broadly held” bit certainly comes from the perception of how the city views farmers. I think there are also farmers that think that by being successful and profitable they cannot incorporate nature conservation into their activities and we would also disagree with that.

I suppose we would have to say that the acrimony of the native vegetation debate is probably added to that, where I think farmers have felt that they had the finger pointed at them for mis-management and their being told that they are going to have to lock up parts of their properties, which they therefore think or politically they take the stance that that means that they are having their economic activities impinged.

We do not necessarily feel that that is the case. We think that we can get the balance pretty right and the best production methods are also the most sustainable production methods.

CHAIR: Your involvement with the negotiation under the new legislation that comes into effect shortly, have you been happy with that, as a group?

Mr WALKER: Liverpool Plains is an area that was thoroughly cleared in the past and there is not a lot of desire locally to do more clearing. You go not far west of us and Walgett of course is a hot spot where people are wishing to do more clearing.

I think the fact that certain invasive species, the fact that they are natives has been a bit of a sticking point, but as I understand it, things like pine and even some of the eucalypts are now being considered not necessarily high quality native vegetation in their own right, and that there is some possibility of sensible management of them and in terms of our area, that is a very important thing.

Mr ARMSTRONG: Firstly David, thanks for the talk and these great brochures. I love this photograph of Sandy Blomfield at Caroona. Isn't that a great photograph?

Mr WALKER: That is pretty good soil washing away there, black soil.

Mr ARMSTRONG: Would you detail to the Committee the ways in which legislation is “perverse and inconsistent” and “rewards bad managers”?

Mr WALKER: There is a good example in our area where a very environmentally conscious farming family wanted to plant trees on the side of a hill which was a saline discharge area. We had very good reasons for doing this. At the time we had *Bothriochloabiloba* found on this area, which was listed in the threatened species list and firstly the listing of it was probably a bit controversial anyway because in that area it is found generally around stock routes and in all sorts of different places, not in heavily grazed areas admittedly, but good management was stopped by some legislation because this perceived threatened species – which was not addressing the salinity issues, they were actually prevented from addressing the salinity issues.

The other thing, people who have flogged their country over many years, perhaps they have over-cleared it and they do not have good ground cover, they are in the position of not being affected by any clearing legislation whereas people who have kept a good balance and have allowed diverse species and diverse plant communities to thrive on their property, and if they do want to change the way they manage bits of it, they are then caught up in the legislation. So good managers are not necessarily being advantaged by legislation and some bad managers are.

CHAIR: You have been listening to quite a bit of the evidence today and there have been a lot of comments about area in drought, for example. The theme you actually mentioned there has been repeated many times, that we seem to be rewarding maybe the wrong people or encouraging the wrong actions and so on.

When it comes down to drought, what is your view on the comment you may have heard throughout the day, that a lot of our drought assistance is poorly targeted I suppose is a good way of summing up what they have said, and what type of drought assistance? Obviously the one the Ian and

I would know very much about is the old transport subsidies which nearly died and came back again. What is your view on those?

Mr WALKER: I think the social implications of low income and the family impacts certainly have to be set to one side and I think people have to be looked after in a country like ours no matter what, but when it comes to the policy towards the farming business, I think in many ways we have got it wrong, in that we have not gone to the extreme of encouraging people to make hay while things are good and to put it away for the hard times. We come in with the bandaids when things are crook and I think the other thing that we do not do is that we do not make a prerequisite to access to some of these funds, good land stewardship, that people who have let their country get as bare as this table and have stock dying, are then saying I'm in dreadful trouble, whereas good neighbours beside them have either de-stocked while their country is still in good heart or else they have got good reserves of fodder on hand and they can lock cattle up and sheep up and feed them. The shotgun approach I think again tends to favour those that are least deserving.

Mr APLIN: Is it possible that some land is simply too marginal to sustainably produce a reasonable profit for producers and if so, how should this land be identified and then managed?

Mr WALKER: I think I have probably referred to one means of doing that, in that there should be basic levels of land stewardship that we should expect from ourselves and if people cannot make a living off the land without crossing the line, then it probably means that they are unviable. Generally speaking you cannot say that there are big parts of Australia that cannot be used. If the holding is large enough and their economies of scale are such, then I think people can probably survive and that comes to the old terms of trade questions, and it was spoken of earlier, the household blocks home maintenance areas in the old legislation which used to be a good living sixty years ago, but with terms of trade, you actually have to double your productivity every thirty years just to stay in the same place.

Therefore, we have to allow people to expand. It is only when they cannot expand, for whatever reason, that their property probably becomes marginal and under different management, generally speaking, I do not think it has to be marginal.

Mr ARMSTRONG: Just out of curiosity though, what has happened to the water table across Liverpool Plains in the last ten years, is it static, up or down?

Mr WALKER: Generally speaking, partly since we worked out what was causing it, and part of that was growing bad wheat crops on leaky soils on the sides of hills. Since we put in more permanent pastures, where that is happening, we have seen a significant drop in the water table. That, no doubt in the last few years, has been affected by the drought but the drought up there has not been as serious as it has been down in your country. I am very optimistic. We have got a lot more of the answers than we used to have and I think we are now addressing a lot of these issues. There is a fellow in the land management tenders brochure, when he adopted some of these better practices, he had water at the surface and now it is down to about four or five metres and heading down. I think it is heading in the right direction.

CHAIR: Earlier on Paul mentioned having people involved with a distrust of agencies and maybe we should be getting independent people, but in a lot of ways you, as a group, do a lot of the work that probably many years ago was directed down from government departments and so on. The fact that you have changed some wheat growing practices up there and so on, has there been a lot of resistance to your group driving these changes as opposed to, if the Government came out and made some suggestions along that line they would probably get the short shift.

Mr WALKER: There is resistance. The number of people, when someone adopts the good practices beside them and they have got fat cattle and grass this high and the fellow on the other side of the fence has bare paddocks and is not making any money, they say, gee he gets a lot of rain, that fellow. So there is resistance to change because people do not like to admit that what they have been doing for thirty years is not necessarily the best thing. I think the resistance to a group like us is less than when it comes directly from the Government but one of the strengths of our group is that we

work very closely with the agencies, the soil conservation people in the Liverpool Plains and we go to field days with them and they come to our field days. These same people are now, of course, employed by the CMA, so I think we work closely with them and I think we probably help them also by the fact that we are a community group. By working with them we give them public exposure in a user friendly way and they gain a bit of credibility that way. I think it is very much a two way street, that we get advantages from working with them and they get advantages from working with us.

Mr ARMSTRONG: The submission states that most land managers need financial and other related assistance to implement change. Do you see this assistance as being on going or do you see it as being transitional until reasonable levels of sustainability are achieved?

Mr WALKER: Given the terms of trade movement and economic pressures, I cannot see the need for it declining, especially when you take into account the other part of our submission, where we say that the true costs of production are not included in the prices that farmers receive, so whenever the consumer is getting cheaper food than he or she should, there is a need to transfer extra income to farmers one way or the other. I think the Government, through these types of incentives, is the most logical way to do it until we do have better systems of environmental accreditation. We have been involved in environmental management systems and as good as they are, they have not taken off like wild fire. People are not prepared to pay more money for environmentally friendly produced cabbages or cattle.

Mr ARMSTRONG: I think most of the speakers one way or another have referred to the same point, food is too cheap, which I guess comes down to market. It is only how well you buy and how well you sell and I think that out of this, if I may suggest or make the point, that one of the weaknesses in our overall system is the capacity to be able to extract more out of the market for the productivity of farmers.

CHAIR: That is certainly a point and also I said to you earlier on that we are going to ask you to answer these on notice but there is one thing in your submission about local government incentives. Would you like to comment on that now or would you like to take that on notice?

Mr WALKER: One preliminary thing now is that councils in our area are really under the impact of the water reforms, in that they are losing water licences as part of their rating base, so they are wondering how they are going to substitute that. I presume that one way or another we will work our way through that but local government in rural areas often do not have a terribly strong rating base and in order for them to provide incentives it is very difficult. They would like to.

Local government also historically have not had a lot of expertise in that resource management. They have been roads, rubbish and rates and they have been about building codes but they have not had the expertise on their staff that is necessary before they can really start to get their teeth into providing incentives.

CHAIR: Unless there are any other matters to be raised and Ian has flagged a discussion about the marketing issue there. I think you made some reference to it in your submission too.

Mr WALKER: Can I raise one more point before I go. I think something that has not been raised, and it is going to be a very interesting changeover in the coming decades, it is something that we are calling the McLeod's Daughters syndrome where people who are reasonably well off because of their real estate holdings in the city – I think it was said early that the middle is disappearing out of farming, the medium sized farmers – well a lot of those medium sized farms or perhaps half of them – half of what used to be a productive medium sized farm, is being bought by Tree Changers, McLeod's Daughters syndrome, for a lifestyle purpose but they are not just a hobby farm, they are big enough in that they are actually going to attempt to make a living from them and a lot of these people have no experience in natural resource management or agriculture and I think that the reduction in the services provided by such organizations as the Department of Primary Industries, the old Department of Agriculture, and the extension services that are being really wound back there, we are going to end up with a great heap of landholders out there who know very little about farming, who are not going to access professional paid advice. They are probably going to be relying on their neighbours or

whatever, but I am certainly very concerned that we are going to end up with big swags of rural New South Wales being managed by people with all the best intentions but who do not know very much and they could make a bit of a mess of it.

CHAIR: As opposed to the sort of rural residential group if you like.

Mr WALKER: Yes.

CHAIR: These are viable farms, in effect.

Mr WALKER: Yes and someone who is say, forty, their kids have left home but they have still got twenty years of their working life left, they go out and buy a farm and intend to run it as a business without enough knowledge. I am certainly concerned about the impact of that.

Mr ARMSTRONG: Can I just make one comment on that too. Is it fair to say David that much of that available advice, agronomic advice, etcetera, comes from employers who have a strong commercial interest in the selling field?

Mr WALKER: Yes.

Mr ARMSTRONG: There is very little totally independent advice available.

Mr WALKER: Yes.

CHAIR: I notice that these are individual case studies, these ones in the middle, which is something we will be drawing on.

We would like to thank you for coming forward and also sitting back and listening to a lot of evidence. I would like you to take the questions away and take them on notice because we would like to have an expansion of some of the items you raised in your submission.

We should formally table the reports and documents of the Committee and we will send you a copy of the Hansard asking you to make sure that you have been accurately reported. Thank you for coming along and not only giving your evidence here today but for sitting through all of the discussions held. It is good to get a broader view of what is being said and this gives you an idea of what comes forward before the Committee as far as evidence is concerned.

(The witness withdrew)

(The Committee adjourned at 3.05 p.m.)