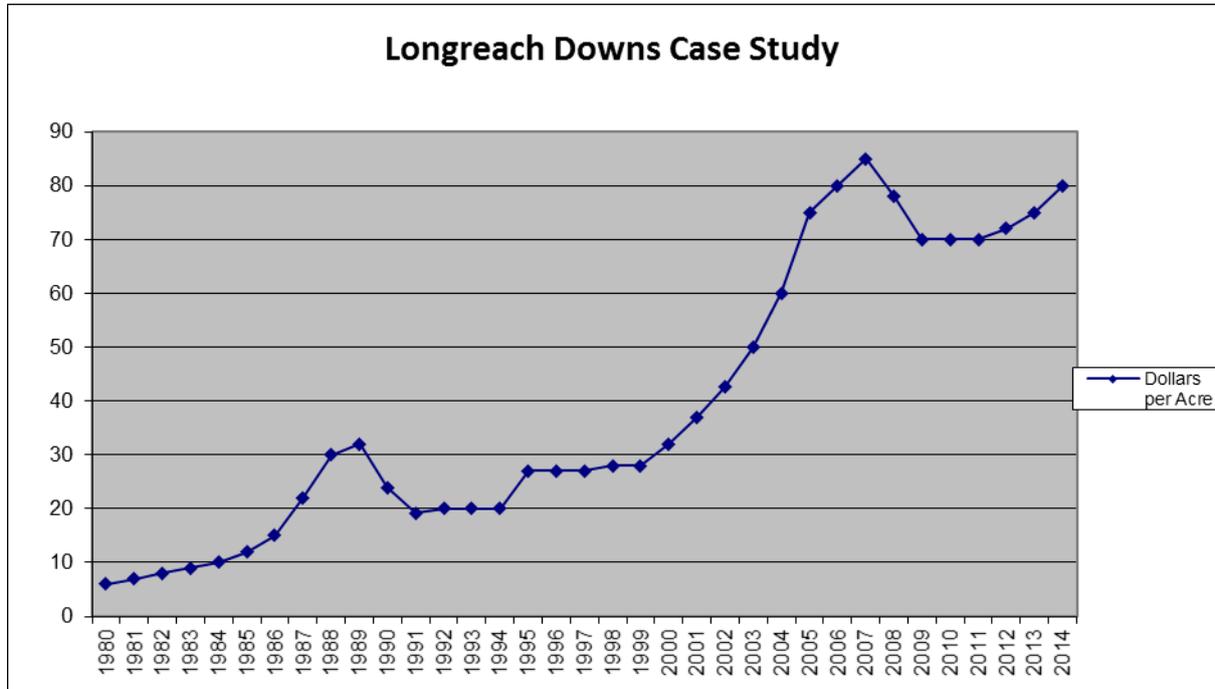


Submission Background

1.0 Capital Cost of Farm Land

One of the big problems we see in our area is the cost of land and the issue of tying so much capital up in the land to produce an income. This has become a major issue since 2000 as shown on the attached Values Graph based on a case study Longreach Downs property we have been reviewing values on since 1980.



Up until 2000 it could be argued that land values in the region were closely linked to commodity prices as you can see the wool boom of the late 80s and the impact of the removal of the wool floor price scheme in the 1990s and the short term lift in wool prices in the mid 90s. Land prices however from 2000 onwards seemed to have shaken off the link to commodity prices and even seasonal influences and the next major change in prices was GFC driven in 2008/09.

1.1 Reducing Returns

What this has meant that top 20 producers who were returning 10% on capital up to 2000, while continuing to achieve above average levels of profitability, are now struggling to keep in the 4-5% return range, while average producers will be returning <2% return on capital. This level of return is not sufficient to service debt on the significant borrowings required to buy land.

Land values obviously are influenced by market forces and as we can see the market forces now affecting land values in rural Qld are driven more by investment or "real estate" factors than by commodity prices or return on investment.

1.2 Two Components of a Farm Business

We can split a grazing business into its 2 components:

1. the actual grazing business (i.e cattle, plant and machinery)
2. the land ownership business

As 2 separate entities, it can be seen that the grazing business can be very viable and profitable with comparatively high returns until we add the burden of the capital tied up in land ownership. An analogy would be a town business who invests capital in growing the actual business and rents the building rather than have all his capital tied up in real estate. Generally a town business runs very successfully in rented premises.

1.3 Leasing vs Land Ownership

For agriculture in our area, leasing rural property rather than owning, does occur, but it is not a common occurrence. I consider that the viable returns from leasing (currently around 3.5 to 4.5 %) make it a more attractive option for retiring farmers to sell out at the “big money” (and invest off farm at say 6-7%), thereby adding to the overall industry debt burden. There are also problems with leasing from a bank perspective as normal lease agreements don't give them enough security to be able to lend to aspiring producers.

1.4 Solutions

Thinking outside the box for a moment – what if the tax treatment of income from leasing to agricultural businesses was made favourable enough that it became a viable realistic option for retiring farmers to retain the land but use the “very” tax effective income from leasing for retirement.

In this way the land ownership becomes a passive investment generating income and even a future income stream which could be passed on during estate planning. This might create another option for succession planning rather than having to sell the farm. It would be much easier and less costly to split the income stream to various heirs which could be done in a completely equitable way without the need for complex tax structures.

At the same time we would need to develop a leasing form/tenure that gave banks enough security to get excited about backing the lessee of the land to develop his agricultural business – could this be the role for QRAA in this – in theory the First Start loan can be used for leasing (and has been in a handful of cases) but again I think security is often the problem i.e. the leases QRAA has funded have mostly been short term leases which offer little security.

There currently exists in Qld the ability to register sub leases on titles – perhaps if we could work jointly with the banks on developing/refining this type of tenure to get it to a point where it is secure enough that the banks can lend to enable producers to build stock numbers, develop the leased block etc etc.

1.5 Other Countries

This is data I have tracked down off the net – I can't really vouch for how accurate or up to date it is but I found it very interesting.

In the USA where farm land is hugely expensive, 67% of medium to large (sales \$100k to \$500k) farmers don't own the all land they farm, 17% of VLF (\$500k + sales) don't own any land, 50% of farm land in USA is leased or owned by other than the famer who farms it.

Figures for Europe, again where farm land is very expensive, 35% of farm land is leased etc. The figures I have been able to get for Australia is that around 6% of farm land is leased in Australia.

2.0 Productivity and Drought Preparation

The concept I would like to revisit in this regard is similar to the old **productivity** interest subsidy, **not** the Exceptional Circumstances interest subsidy.

When I was first a financial counsellor back in the 1990s, there were 2 types of interest subsidy:

1. EC which probably did little to restructure or improve agriculture and possibly kept some unviable producers in the industry longer than would otherwise have been the case.
2. There was also a productivity interest subsidy where you could be subsidised on interest on funds borrowed to increase productivity. Now I understand the interest subsidy is a dirty word as far as governments are concerned but some form of incentive for productivity gains pre drought would be very effective.

2.1 Drought Emergency Water Rebate

For example at present there is funding available (up to \$45000 between state and federal) for emergency water under the current drought provisions. That is fair enough, but much of what I have seen in our area is water improvements that really should have been done over the past 20 or 30 years being funded by this “emergency” funding program. I know that is a big generalisation and of course there are also many examples of genuine “emergency” water situations.

2.3 Pre Drought Productivity Improvement

However, if that same level of funding had been available **pre** drought to offset some of the cost of planned development for productivity improvement/drought mitigation works, producers would have had the benefits of increased productivity leading up to the drought as well improved drought management capacity well before they got into the middle of the drought.

3.0 Final Comment

I struggle with the idea that drought is a natural disaster in the same way that a flood or cyclone is. We all know droughts are a fact of life in agriculture and we have to prepare for them. I sympathise with the government in having to develop a drought policy in the middle of the drought, but in some ways that is similar to farmers doing water improvements in the middle of the drought. Both would have been much better being done in good times in between droughts.

Any subsidy/incentive/payout must, must, must be linked directly to increased on farm productivity otherwise it is largely a waste of money.