



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



**HOUSE OF REPRESENTATIVES**

**PROOF**

**RURAL ADJUSTMENT  
AMENDMENT BILL 2009**

**Second Reading**

**SPEECH**

**Monday, 22 June 2009**

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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## SPEECH

**Date** Monday, 22 June 2009  
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**Questioner**  
**Speaker** Tuckey, Wilson, MP

**Source** House  
**Proof** Yes  
**Responder**  
**Question No.**

**Mr TUCKEY** (O'Connor) (7.27 pm)—In his second reading speech, the Minister for Agriculture, Fisheries and Forestry said:

The Rural Adjustment Act 1992 specifies that NRAC's main role is to provide advice on rural adjustment and regional issues including on whether areas should be assessed as being in exceptional circumstances (EC).

The purpose of the legislation, nevertheless, is to ensure some continuity in the membership of that board. Current arrangements require that members do not serve more than two terms. Consequently, four out of the eight members would find themselves in a situation of having to retire if this legislation were not passed—that is, 50 per cent of the board. As the member for Barker has just indicated, these are still very difficult times—new board members would come without the experience of past decisions—so there is some sense in this arrangement. Probably it would also make sense under these arrangements to seek the retirement, maybe voluntarily, of a couple of those members to start a flow of new members. The coalition has no objection to this proposal. However, the issues that concern me today—and we have heard about some of them from the member for Barker—are that the members of NRAC can only work according to the legislation as it exists. To my mind, it is highly deficient in allowing farmers to assist themselves, it is means tested and there are other aspects that typically militate against a careful farmer. It all sounds a bit silly to me

During our term in office a bus, termed the 'debt bus' was equipped with a lot of computers and sent out, originally, to some of the areas around Barker and other dairying areas to give assistance to people in distress resulting from exceptional circumstances, which are primarily drought based. The reception was such that the then minister decided he would send the bus up to the north-eastern sector of what was then my electorate—an area that had had three years of continuous drought and practically no crop production at all. When the bus got up there it was a political disaster because person after person went in hoping to get advice as to how they could be assisted and of course when the figures came up on the computer they were told they were far too wealthy to get help. When they looked out the window halfway through the growing season there was no crop at all but in most circumstances they had invested very large amounts of

money in their crop. Cropping is now dominating the agricultural scene, particularly in Western Australia. The fact is that farmers virtually buy their property back every two years if they get a total wipe-out because the investment in a crop is typically \$500,000. That is a problem. Here were these people confronted with crop failure and accumulating quite large debts but they did not qualify because, according to the net value of their farm and particularly the very expensive machinery they purchase these days to be viable, they were still rich. But if you were one of those farmers who had been on a spending spree and every time some distressed farmer sold his property you borrowed money to buy it then your net debt passed the threshold and you got 50 per cent of your interest rates paid.

Throughout the life of the Howard government we administered that and made some alterations in compassion for the circumstances that certainly existed. Notwithstanding that, in my mind it has never really served the purpose. That is no reflection on the members of NRAC. As I said, they are operating within their present legislative constraints.

I note that the government has limited the financial support for the existing EC programs for just one year. That might not mean that it is to be cut off, but I have written to the minister putting up my proposal that there is a better way. That better way is to implement an international solution called 'multiperil crop insurance'. The need for rain is one problem. The member for Barker mentioned frost. A constituent of mine is from a family that has been farming in their region for, probably, a century. They are losing their farm. The person who wrote to me complaining, I might add, about excessive interest rates said, 'We had a couple of dry years and then a super crop this past season. Then in three hours we lost the lot.' EC does not accommodate that—a severe frost at a certain stage of the development of wheat burns off the flowers and you are looking at a magnificent crop with no or very little grain in it. This was the final financial blow for these people. And they were not eligible under those circumstances for EC anyway. But were they able to insure on an ongoing basis they could, in my mind, always fund at least the input cost—that \$500,000 in round figures I mentioned—so that the next year they

are no worse off. They have made no profit but they have got cash in the bank to have another go.

A minute ago I mentioned interest rates. I have never been able to understand the thinking of a bank that says to people, 'Look, here is a loan; you are a good customer so it is at x per cent,' and things turn against the borrower and the bank writes them a letter saying, 'You have now become a bad risk; we want to add two to four per cent to your interest bill.' That is going to be a great help! You have just had a blow from the weather and suddenly your bank wants to charge you more than they contracted in the first instance. But if we put that in reverse and had a multiperil crop insurance system in place, I imagine that banks would, as they do with household mortgages, insist on the farmer covering themselves for that particular risk. The banks could be guaranteed at least to get their money back and as such should be able to levy much lower interest rates.

In fact, it is my view from research I have conducted, which I will refer to in a moment, that were there a significantly high enough participation rate the cost in percentage terms would probably be about the same as the interest increases that banks apply when they suddenly determine you are a bad risk. The reality is that banks could deal with customers who were fully insured as good risks and that would greatly discount the premium cost of insuring in this fashion. It is quite interesting because this has been researched time and again and there is always the argument that it would not work in Australia. It works throughout the world and it is compulsory in South Africa. You have no choice. Yes, many of the schemes are underwritten by government and in severe circumstances governments have been called upon to make a financial contribution.

My own view is that, on the figures that I was able to obtain over that period of 16 years or so, government have put about \$3 billion into exceptional circumstances. On the basis of ensuring just input costs, that amount would be sufficient to give a 100 per cent premium subsidy to all practising farmers. That is not the purpose of my comments, but in setting such a scheme up there is an excellent reason for government to start converting progressively, or however they want to, from budgeting for exceptional circumstances, as we know it, to offering to farmers who choose to ensure for multiperil crop insurance a rebate similar to the private health insurance rebate. Whatever the circumstances—be they lack of rain or be they fire, frost or hail, you name it—that would be covered in a single policy.

This issue was discussed at an inquiry during the period of the Howard government, and it said: 'No. You can't make it work.' The Western Australian government, to which I want to refer to directly, held a similar inquiry. I have been of the view that

the guidelines for these inquiries frequently guarantee that this scheme does not work. For instance, to make a condition that there should be no government component is, I think, ridiculous, particularly in the start-up phase. When I got some figures from the Parliamentary Library, I found that, over the 16 years, an average of 12 million hectares of wheat had been grown. My argument is that a tonne of wheat typically represents the input costs—in other words, to make a financial return, growers have to exceed a tonne per hectare return from their property—and so, when I do the calculations and look at the returns over the years for Australia, I find that it has had an average yield below a tonne per hectare. It is quite surprising how few years that applies to. But, nevertheless, it appeared to me that, had there been an insurance policy for all of Australia—in that case, arguably, every farmer would have been covered—the payout for the difference between a tonne per hectare and whatever the amount that was harvested might be would have been about \$2 billion. That is \$2 billion on the value of 20.4 million tonne of wheat. As I have already said, over that same 16-year period, the government expenditure for EC was about \$3 billion. That is simple arithmetics and it does not take account of profit margins or anything else of that nature.

But when I looked into it further, at the inquiry conducted in Western Australia, I noticed that the final report of the Multi Peril Crop Insurance Task Force also said that such a scheme would not work. It had come to the same conclusion that not enough farmers would participate in it. Of course, it is a fundamental of insurance that, if there is not a high level of participation, those who do participate are subject to very high premiums, and that clearly would not work. I have already made the point—and I do not propose that the scheme be compulsory, as it is in South Africa—that, if there were a viable scheme available for all those farmers who are requesting finance from a financial institution, there is absolutely no doubt that the bank would say to them, as it does to homeowners, 'Where in your budget is your multiperil crop insurance arrangements?'

Nigel Hallett, a colleague in the Western Australian parliament, has been doing a lot of work with the private sector. He has had surprising levels of interest from major international insurers that are already in this line of business. When the task force in Western Australia looked at the options and started to talk about a participation rate, they reasoned that people would not participate. They had sent out a survey and—I have forgotten how many farmers it was sent out to; let us say it was 500 or 600 farmers—and only 10 per cent replied. When farmers used to elect the directors of AWB, which was pretty important to them, only about 15 per cent used to vote. You cannot come to

a conclusion about what farmers might do by sending them a survey form. At the time, the interesting thing in areas of my electorate—that has been changed as a result of recent boundary changes—was that, having assessed a variety of take-up levels in a district like Katanning shire, with a maximum take-up level of 10 per cent, the task force predicted that a premium of 7.1 per cent would be required. But when they got to 40 per cent—and that is still less than half—that premium fell to 3.4 per cent. I would suggest that it could probably be discounted by a couple more per cent at least in interest rates. That is a pretty good result. Dalwallinu shire is known as a high-level wheat producing area. At a 40 per cent participation level, they got down to a premium cost of 2.7 per cent. That surprised me. I could give other examples from the table that was produced, but the whole thing about it is that this sort of premium level could be afforded for the security it would provide. That is only insuring at a cost of farming level.

I believe, if the government were interested in reform—and I have to pass a compliment, as I usually do, to the incumbent minister. He is the bloke who, with the aid of his colleagues, passed legislation to deregulate the wheat industry and he pointed out to us the other day—as I know—the benefits already accrued in that regard. But that is only the start of it. With the mere transparency that has now been created, suddenly growers know what their freight and handling cost is and, to quote one grower in my electorate, he said, ‘My God! It equals my fertiliser bill.’ The big campaign over there now is, ‘We want savings!’ Even their cooperative, their one-time single desk in freight and handling, is under huge pressure and they have been unable to arrive at a freight rate with the established rail system over there. That would never have been a question in the past: it was just a case that it went on rail and that was that.

What I am really talking about is if the minister wants to review a very necessary component of support for the agricultural sector—and might I add, when all the boasting was on here the other day about how we avoided a technical recession, anyone who studies the figures on exports will find that 5.4 million tonne of wheat was exported roughly entirely in the March quarter, as compared to 1.5 million tonne on average in previous quarters. The previous marketer was getting \$65 million to sell the crop and did not have any responsibility to achieve a price outcome. Furthermore, while it stayed in the bin, they were charging interest on the harvest loans they had advanced—tell me about it! What I am saying in the last couple of minutes is that there is a great opportunity here for the government to look at multiple crop insurance with a premium subsidy. There are complexities and there are questions—risk assessment, pricing of the premium, and I do not

suggest it should be the same everywhere. These are the things they might look at, things which would be great reform, and farmers would be looking after their own affairs and not having to prove that they were poor and needy to get government assistance.