



## Submission

### Standing Committee on Agriculture and Water Resources Inquiry into growing Australian agriculture to \$100 billion by 2030

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**Title:** Director and Founder

*Terms of reference: The Committee will inquire into and report on, the opportunities and impediments to the primary production sectors realising their ambition to achieve a combined \$100 billion value of production by 2030.*

#### **Acknowledgments:**

Latevo Farmers Mutual (LFM) thanks the Standing Committee on Agriculture and Water Resources (the Committee) for the opportunity to provide a submission.

LFM is 100% grower owned and is the only entity currently in Australia that has developed a sustainable Farm Income Protection model that can be transferred from the grains sector to all other Agriculture sectors.

#### **Attachments**

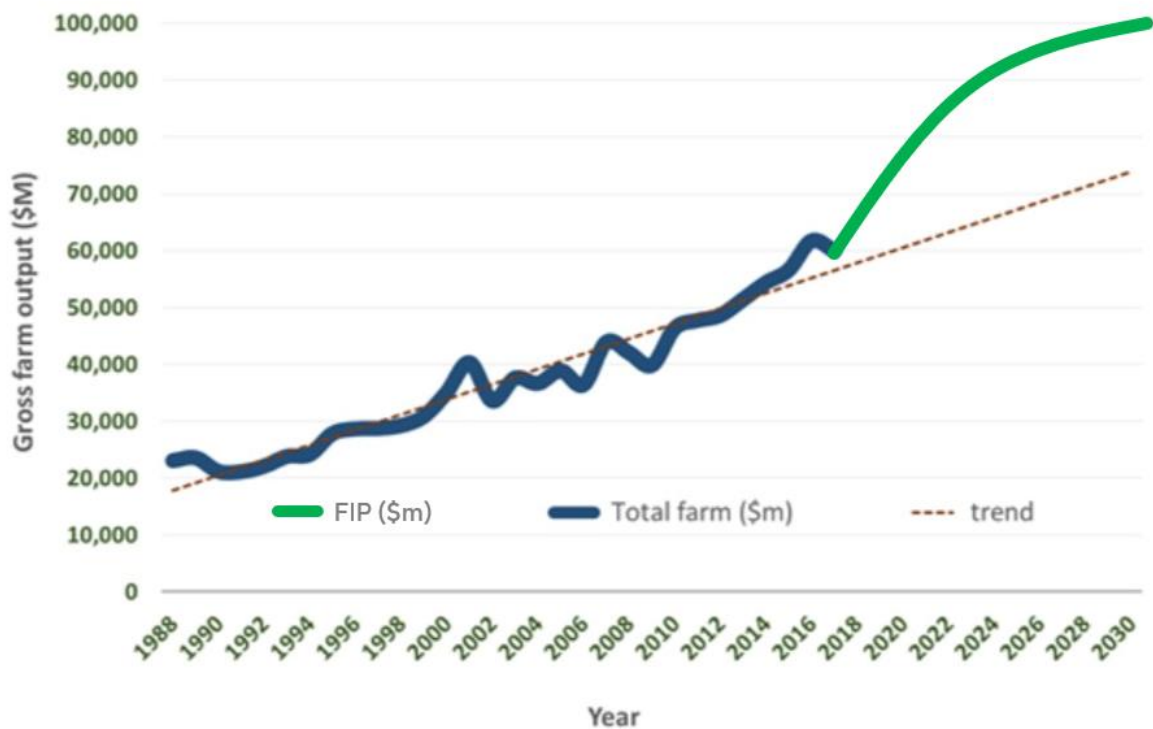
Hall Chadwick Queensland Independent Drought Policy Proposal



**\$100B by 2030 is unrealistic given current adoption trends.**

Projections based on a linear growth curve of the adoption of current farming practices will see the Australian Agricultural sector only reach circa \$70B by 2020. A number of submissions have concluded this, most notably the CSIRO (please see graph below).

The only way to reach the \$100B target by 2030 is to produce a policy framework that enables farmers to take more risk by growing higher yielding crops and pastures or increase the amount of crops and pastures that are grown.



**Source:** CSIRO standing committee submission with addition of LFM projection

**Industry High level Requirement:**

1. Dry Land Farmers - to target higher yields potentials at planting
2. Irrigated Farmers - More water in the Murray Darling Basin (MDB) to increase area planted to high value irrigation crops. (We will leave this to others to explain in detail)



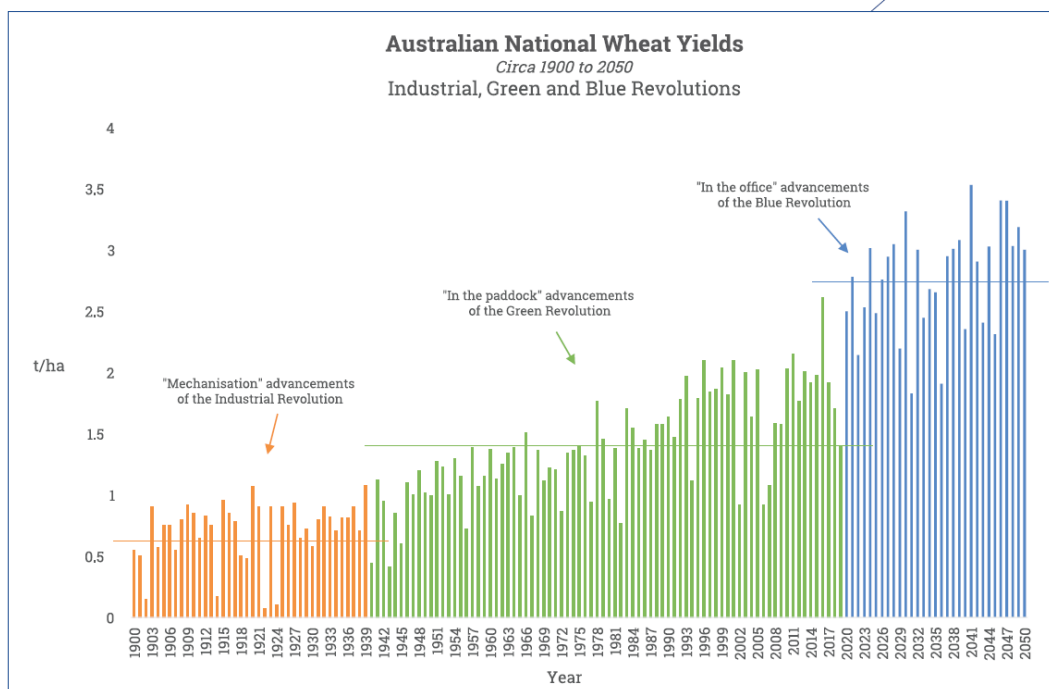
**Dryland Farming Systems:**

Currently farmers take an ultra-conservative approach to crop inputs. Due to the uncertainty of the seasons it is financially prudent to do so. Unfortunately, this leads to underutilization of current best practice technology in fertiliser, nutrition and disease management. CSIRO’s yield gap data provides insight that farmers yield potential is aligned to the decile 2 season which confirms this point.

To encourage farmers in low rainfall zones to spend \$50 extra and high rainfall zones \$100 extra in variable crop inputs before planting to potentially grow a higher yielding crop there must be some financial protection for them if the season turns against them.

If farmers spend the money on those inputs and the season fails they will get their money back in the form of a Farm Income Protection claim payment, no different to crashing your car and making a claim on your insurance. Hence if farmers have the ability to get their money back, if their extra investment does not work due to the season, they are highly likely to target the high yield as it offers a greater profit.

This principal was introduced and defined as The Blue Revolution by Sam Davies at the NSW Farmers Federation MPC I Farm Income Protection Summit this year.



**Source:** *The Blue Revolution* by Sam Davies

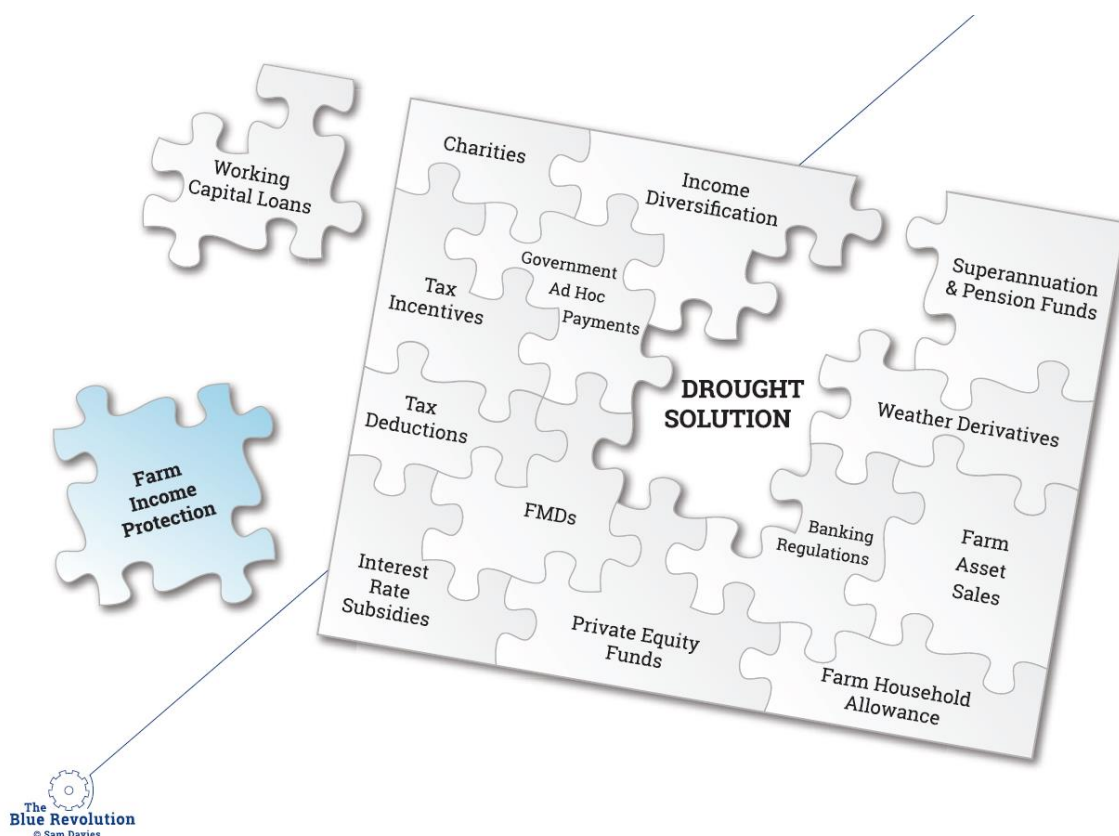


### What is the solution to reach \$100B?

To achieve the 100B target by 2030 we need the following:

1. Farm Income Protection (FIP) with an adoption rate of 80%
2. Working Capital Loans on provide the finance required - secured by the FIP contract

This was defined as the Blue Revolution at the NSW Farmers Federation MPCl/FIP summit this year.



**Source:** *The Blue Revolution by Sam Davies*

### Farm Income Protection:

Latevo Farmers Mutual (LFM) was launched this year out of the market failure of the Multi-Peril Crop Insurance. Our hybrid model of an individual revenue assessment and a weather derivative allows control over our Loss Ratios while the Latevo Crop Monitor Satellite system controls any potential moral hazard we face with farmers. Additionally, all 2019 members have signed up for a 5-year membership.



Our experience over the past 5 years is that to break the cultural approach to risk we will need some government assistance to see uptake in the 80% range. [Hall Chadwick Queensland](#) (HCQ) have completed a review and concluded the adoption of the NSW IPART direct stimulus and for the Federal Government to act as a short-term guarantor for the mutual until it gets established.

HCQ concluded that for a strategic \$1B investment into Farm Income Protection over 10 years an extra \$26B would be recovered in tax while achieving the NFF's \$100B target by 2030.

The opportunity exists to fund this investment by recovering uncollected taxes from the FMD funds. A simple one-off tax concession to allow farmers to withdraw FMD's prior to June 30<sup>th</sup> 2021 at a maximum of the lowest concessional tax rate (18 cents) will help free circa \$4B in funds for the rural sector and provide the government the funds to support the mutual.

### **Working Capital**

It is well accepted in the financial industry that capital is leaving agriculture due to its systemic risk profile due to the drought. Quite simply if we do not remove the risk from Agriculture investment the money will not be available to grow and reach the \$100B target.

LFM has been working with working capital providers to adopt a car loan style product, in short lending farmers up to 90% of the value of their Income Protection Risk contract.

The current offers are:

1. LFM not backed by Government - \$100M Loan book 9% – 12% rates
2. LFM backed by Government - \$2B Loan book 5% – 7% rates

By introducing new lenders in the Agriculture market banks will then pick up on the new secured lending concept and follow suit. We see working capital loans as the only way to fund the extra inputs required on annual basis to achieve the annual \$100B growth target.

### **Government Policies Required to reach \$100B 2030 Target**

1. Act as a Guarantor for the Mutual – All funds to be 100% repaid out of future surpluses.
2. Adopt IPART stimulus recommendation – Refer WHC Report for details.
3. Development Funds to broaden FIP to other Agriculture sectors - \$20M Drought Task Force.
4. Fund a National Education program for growers - \$2M Drought Task Force.
5. Address water efficiency issues in the MDB and adding new water to the system by introducing water from the northern river systems.

## SUBMISSION

### Inquiry into growing Australian agriculture to \$100 billion by 2030

House of Representatives Standing Committee on Agriculture and Water  
Resources

November 2019

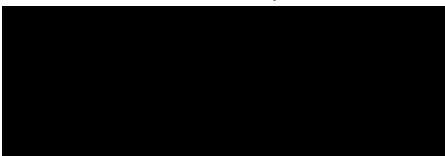
A key pillar of the NFF 2030 Industry Roadmap is Capital and Risk Management with Australian agriculture needing further capital for development that will require better management of financial risk.

Farm Income Protection should be an integral element of Australian agriculture's risk management strategy. It maintains cash flow which shortens the recovery time from drought and other catastrophic events, while providing security for lending working capital.

Attempts by international insurers to develop the Australian multi-peril market have not succeeded due to low take up rates but these products are an essential risk management tool. Rather than relying on insurers, we recommend Australian agriculture look toward themselves and develop self-funding risk protection programs, supported by short term government stimulus.

Should you wish to discuss further please contact me.

Yours sincerely,



Andrew Perkins  
Director  
Hall Chadwick Queensland

## Farm Income Protection for all farmers in Australia

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### **Independent Drought Policy Proposal September 2019**

Through the reallocation of the Farm Management Deposit (FMD) program, the Federal Government can release approximately \$1bn that can be used to stimulate the establishment of a self-funding farming risk protection program in accordance with the IPART (NSW) recommendations from 2016.

Farm Income Protection is common in the USA, China, India, Europe and Canada and is subsidised at varying levels by Government. With high levels of uptake by farmers in Canada, they are now migrating to private schemes. Attempts to introduce this type of protection in Australia over the last 5 years have failed, with take up of Farm Income Protection at less than 1% of winter cereal cropping farmers. International insurers who were supporting the introduction of these programs in Australia, have left the market due to market failure. The only remaining product is a grower owned mutual.

#### **Key points**

##### **Costs**

- Federal Government stimulus of the Farm Income Protection, capped at \$500m and spent over 5 years by subsidising 50%, 50%, 25%, 25%, 25%, of the annual premium funding, in accordance with the IPART recommendations. Individual farmer stimulus is recommended to be capped at \$50,000 in years 1 & 2 and \$25,000 for years 3-5. A copy of the IPART recommendations are at the following address.  
[www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Reviews/Multi-peril-Crop/Multi-peril-crop-insurance-incentive-measures?qDh=2](http://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Reviews/Multi-peril-Crop/Multi-peril-crop-insurance-incentive-measures?qDh=2)
- Federal Government contributions to the purchase of re-insurance for the first 4 years to put in place a stop loss program. Capped at \$400m.
- Federal Government provision of \$100m to "build out" the Farm Income Protection model for;
  - Summer crops
  - Rice
  - Cotton
  - Sugar Cane
  - Vegetables
  - Grapes
  - Livestock
- Total cost of \$1bn over 5 years.

##### **Benefits**

## Farm Income Protection for all farmers in Australia

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- Additional tax revenue over 10 years through increased farm productivity and regional multiplier effect.  
Benefit \$26bn over 10 years
- Savings on Drought and Exceptional Circumstances (EC) funding \$412m over 10 years based on estimated average current EC funding of >\$100m per year
- Total Claims paid over 10 years by The Farmers Mutual estimated at \$6.5bn (40% gross written premium payout ratio). This means \$6.5bn going into regional communities to offset the impact of drought and exceptional circumstances.
- Regional Investment Corp (RIC) can then use Farm Income Protection as security for lending for working capital and recovery.
- Risk compliance for bank lending to rural customers following the 2019 royal commission.

### **Integration with Industry**

- The National Farmers Federation (NFF) has released a “2030 Roadmap” with a plan to increase the value of agricultural production from approximately \$60bn to \$100bn by 2030.
- A key plank in this plan is that by 2030 90% of farmers will have taken up Risk Management Tools to provide better management of risk within their businesses.
- Without appropriate risk management the cycles of drought and other events and the associated recovery period, will hamper productivity and investment necessary to achieve this goal.
- The Farm Income Protection program for all farmers is aligned with this industry strategy. A copy of the NFF 2030 Roadmap is at the following address. <https://www.nff.org.au/read/6187/nff-releases-2030-roadmap-guide-industry.html>



Cost benefit of Farm Income Protection across multiple farm sectors - Australia



Increase in Ag Turnover from \$60bn to \$100bn as per the NFF Strategic Plan for growth in Agriculture

Value of Agricultural Production Crops	<a href="http://www.abs.gov.au/ausstats/abs@.nsf/mf/7503.0">http://www.abs.gov.au/ausstats/abs@.nsf/mf/7503.0</a>														
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Broad acre winter crop	17,866	0.7%	0.5%	10%	20%	40%	60%	70%	70%	80%	80%	90%	90%	90%	
Sorghum	237				10%	30%	50%	70%	70%	70%	70%	70%	70%	70%	
Rice	252				10%	30%	50%	70%	70%	70%	70%	70%	70%	70%	
Cotton lint (irrigated and non-irrigated)	1,681				10%	30%	50%	70%	70%	70%	70%	70%	70%	70%	
Sugar cane for crushing	1,624				10%	20%	40%	60%	70%	70%	70%	70%	70%	70%	
Vegetables	3,904					10%	20%	40%	60%	70%	70%	70%	70%	70%	
Grapes (total)	1,475					10%	30%	50%	70%	70%	70%	70%	70%	70%	
Nurseries, cut flowers and cultivated turf	1,572														
Fruit and nuts (exc grapes)	4,234														
<b>Total Crops</b>	<b>32,845</b>														
<b>Extensive Livestock</b>															
Cattle and calves	12,139				10%	30%	50%	70%	70%	70%	70%	70%	70%	70%	
<b>Sheep and Wool</b>															
Sheep and lambs	3,565				10%	30%	50%	70%	70%	70%	70%	70%	70%	70%	
Wool	3,458				10%	30%	50%	70%	70%	70%	70%	70%	70%	70%	
Other livestock	250														
<b>Total livestock slaughtering and other disposals</b>	<b>19,412</b>														
<b>Intensive livestock</b>															
Milk/Dairy	3,695														
Pigs	1,342														
Poultry	2,729														
Eggs	820														
<b>Total Livestock Products</b>	<b>8,586</b>														
<b>Total Agricultural Value of Production (\$m)</b>	<b>60,843</b>	<b>60,000</b>	<b>62,640</b>	<b>65,396</b>	<b>68,274</b>	<b>71,278</b>	<b>74,414</b>	<b>77,688</b>	<b>81,106</b>	<b>84,675</b>	<b>88,401</b>	<b>92,290</b>	<b>96,351</b>	<b>100,591</b>	
Growth in Value of Agricultural Output			4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	
Insured Revenue		125	93	1,947	6,678	17,117	28,846	39,766	43,190	48,162	50,281	55,242	57,672	60,210	
Improvement			14	292	1,002	2,568	4,327	5,965	6,478	7,224	7,542	8,286	8,651	9,031	
Multiplier Effect			35	741	2,542	6,515	10,980	15,137	16,440	18,332	19,139	21,027	21,952	22,918	
Tax Benefit			7	148	508	1,303	2,196	3,027	3,288	3,666	3,828	4,205	4,390	4,584	
<b>Farmer Cost</b>															
Protection Fees	4.00%	5.00	3.73	78	267	685	1,154	1,591	1,728	1,926	2,011	2,210	2,307	2,408	6,546
<b>Federal Government Cost (\$m)</b>															
Reinsurance Contracts (Cap \$400m)	2.5%			49	167	184	-	-	-	-	-	-	-	-	400
Protection Fee Subsidy	500			39	67	128	144	122	-	-	-	-	-	-	500
Build out risk program new industries				25	50	25									100
Saving on Drought Exceptional Circumstances				(3)	(10)	(24)	(39)	(51)	(53)	(57)	(57)	(60)	(60)		Based on average Drought and
<b>Total Cost</b>				22	40	1	(39)	(51)	(53)	(57)	(57)	(60)	(60)		0 Exceptional Circumstances
Forward estimate of additional gross revenue in regional areas				155,760											spending of \$100m per year
Forward estimate of additional tax revenues				26,561	10 years 2020 to 2029										
Federal Government cost to implement				1,000											
Less Savings on Drought and Exceptional Circumstances				(413)											
<b>Net Cost over 10 years</b>				587											
<b>Government Cash Flow</b>			7	126	468	1,302	2,235	3,078	3,341	3,723	3,885	4,265	4,450	4,584	
<b>Assumptions</b>															
Improvement in value of output due to FIP as risk management tool				15%											
Agricultural multiplier				2.5376											Australian Bureau of Statistics, 2001c, Input-Output Tables Australia
Average Tax Rate				20%											
Value of Ag Production in 2030				\$100bn											NFF Roadmap 2030 (see next page)
Take up of Risk Management Tools by 2030				90%											NFF Roadmap 2030 (see next page)

**Conclusion**

For a \$1bn investment, the Federal Government will receive additional tax revenues of \$26bn  
Taking into account savings on Drought and Exceptional Circumstances, the cost to Government is only \$588m for a \$26bn return over 10 years

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