

## **The policy foundations of public good conservation**

There will be some farmers that you would expect to be able to meet it [a newly imposed environmental standard] fairly easily; there will be some farmers that may face greater difficulties. So there will be an adjustment process.

At the end of the day, if some farmers cannot meet those costs [of imposed environmental standards] it is likely that they will cease farming. That in turn has an effect on supply to the market, which will bring the cost back to consumers, in any event. The fact that the government or other regulators may be imposing costs on farmers creating an adjustment pressure may require governments to pay adjustment assistance. But, as to who should pay for the new environmental standard, is a separate issue. The adjustment process is really separate from the fact that a new standard is being imposed.<sup>1</sup>

### **Introduction**

- 5.1 All governments within the Commonwealth have acted to address environmental degradation. In the course of doing so they have faced the same problem: how to obtain public good conservation outcomes with finite public financial resources. The result has been the development of a public policy framework that attempts to obtain the greatest public good conservation result from the available public financial contribution.

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<sup>1</sup> Mr Geoffrey Francis, Department of the Treasury, *Transcript of Evidence*, p. 545

- 5.2 This framework – or funding model – is used to allocate the financial responsibility for public good conservation activities between different stakeholders, typically, the landholder and the community. This is called ‘cost sharing’ or ‘shared investment’. This approach attempts to separate the public benefit of a public good conservation activity from any private benefit.

### **Limitations of the current policy approach as perceived by some landholders**

- 5.3 The current policy approach, and efforts to apply the SCARM principles, appear on the evidence to contain a number of defects. Some of the defects are the assumptions upon which the policy is based. Other defects are the anomalies the policy generates which lead to poor public good conservation results.

### **Is there sufficient knowledge to implement cost - sharing systems?**

- 5.4 The current policy approach generally appears to be based upon the capacity of governments (or their agencies) to attribute financial responsibility for public good conservation activities on the basis of actions performed. This in turn requires the accurate identification of the effects of actions that affect the environment, as well as identifying the person or people who perform the actions. As ABARE noted:

Identifying and valuing the private and public benefits from landholders’ conservation efforts is an important step in identifying any underlying rationale for government intervention in the provision of such services.<sup>2</sup>

- 5.5 At a minimum, the following information must be obtained:
- the environmental effects of a particular activity;
  - responsibility for those effects – who did the action; and
  - the beneficiaries of an activity – who benefited from the action.
- 5.6 The Committee collected evidence that indicates that it is doubtful that it is possible in many cases to identify, with the level of precision required, environmental effects, responsibility for effects and the beneficiaries of any action. It is therefore difficult to assign respective shares of the costs of

conservation activities in a way that satisfies landholders and the community.

5.7 For example, ABARE advised the Committee that:

This [assigning the respective shares of the costs of conservation] can be a complex task especially when the effects and costs of changes in biophysical outcomes are poorly understood or non-market effects are involved ...<sup>3</sup>

... there are several problems with the use of benefit cost analysis for actions that involve environmental and conservation issues. It can be quite complex to identify all the goods, services and amenities associated with conservation activities. In addition to the primary benefits and costs, there are likely to be secondary effects that would need to be valued. For example, providing water for environmental flows may also contribute to secondary benefits such as mitigating instream salinity levels or improving the quality of drinking water.

Furthermore, the valuation of non-market effects of alternative courses of action has always posed problems, even since the development of a variety of techniques.<sup>4</sup>

5.8 In the same vein, the Productivity Commission has said that:

Measuring the costs of degradation may not be straightforward, making it difficult to design or set the correct cost share under an 'impacter pays' approach. ... it may not be technically possible or cost effective to identify and charge impacters, for example, where biodiversity loss results from past practices or where the cause of biodiversity loss is 'non-point source' degradation ...<sup>5</sup>

5.9 In respect of attributing costs to beneficiaries, the task is little less problematic (than that of attributing costs to impacters), according to the Productivity Commission:

... identifying specific beneficiaries (other than the individual undertaking a conservation action) under the 'user pays' component may be no less difficult, especially where the precise value of biodiversity enhancement is difficult to assess or where intangible benefits are involved.<sup>6</sup>

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3 Submission no. 173, p. 9.

4 Submission no. 173, pp. 2-3.

5 B Aretino, et al, *Cost sharing for biodiversity conservation*, p. 28.

6 B Aretino, et al, *Cost sharing for biodiversity conservation*, p. 32.

5.10 This flaw in the current approach was identified in submissions. For example, Plantations Australia advised the Committee that:

Conservation activities carried out by landowners cover a spectrum, from those which are primarily aimed at ensuring the sustainability of the owners production system through to those which provide a significant benefit to the wider community generally, a public good. Allocating the costs of these conservation activities in an equitable manner is therefore difficult because of the need to identify the beneficiaries.<sup>7</sup>

5.11 These difficulties are not merely theoretical, but are evident in practice. This point was made in testimony by Mr Steve Hatfield Dodds. He testified that:

In practice, this definition is easier to say than to implement because often it is not easy to draw a boundary around those conservation activities or to separate conservation activities from other activities, particularly where conservation outcomes relate to the way management practices are undertaken rather than specific and identifiable actions which are conservation actions themselves.

It is also difficult to identify and assess the public dimensions of any particular action because they occur at different geographic scales and often involve long time lags. Retaining remnant vegetation, for example, may contribute to reduced erosion and provide shade for livestock at the farm level, but the potential public benefits include reduced nutrient run-off, improved water quality, reduced salinity, increased amenity for tourists and local people, and improved transpiration and groundwater impacts. Then there are the direct or indirect impacts of enhanced biodiversity such as enjoyment of the native wildlife and insect and pest control, and, finally, at the global scale, carbon sequestration and reduced greenhouse gas emissions. So it is quite difficult to identify that range of benefits and then to assess the magnitude of those for a particular action.<sup>8</sup>

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7 Submission no. 56, p. 4.

8 *Transcript of Evidence*, pp. 91-92.

- 5.12 The Upper Murrumbidgee Catchment Coordinating Committee (UMCCC) advised the Committee that a survey it conducted revealed that ‘there is (sometimes intangible) public good in nearly all conservation works, but valuing/measuring it is very complicated’. The Coordinating Committee went on to observe:

In most cases valuation requires lateral thinking and economic skills beyond that available to many landholders and landcare groups and there are many areas of public good where valuation in any meaningful way is almost impossible (eg retention of biodiversity, landscape appeal). Attempts to put a monetary value on such parameters are likely to be met with a sceptical community reaction and are at present not dealt with in any more than a very rudimentary way on funding application forms. The UMCCC suggest that attempts to attribute public and private benefits should only be attempted in areas where clear methodology and transparent processes are available.

The UMCCC questions whether the exercise of valuing public benefits is going to have worthwhile result or does it simply keep accountants and economists occupied?<sup>9</sup>

- 5.13 The CSIRO challenged the assumptions underlying cost sharing, and also went on to state that the uncertainty in this area was of continuing concern to landholders:

An important issue that is related to the provision of public goods, especially when environmental management considerations are central to their production, is determining the extent to which private self-interest is also being catered to. A naïve assumption underpinning much economic theory is that private producers will at least cater optimally to their own self-interest. Moreover, this will be done within an environment of near-perfect (or well-informed) knowledge of the transformation processes that link the outputs to all of the inputs associated with production. However, in the case of the environmental inputs to beef production, these linkages are neither well-defined or known with any certainty. In extremes cases, land and water degradation that impacts both on private and public interests remain issues of continuing concern. Therefore, part of the return to investments in environmental management, whether imposed or voluntary, will be captured by the private landholders themselves. Whether this private gain (insurance) is substantial or not is not really known.

This raises an issue that is a source of major contention with private landholders when defining and exploring the impact of providing public goods. Many landholders accept that there is necessarily a “duty of care” to maintaining their land resources in good condition and they do place private values on certain ecosystem services (e.g. clean water, shade, shelter, soil fertility, wildlife, rural amenity etc). Indeed, most landholders aspire to pass their resources on to future generations in better and more productive states than when they were acquired by the present generation of managers. It remains an open question, therefore, what is the magnitude of the flows of benefits that would fairly be apportioned between the private landholders and the wider community were these respective private and public values known.<sup>10</sup>

- 5.14 The Committee concludes that the present approach to cost sharing is based upon obtaining information that in many cases is not available. Where the information is available, the cost of, and time involved in, undertaking the cost-apportioning exercise may be so great as to undermine any determinations made. Where defensible information is not available to support a cost-apportioning exercise a level of uncertainty and arbitrariness may develop and may foment resentment amongst landholders.
- 5.15 Furthermore, where the information is readily available and where it can be easily used, for example in some sorts of salinity trading, the use of the ‘impacter pays’ approach may be warranted, other things being equal. However, as a basis for a comprehensive approach to apportioning costs, the current system does lack the most important element – clear information. As a result, it is incapable of fostering the confidence amongst landholders that the system requires in order to operate effectively.

### **Does a landholder’s own self-interest provide a sufficiently motivating reason?**

- 5.16 As mentioned already, in the evidence from the CSIRO, cost-apportioning exercises tend to assume that landholders will always do what is least costly and what will maximise their own interests. This is the rationale

behind the principle that, where private benefits provide a sufficient incentive, public funding is not appropriate.<sup>11</sup>

5.17 However, the Committee received many submissions from landholders who had voluntarily engaged in public good conservation activities while meeting the cost themselves.<sup>12</sup> The Upper Murrumbidgee Catchment Coordinating Committee reflected the views expressed in many submissions from landholders, concerning the factors that motivated them to undertake conservation activities:

(i) financial for landholder: “none initially”, “not in short term”, “some reduced stock loss”, “higher land value due to aesthetic appeal”, “increased asset value” “none yet only loss in grazing land but farm value will increase in time”.

(ii) intangible benefits to landholder: “satisfaction”, “sense of accomplishment”, “doing something for the environment”, “demonstrated it could be done independently”, “providing a balanced landscape”, “approval of various government departments”, “learning new techniques”, “satisfaction you have contributed”.<sup>13</sup>

5.18 The SCARM principles stipulate that public funding is not appropriate when it is thought that a landholder has a sufficient motivation from private (economic) benefits. However, some landholders will often persist with environmentally dangerous practices in order to stay in business, even if in the long run environmental factors force their farms to fail. Other landholders will stay in business, even though their incomes are very low and they do not have the financial capacity to move to more environmentally efficient, and ultimately more economically viable, land management practices.

5.19 The point that emerges from the evidence is that many factors motivate landholders, and not simply the maximisation of personal financial advantage. Landholders have to possess the wherewithal to move to more environmentally friendly land management practices, and other strong, countervailing motivations must not exist.

5.20 As a result, if the SCARM principles (which embody a view of landholders as perfect economic agents) are used purely to determine what projects are invested in and which are not, it is likely that many projects will be denied funding because there is a mis-match between the motivation the policy

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11 The explanation provided for this principle in the SCARM paper states that: ‘Where the landuser invests in on-ground works that provide site-specific financial benefits sufficient to make the investment attractive, then investment by government is not applicable’ (p. 4).

12 For example, Submission no. 155.

13 Submission no. 207, p. 3-4.

attributes to landholders and the reasons that motivate landholders in reality. Worthwhile conservation activities may not take place because none of the stakeholders wants to do them. The current policy approach makes that outcome all the more likely.

### Is the current approach to cost sharing an effective policy?

- 5.21 The approach to cost sharing underlying much policy is that those landholders causing environmental damage should pay for any damage they cause, and the beneficiary of conservation activities should contribute towards the cost. These cost-sharing principles are commonly called the polluter (or impacter) pays principle and the beneficiary pays principle.
- 5.22 A research paper prepared by staff of the Productivity Commission examined the conceptual framework for cost sharing for biodiversity conservation using these two principles.<sup>14</sup> The paper suggests that, under the polluter (or impacter) pays principle, any person whose activities have a negative effect upon the environment should, in proportion to the effects of their activities on the environment, meet the cost of activities that ameliorate or prevent damage to the environment. This principle generally implies that, unless governments are themselves polluters, they will not share any of the costs of conservation undertaken on private land. The cost of remedial activities will be borne by the person who makes the impact on the environment and in proportion to their impact upon the environment.<sup>15</sup>
- 5.23 The research paper notes that one of the benefits of the polluter (or impacter) pays principle is that it is very efficient, because it forces producers and consumers to bear the full costs of their actions in internalising the costs of harming the environment. The research paper observes that:

Depending on the characteristics of supply and demand, this in turn may raise the price of goods and services that damage the environment. This could improve resource use efficiency by removing production and consumption biases towards goods and services that previously 'overused' underpriced environmental resources.<sup>16</sup>

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14 B Aretino, *et al.*, *Cost sharing for biodiversity conservation: A conceptual framework*, Canberra: Commonwealth of Australia, 2001, p. 5; Productivity Commission - Staff Research Paper.

15 B Aretino, *et al.*, *Cost sharing for biodiversity conservation*, p. 15.

16 B Aretino, *et al.*, *Cost sharing for biodiversity conservation*, p. 16.



5.24 The beneficiary pays principle requires that anyone who benefits from an activity contributes to the cost of undertaking that activity.<sup>17</sup> Under this principle, where an individual or group of people benefit from some conservation activity, then they should meet the cost of the benefit received. Where the general community benefits, it may be appropriate for the cost to be borne by the community in general. The Productivity Commission research paper observes that this principle is relevant to encouraging voluntary conservation, when resource users do not have an obligation under existing property rights to adopt ecologically sustainable use of Australia's landscape, or where landholders do not have a financial incentive to undertake conservation work.<sup>18</sup> The beneficiary pays principle has two components. First, the user pays principle, which requires anyone who derives a direct, private benefit from an activity to contribute to the cost of undertaking that activity. The second is the beneficiary compensates principle. This principle requires anyone, including the general community, who derives an indirect benefit from an activity to contribute to the cost of undertaking it. Where the general community benefits, payments would be made on its behalf by government. Where benefits are localised, the community group who are required to pay may be the local council representing a beneficiary community, or a localised group of landholders, rather than the broader general community. As the research paper notes:

By requiring direct beneficiaries to share some of the costs of conservation, the 'user pays' component of this principle also reduces the call on government funding for conservation under the 'beneficiary pays' principle.<sup>19</sup>

5.25 The research paper also indicates how these two principles can be used to attain environmental outcomes through minimal public funding, as the report states, 'Public free riding on the delivery of public benefits provided through private initiatives is considered good policy because it embodies an efficient use of public funds':

The minimum expenditure required from governments for conservation largely reflects whether the 'impacter pays' or the 'beneficiary pays' principle is adopted. If the 'impacter pays' principle is adopted, the private sector meets the costs of biodiversity conservation and government's cost share is generally zero (unless the government is also an impacter). Under the 'beneficiary pays' principle, the minimum amount of government funding necessary may be greater than zero but need not

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17 B Aretino, *et al.*, *Cost sharing for biodiversity conservation*, pp. 18-19.

18 B Aretino, *et al.*, *Cost sharing for biodiversity conservation*, p. 19.

19 B Aretino, *et al.*, *Cost sharing for biodiversity conservation*, p. 20.

necessarily cover the full value of public benefits. Even low levels of government funding may be sufficient to encourage additional conservation by the private sector. However, governments should only provide funding where the benefits of doing so exceed the costs.<sup>20</sup>

5.26 The research paper sets out the limitations of these principles. For example, it is stated that the ‘impacter pays’ principle:

... requires costs to be identified, measured and apportioned across impacters. Costs incurred in meeting legal requirements, for example, would be the responsibility of individuals under the ‘impacter pays’ principle. Measuring the costs of degradation may not be straightforward, making it difficult to design or set the correct cost share under an ‘impacter pays’ approach ...

While the ‘impacter pays’ principle can be used to internalise the costs of biodiversity loss, governments may choose not to apply it in all cases because:

- it may not be technically possible or cost effective to identify and charge impacters, for example, where biodiversity loss result from past practices or where the cause of biodiversity loss is ‘non-point source’ degradation; and/or
- adoption of the ‘impacter pays’ principle is considered to impose excessive burdens on resource users.<sup>21</sup>

5.27 Implementation of the ‘beneficiary pays’ principle also faces a number of difficulties. The authors of the research report state that:

By requiring direct beneficiaries to share some of the costs of conservation, the ‘user pays’ component of this principle also reduces the call on government funding for conservation under the ‘beneficiary pays’ principle.

However, by requiring beneficiaries to pay for conservation, this principle can imply payment of subsidies from government, which ... could reduce incentives for firms to develop or adopt ‘environmentally friendly’ technologies. This is because their adoption by firms would result in a reduction in subsidy payments to them in the future.<sup>22</sup>

20 B Aretino, *et al.*, *Cost sharing for biodiversity conservation*, p. 17.

21 B Aretino, *et al.*, *Cost sharing for biodiversity conservation*, p. 28.

22 B Aretino, *et al.*, *Cost sharing for biodiversity conservation*, pp. 20 – 21.

- 5.28 The research report also states that the “beneficiary pays” principle has been criticised for being inequitable, and it has been described as the ‘victim pays’ principle because:

... in those cases where it requires those who ‘suffer’ the consequences of biodiversity loss to pay to stop the activities that cause the suffering or harm. ... This is because the ‘benefits’ of conservation often occur as costs of harm avoided.<sup>23</sup>

- 5.29 The research report also noted some other difficulties in applying the beneficiary pays principle:

AACM argues that it can be easier to identify beneficiaries and thus apply the ‘beneficiary pays’ principle than to identify impacters and apply the ‘impacter pays’ principle. However, identifying specific beneficiaries (other than the individual directly undertaking a conservation action) under the ‘user pays’ component may be no less difficult, especially where the precise value of biodiversity enhancement is difficult to assess or where intangible benefits are involved.<sup>24</sup>

- 5.30 The research paper also sets out a general caution for any cost-sharing system about the cost of determining the respective responsibility for shares of the costs:

As a general rule, the more detailed the method for valuing and attributing benefits, the more expensive and time consuming that method will be. The most appropriate method will reflect a trade-off between the cost of using the method and the scale of the net benefits expected to accrue.<sup>25</sup>

- 5.31 Cost sharing, as presently carried out, also faces a number of other difficulties. One difficulty that appears repeatedly in evidence is that the benefits of conducting a conservation activity appear to occur ‘off site’ and accrue to people other than the landholder undertaking the activities and meeting the financial and labour costs. As a result, landholders have insufficient motivation to undertake the sorts of public good conservation works required or, more broadly, the transition to ecologically sustainable use of Australia’s landscape. For example, the Productivity Commission research report referred to above states that:

The costs of conservation include the direct financial costs of conducting on-ground activities and the forgone rate of return from alternative uses of the land and resources used for

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23 B Aretino, *et al.*, *Cost sharing for biodiversity conservation*, p. 22.

24 B Aretino, *et al.*, *Cost sharing for biodiversity conservation*, p. 32.

25 B Aretino, *et al.*, *Cost sharing for biodiversity conservation*, p. 33.

conservation. The majority of these costs are likely to be incurred by individuals (such as landholders) at a local or property level where on-ground activities are implemented. Yet many benefits of biodiversity conservation (for example, environmental stability) are experienced at a national, as well as local, level. Further, while the current generation may bear the costs of biodiversity conservation, the long term nature of environmental improvements means that future generations accrue the benefits, at least in part. (Similarly, the current generation could reap any short term benefits of resource degradation and pass the longer term costs on to future generations).

Because different parties bear the costs and benefits of biodiversity conservation, some on-ground activities that are desirable from a national perspective may not occur because they do not generate net benefits to those implementing them — that is, they are not privately profitable. As a result, insufficient conservation may occur from a social perspective.<sup>26</sup>

- 5.32 The fact that landholders face the costs of conservation measures but do not reap the rewards was also put to the Committee by the NSW Farmers' Association:

The conclusion is that the private returns arising from additional areas of conservation on private land are, at best, negligible. Further confirming this, a recent report titled 'National Investment in Rural Landscapes' estimated that 100% of the benefits derived from land clearing controls and from the protection of rangeland biodiversity is public good benefit.<sup>27</sup>

- 5.33 One suggestion for addressing this issue is for the costs to be passed on to consumers. This was the suggestion of the then secretary to the Treasury, Mr Ted Evans:

Farmers, it can be fairly said, are the ones who cause the damage to the land. I think that cannot be disputed. But they do not do that for their own good. They do it because they are producing something for consumers. The benefit of what the farmers are doing goes primarily to the consumers, not to the farmers. And we can identify that benefit.

If there is a cost involved in the production beyond, say, the farmers' wages and profit, if there is a conservation cost to

26 B Aretino, *et al.*, *Cost sharing for biodiversity conservation*, p. 5.

27 Madden, Hayes & Duggan, *National Investments in Rural Landscapes*, a report prepared for the National Farmers Federation and the Australian Conservation Foundation, 2000.

maintain the land and to repair it, one could fairly say that that ought to be borne by consumers. There is no need for taxpayers to become involved. That would be a first step because here we have something that does indeed have some public good attributes—the land is a natural resource and belongs ultimately to the public, but its use is for the benefit of consumers.

A starting point as to who should pay for maintaining the quality of the land ought to be consumers. It can become complex, but it is a good starting point to recognise that maintenance of the quality of the land is a cost of production, like any other.<sup>28</sup>

5.34 Mr Evans testified that the rationale underlying using this approach is to create a change in the behaviour of consumers and landholders. The idea is that if the full cost to the environment is reflected in the cost of agricultural products, then the cost may well be higher than comparable imported products.<sup>29</sup>

5.35 The European Commission has noted that landholders may be driven to more environmentally dangerous practices in order to produce more and lower costs so that they can stay in business:

Pressures on farming, derived mainly from technological developments and liberalisation of markets, cause farmers to modify their farm practices to maintain and advance their businesses. Common trends include intensification, specialisation and concentration in profitable areas and marginalisation and even abandonment in difficult areas. These trends are likely to lead to a reduction in the provision of environmental and cultural public goods.

The application of new inputs, machinery, seed varieties, bloodlines, as well as improved efficiencies in processing, storage and handling facilities for commodity products, allow farmers the tools to increase production and reduce costs. In the absence of policy instruments to mitigate the message from the market, farmers are forced to focus on narrow economic concerns in considering whether to adopt new techniques. For all but a few (philanthropic) commercial farmers, the provision of public goods will hardly enter the equation.

Pressures on price lead farmers either to cut costs or to increase yield (or both). If this process is unchecked by public policy, farmers can be tempted to adopt any means to increase yields and

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28 *Transcript of Evidence*, p. 543.

29 *Transcript of Evidence*, 544-547.

output. This process may lead farmers to destroy landscape features, in order, for example, to enlarge field size, and increase use of inputs, notwithstanding the negative impact on nutrient-adverse wild plants and the risk of pollution events. In addition, many farmers may find themselves on a competitive and technological treadmill: the fact that one farmer in a region derives economic benefit from using a new technique, means that all farmers have to follow in order to maintain their competitiveness.<sup>30</sup>

5.36 Some evidence before the Committee suggests that attempting to cost share by passing some of the environmental costs of production onto consumers through product prices, may not achieve the hoped-for results.

5.37 Furthermore, a practical flaw in the 'cost flow-on' approach is that it is vulnerable to shifts in commodity prices. This was pointed out to the Committee by the Goulburn Broken Catchment Management Authority:

Problems with the cost-share (for example, the fencing incentive of \$1.20/m provided under the Commonwealth's Bushcare Program represents as low as 10% of the total cost of the project) and a long period of depressed commodity prices has made investment in public-good activities by most landholders impossible from a short-term survival business management perspective.<sup>31</sup>

5.38 The other side of this issue is that if commodity prices rise then the domestic market may be deprived of agricultural produce, and this will lead to an increase in prices and possibly inflation. Cost sharing can therefore expose the domestic economy to various destabilising pressures.

5.39 The Committee believes that the view of the Conservation Council of the South East Region and Canberra is to the point:

... the Commonwealth spends far too much time worrying about public versus private benefit. We believe that the Government should provide financial assistance to landholders to undertake activities that have a public benefit, in this case improve Australia's public good conservation effort, whether or not there are additional private benefits. Many excellent proposals that would have enormous public benefit have not been funded under the NLP and NHT because of the perception that there will also be private benefit to the landholders involved.<sup>32</sup>

30 European Commission, *Agriculture's contribution to environmentally and culturally related non-trade concerns*, International Conference on Non-Trade Concerns in Agriculture, Ullensvang, Norway, 2-4 July 2000.

31 Submission no. 206, p. 3. Also noted in submission no. 197, p. 5.

32 Submission no. 82, p. 6.

- 5.40 The Committee concludes that where costs can be easily and transparently identified, and attributing costs will not lead to a reduction in the conservation effort or market instability, landholders should contribute towards the costs of conservation activities. Since these activities will be largely implemented by landholders, the landholders' uncompensated time and effort will often be contribution enough. At the end of the day, attributing costs must be seen not as an end in itself, in order to prevent a landholder obtaining an unearned benefit, but rather as a tool to use to procure a conservation outcome.

### **Does current policy accurately reflect the nature of land use?**

- 5.41 Underlying the current approach to funding public good conservation activities are assumptions about the way that land is used. According to AFFA:

Australia is promoting internationally our 'landcare' approach of assisting local and community landcare groups to assume responsibility for the sustainable management of their own resources. The landcare approach is then complemented with government efforts to facilitate action, provide leadership and target public investment in the public interest.<sup>33</sup>

- 5.42 According to AFFA, the underlying approach is that assistance from governments to implement systems of sustainable land use must be such that the assistance does not act to unduly distort trade by subsidising agricultural production. This approach involves empowering local communities so that they are the agents and beneficiaries of change from ecologically unsustainable forms of land management to sustainable ones, while not supporting their economically productive use of the land. A distinction is drawn, therefore, between the economically productive use of land (and ways in which production may be promoted), and other non-economic uses of land.

- 5.43 The approach to land use adopted in Australia is contrasted, AFFA advised the Committee, with that adopted in Europe:

Another approach to resource management being promoted in international fora by countries in the European Union and Japan involves the concept of the "multifunctional character of agriculture and land". This involves a recognition that in addition to agricultural production there are other unpriced benefits from

agriculture including environmental values, rural amenities, cultural values, rural employment and rural development.<sup>34</sup>

- 5.44 AFFA informed the Committee that this approach to land use was seen as a subterfuge for hidden subsidies:

The concept of multifunctionality being promoted by the EU and Japan is seen as a mechanism to justify the continued subsidisation of agricultural production. Australia has opposed this approach on the basis that where governments need to act to protect the environment or to promote public good conservation this should be done in a way that promotes ecological sustainability and does not unduly distort trade by subsidising agricultural production.<sup>35</sup>

- 5.45 It is outside the terms of reference of this inquiry to assess the claim made by AFFA that the concept of ‘multifunctionality’ is used by the EU as a mechanism to justify the continued subsidisation of agricultural production. The Committee does note that the EU has made a commitment to reduce the subsidisation of agricultural production, as a key element in the reforms of the EU’s CAP.<sup>36</sup> However, concerning the nature of land use, it appears to be well accepted by stakeholders that land use in Australia is multi-functional: that, in effect, we practise in Australia, multipurpose land management. For example, the Productivity Commission advised the Committee that:

Nature conservation involves a number of activities including the protection, continuance or restoration of flora and fauna, land and water, ecosystems and landscapes. Nature conservation may be important for both its use and non-use values. Use values may include direct consumption and recreational benefits, while non-use values may incorporate existence, aesthetic and cultural values<sup>37</sup>

- 5.46 The *National framework for the management and monitoring of Australia’s native vegetation* states that:

The benefits of improved approaches to native vegetation management and monitoring are not only environmental. Important social and economic benefits are also derived from sustainable native vegetation management.<sup>38</sup>

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34 Submission no. 238, p. 6.

35 Submission no. 238, p. 6.

36 European Commission, *Fact-sheet: The CAP reform – A policy for the future*.

37 Submission no. 189, p. 2.

38 *National Framework for the management and monitoring of Australia’s native vegetation*, p. 2.



5.47 The National Framework then goes on to list the environmental, social and economic benefits that accrue from native vegetation management. The National Framework states that:

Social benefits include:

- providing places of scenic beauty;
- providing sites for tourism and recreation;
- providing places for research, education and scientific purposes;
- maintaining the distinctive Australian landscapes.<sup>39</sup>

5.48 The National Framework then concludes that:

Native vegetation contributes to the natural values, resources and processes of biodiversity, soil and water resources, hydrology, land productivity, sustainable land use, and climate change. It also contributes to natural and cultural heritage, and indigenous people's interests.<sup>40</sup>

5.49 Underpinning this framework is a basic set of principles including:

Recognition that all vegetation management should be based on the overall goal of Ecologically Sustainable Development which recognises environmental, economic and social values.<sup>41</sup>

5.50 The concepts of 'multifunctional land use' and 'ecologically sustainable development' are not necessarily in conflict. What has been asserted in evidence provided to this inquiry is that Australia does not adequately support landholders in respect of the non-productive land management duties that they have. As a result, landholders in this country face considerable costs from mandatory public good conservation measures that are not faced by landholders in either the European Union or the United States.

5.51 Evidence provided to this inquiry indicates that the additional costs faced by Australian landholders reduces the viability of Australian farms. This evidence also suggests that, in order to remain competitive and to stay in business, Australian landholders are sometimes forced to engage in environmentally dangerous practices. Conservation policies in this country, in effect, impose a duty upon our landholders, provide a subsidy to foreign producers of agricultural products and, in doing so, degrade the Australian environment.

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39 *National framework*, p. 2.

40 *National framework*, p. 2.

41 *National framework*, p. 11.

5.52 Even though the multi-purpose nature of ecosystem use is recognised in some quarters, evidence was provided that it is often ignored in practice. The Five Ways Landcare Group advised the Committee that:

... there is great consideration placed on the social benefits of conservation measures, but a determined refusal to pay for this consideration. Words such as *providing* and *maintaining* all imply that some maintenance of these sites will be required, some ongoing commitment by the landholder to preserve this native vegetation. Funds are freely available for research into the retention of native vegetation and all manner of conservation issues that will support the Government's position on conservation; education of urban dwellers to the benefits and scenic attributes of this wonderful vegetation – it would seem that the need for the maintenance aspect of our 'unique Australian landscape' will be borne by the individual landholders!<sup>42</sup>

5.53 The social and wider implications of ecosystem use are also ignored when applications to clear are considered, as this evidence from Mr David Hartley of the Western Australian Department of Agriculture indicates:

**Mrs VALE**—Could I ask through you, Mr Chair: is it a consideration, when you get a notice of intent to clear, as to the viability of that particular property for the farmer if he is refused? Is that taken into account in addition to the environmental considerations that you look at—the land degradation, et cetera? Is the economic loss to that particular farmer a consideration that is part of your decision-making process?

**Mr Hartley**—No, it is not. Under our legislation, we are required to make a decision on the basis of land degradation, and the social or economic implications of that are not considered.<sup>43</sup>

5.54 The Committee is not suggesting that social or other considerations could provide a justification for clearing land or providing a subsidy for agricultural production. Rather, the evidence suggests that a refusal to clear land should take account of the social and other effects upon landholders. As will be suggested in the next chapter, if those effects are serious enough, then the landholder should be eligible for various forms of assistance to mitigate the effect of a land clearing refusal.

5.55 The evidence provided to the Committee indicates that the current policy leads to a narrow focus on attributing responsibility and cost allocation when conservation activities are planned and evaluated, and funding

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42 Submission no. 124, pp. 6-7.

43 *Transcript of Evidence*, p. 379.

principles are developed. A broader conception of land use, as reflected in the evidence received, would appear to suggest different approaches to funding and a greater likelihood of positive outcomes for public good conservation.

- 5.56 The Committee believes that policies and the way that they are implemented must be consistent with the practices in, and aspirations of the community. With respect to the use of land, policies to promote public good conservation should see land as providing a diverse range of ecological and social services. These are services that the community has shown a willingness to support and to fund through taxation, and that willingness should be reflected in the diversity of programs supported.

### **Do international agreements preclude outcome-oriented natural systems management policies?**

- 5.57 Information provided to the Committee by AFFA suggests that a major consideration in developing principles for public funding of public good conservation activities is that the funding not be seen as, and not operate to be, a subsidy for agricultural production.<sup>44</sup> The argument is that public support for conservation activities could constitute a subsidy for production, and undermine the strong position Australia has taken in international trade negotiations to promote trade liberalisation and free trade. This consideration is also reflected in research conducted by the CSIRO:

Consistency with national competition and trade policies required that costs associated with meeting a landholder's 'duty of care' are incorporated into and seen as normal costs of production. In the course of achieving consistency and redefining obligations, transitional arrangements can be justified.<sup>45</sup>

- 5.58 Research conducted by the Committee indicates that public support for conservation measures is unlikely to violate any free trade agreements or World Trade Organisation rules. Nor would targeted subventions constitute a subsidy for production. For example, the World Trade Organisation states on its internet site that:

Measures with minimal impact on trade can be used freely — they are in a "green box" ("green" as in traffic lights). They include government services such as research, disease control, infrastructure and food security. They also include payments made directly to farmers that do not stimulate production, such as

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44 Submission no. 238, p. 6.

45 C Binning and M Young, *Motivating people*, p. 15.

certain forms of direct income support, assistance to help farmers restructure agriculture, and direct payments under environmental and regional assistance programs.

Also permitted, are certain direct payments to farmers where the farmers are required to limit production (sometimes called “blue box” measures), certain government assistance programs to encourage agricultural and rural development in developing countries, and other support on a small scale when compared with the total value of the product or products supported (5% or less in the case of developed countries and 10% or less for developing countries).<sup>46</sup>

- 5.59 On the basis of this information, the Committee concludes that the support required in Australia to foster the development of public good conservation activities and the transition to ecologically sustainable land management practices would not undermine the free trade stance adopted by successive Commonwealth governments; nor would it jeopardise Australia’s ongoing opposition to subsidies for agricultural production.

### **Should incentives be used to promote conservation activities?**

- 5.60 In general, the present policy arrangements contain few positive incentives to motivate landholders to engage in public good conservation activities, or to make the transition to sustainable natural systems management practices.
- 5.61 Many submissions from landholders called for positive incentives to promote conservation activities.<sup>47</sup> Such incentives are seen by landholders as distinct from compensation for lost production or compensation for income lost through the inability to use land as intended. For example, the CSIRO advised the Committee that, ‘Present incentives for tree retention and planting, while appreciated, are totally inadequate for the purpose of promoting large-scale investment in conservation on private land’.<sup>48</sup>
- 5.62 When farm incomes are considered, the need for incentives becomes more apparent, because many landholders are not in a financial position to undertake the conservation activities required. For example, ABARE estimated that in 2000-2001, 49 per cent of broadacre farms in Australia had cash incomes less than \$25 000 and in the same year ABARE estimated that 76 per cent had profits of less than \$25 000. In Western

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46 World Trade Organisation, ‘*Agriculture: fairer markets for farmers*’, [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agrm3\\_e.htm#SPS](http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm3_e.htm#SPS)

47 Submission no. 154, p. 9

48 Submission no. 154, p. 9.

Australia, which has significant salinity problems and requires substantial remedial action, 87 per cent of farms had profits of less than \$25 000.<sup>49</sup> The following table makes the point clearly.

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49 ABARE, *Australian Farm surveys report, 2001: Financial performance of Australian farms, 1998-1999 to 2000 – 2001*, Canberra: Commonwealth of Australia, 2001.

**Table 5.1 Average per farm income and farm business profit 1998 – 2001**

<b>Agricultural Activity</b>	<b>Farm cash income – 1998-1999</b>	<b>Farm business profit – 1998 – 1999</b>	<b>Farm cash income – 1999 – 2000</b>	<b>Farm business profit – 1999 - 2000</b>	<b>Farm cash income – 2000-2001</b>	<b>Farm business profit – 2000-2001</b>
Wheat and other crops	87,000	22,471	94,820	8,090	93,300	9.800
Mixed livestock - crops	46,168	-13,323	58,380	-5,860	58,600	- 5.900
Sheep	14,874	-30,420	27,060	-20,020	42,800	- 4.700
Beef	42,276	-7,431	42,090	-4,400	51,800	9.100
Sheep – beef	21,255	-27,396	30,410	-17,550	36,700	- 2.800
Broadacre	45,389	-9,361	52,570	-6,630	58,100	1.500
Dairy	67,920	4,855	70,420	-7,350	57,100	- 9.000

*Source* ABARE, *Australian farm surveys report, 2001: Financial performance of Australian farms, 1998-1999 to 2000-2001*, Canberra: Commonwealth of Australia, 2001, p. 4.

- 5.63 This information would support the view put to the Committee by Ms Bernadette Lawson that, without incentives, public good conservation activities would be diminished:

... My experience has shown that land-holders will protect an area of vegetation if they are not going to lose anything. If they are going to gain something by pushing a tree over, then they will push that tree over with no regrets. It comes down to economics versus the environment.<sup>50</sup>

- 5.64 The cost of public good conservation is brought out clearly in this example, provided by Mrs Jenny Blake:

We have a friend along a southern NSW river with a piece of land identical in soil type but half is native vegetation, the remainder has been cleared. The cleared land has the potential to yield \$1,000/acre/year whilst the native vegetation yields \$10/acre/year. The financial loss in that instance is huge.<sup>51</sup>

- 5.65 Failure to provide adequate incentives is often blamed for the poor implementation of public good conservation programs by private landholders. The NSW Farmers' Association referred to research conducted by Charles Sturt University that examined options to conserve remnant native vegetation. The Association advised that:

The conclusion was that conservation practices may not be economically rational in the short, medium or long-term, as the direct and opportunity costs associated with the conservation practices clearly outweigh the benefits. The report concluded that "Any policy approach to achieve conservation objectives for remnant native vegetation clearly requires significant financial incentives for landholders to undertake conservation activities."<sup>52</sup>

- 5.66 The Farmers Association went on to provide additional support for its view, claiming that the situation had been summarised by other researchers who had concluded that 'Biodiversity conservation, particularly in relation to core areas, places much greater demands on landholders than land conservation, while at the same time offering little, if anything, in terms of immediate market rewards.'<sup>53</sup>

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50 *Transcript of Evidence*, p. 509. Ms Lawson is a revegetation project officer for the Mid-Upper South East Local Action Planning Committee of South Australia.

51 Submission no. 197, p. 8.

52 Submission no. 177, p. 15. Miles, Lockwood, Walpole and Buckley. Report 107 CSU. 1998.

53 Submission no. 177, p. 15. D Farrier, in "A role for Private Landowners in Conserving Biological Diversity", University of Wollongong, 1996.

5.67 The Productivity Commission reinforced this conclusion in its submission:

Generally, private sector nature conservation has tended not to occur where the links between the conservation and commercial gains are unclear — where environmental services have no apparent role in commercial activities. For instance, there has been little financial incentive for private agencies to conserve flora and fauna of non-commercial value, or to conserve ‘in situ’ ecosystems where their private benefits are unclear (even if they have an intrinsic value to many in the community).<sup>54</sup>

5.68 AFFA also indicated that landholders may not implement public good conservation measures because of their inability to capture a benefit:

Public good conservation ... is a concern for governments because markets based on private interests alone tend to result in an under-supply of these goods. The source of the market failure is that those who bear the costs of providing these public goods aren't able to fully capture all the benefits derived from them.<sup>55</sup>

5.69 A similar reason was provided by ABARE, who also suggested a remedy, intervention by government:

... one reason why investment in conservation on private land may not be made is that these actions may generate significant external benefits which are not captured by the individual bearing the cost of the investment. In the presence of these external benefits, relying solely on market based incentives for individuals to invest in public good conservation is likely to lead to a less than socially optimal level of such actions. This provides an underlying rationale for government intervention.<sup>56</sup>

5.70 For the CSIRO, the solution was also intervention by government, using incentives or regulations:

Economic theory suggests that landholders may (or may not) over-supply private goods, but are more likely to under-supply public goods in the absence of appropriate incentives or regulations.<sup>57</sup>

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54 Submission no. 189, p. 3.

55 Submission no. 238, attachment 3, p. 1.

56 Submission no. 173, p. 9.

57 Submission no. 154, p. 2



5.71 Although economic considerations provide significant barriers to landholders engaging in public good conservation activities, they are not the only barriers. The CSIRO also advised the Committee:

The economic theory related to public good provision suggests that, even in the presence of perfect knowledge, private landholders will be reluctant to promote public good outcomes beyond a point which is also consistent with their own self-interest. However, economically rational limits are not the only barrier to public good investment. Many serious management and personal factors are also involved.<sup>58</sup>

5.72 The effects of these other barriers can also be mitigated through the provision of financial and other forms of incentive, such as management assistance, information and assistance from extension officers.<sup>59</sup> Typically, however, the incentives envisaged are small, targeted payments used to motivate landholders to engage in public good conservation by reducing the negative financial effect of such activities.<sup>60</sup>

5.73 Evidence provided to the Committee would seem to suggest that the failure to provide realistic and motivating incentives may have led to a situation where public and private good conservation activities do not occur to the extent required by the environmental problems facing the nation. For example, even if a landholder is considered *by officials* to have sufficient financial incentive to engage in conservation activities that may also produce a public benefit, the landholder may nevertheless refrain from such activities. The landholder may not, for example, be in a financial position to undertake the activities, or does not perceive a benefit.

5.74 The Committee concludes that, under the present policies, the incentives available generally fall well short of the actual costs of land management and what is required to motivate public and private good conservation activities.<sup>61</sup> In particular, they fail to address in any realistic way the costs of transition to sustainable land use and the consequent ongoing costs of management to maintain conservation values for the public good.

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58 Submission no. 154, p. 7.

59 The crucial role that information, access to assistance and extension officers play in promoting conservation activities was noted in the Committee's report *Co-ordinating catchment management*. Recommendations to remedy the deficiencies in respect of these matters were also made in that report.

60 For example, assistance with local government rates on land that is used wholly or predominantly for non-productive conservation purposes, and assistance with fencing, weed and vermin control, and maintenance costs.

61 A point also made by in the *Final report* of the West Australian Native Vegetation Working Group, p. 18.

- 5.75 Moreover, the Committee concludes that the failure to provide an adequate incentive regime is a defect of public policy in respect of promoting public good conservation. The result is that much less public good conservation is carried out than would be the case with more soundly based policy.

### **Do current policy approaches acknowledge existing public good conservation activities by landholders?**

- 5.76 Over 230 of the submissions to this inquiry came from private landholders or landholder groups or associations. These submissions detailed many conservation works undertaken by landholders on a daily basis. Often the projects attracted minimal public investment. Moreover, as is apparent from chapter 3, it is also clear that landholders often undertake conservation activities that involve a benefit to the wider public, and which also involve a loss of income in the short, medium and longer term to the landholder.
- 5.77 Landholders making submissions complained about the failure of the existing policy approaches to acknowledge the considerable public good conservation activities that many landholders had voluntarily undertaken and the costs involved.<sup>62</sup> For example, the NSW Farmers' Association said in its submission that:

There are many examples where farmers have acted beyond their duty of care and voluntarily made significant contributions of land (the farmer's major asset) to conservation. It is sad that these actions are rarely acknowledged and on occasion demands are simply made for a greater contribution.<sup>63</sup>

- 5.78 These complaints reflect the differing understanding of public good conservation issues by various agencies. For example, the Committee was advised by the Productivity Commission that:

There is ample evidence around Australia that landowners do (voluntarily and without compensation) undertake some relatively small and inexpensive conservation measures. The success of the Landcare movement, for example, is built on voluntary initiatives (not necessarily driven by direct financial returns) but with some financial support from governments. Nonetheless, given that Landcare is a voluntary program, there are limits to its ability to effect change.<sup>64</sup>

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62 For example, see submission no. 133.

63 Submission no. 177, p. 3.

64 Submission no. 189, p. 3.

5.79 In contrast, AFFA advised the Committee that:

The level of private investment in improved natural resource management and/or quality has been substantial. A survey by the Australian Bureau of Agricultural and Resource Economics of landcare expenditures for 1998-99 indicates that average landcare expenditures by farmers are about \$4,400 a year, about 4 per cent of farm operating costs. In addressing private resource management issues, a coincidence of interest can occur where private investments may also produce a level of public good conservation benefits.<sup>65</sup>

5.80 It appears that public good conservation activities undertaken by landholders are not being acknowledged when agencies apply the existing cost-allocation principles, focused as they are on the duty of care and ensuring that no landholder receives an 'undeserved' benefit. Moreover, the failure to acknowledge the efforts of landholders is a matter of considerable friction between landholders and bureaucrats, as is evident in the submissions from landholders.

### **Do current policy approaches contain incentives that lead to inappropriate land management practices?**

5.81 Poorly targeted incentives unintentionally induce behaviour in landholders that degrade the environment.<sup>66</sup> Typically, a perverse incentive occurs when a landholder is motivated to perform an action that degrades the environment, because the anticipated result will provide a greater benefit than refraining from performing the action. The Committee was told about a number of perverse incentives that have been created by existing policy approaches.

5.82 Existing policy provides, as has been set out in this chapter and chapter 3, some limited forms of financial assistance of restricted availability, that are reinforced by increasingly stringent regulations concerning landuse. The effect is that landholders are not permitted by law to engage in certain landuse practices; however, they are not provided with assistance to move to new forms of production or with ongoing land management expenses. Landholders bear the cost themselves.

5.83 An example of the result of this approach was provided to the Committee. In New South Wales, the proportion of native grasses on an area of land triggers controls on land use. Even though this approach is designed to protect native grasslands, it leads instead to environmentally dangerous

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65 Submission no. 238, p. 5.

66 Environment Australia, submission no. 231, p. 8.

land use practices, as Mr Mick Keogh, from the NSW Farmers' Association, testified:

[In] ... the grasslands in New South Wales where, if more than 50 per cent of the grass on the ground happens to be native, that is classified as native vegetation and potentially unable to be touched. So you have landholders who are very restricted in what they can do. They face the ridiculous option of having to flog mercilessly any of the areas that they can prove to be 'out' in order to generate enough income because they cannot do anything on the other areas. We do not think that is a good conservation outcome; it is certainly not good from the point of view of the equity of the individual involved.<sup>67</sup>

5.84 An example of a similar problem was provided by the Pastoralists and Graziers Association of Western Australia:

Of more immediate concern are the perverse incentives given to landholders by the fear that they may lose property rights. Farmers today burn or plough in anything they suspect of being rare from fear that they will lose the use of the land upon which it resides and the situation could be made worse from an environmental perspective.<sup>68</sup>

5.85 Mr John Hyde of the PGA expanded on this approach in testimony:

It is poor environmental management. I am a farmer, and what do I do if I discover a funny furry thing while I am having a smoko in the middle of the night off my tractor? I say nothing about it.

I keep ploughing. Of course you do. You are not going to tell anyone that you might have something strange on your property, because you might lose the property and, from an environmentalist's point of view, this is plain crazy.

This is not an exceptional attitude. If you have something unusual, and mostly you just suspect it is unusual—you do not know—you keep ploughing, mate. And that is very widespread, I assure you, Mr Chairman.<sup>69</sup>

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67 *Transcript of Evidence*, p. 302.

68 Submission no. 49, p. 3.

69 *Transcript of Evidence*, p. 395.

5.86 The result of stringent environmental legislation and inadequate support for land reserved for public good conservation activities resulted in a 'shoot, shovel and shut up approach'. Mr Mick Keogh testified that:

... by and large, this regulatory approach leads to what is colloquially termed a shoot, shovel and shut up approach. In other words, to give you a simple example, if there is a threatened species present on your property and you are aware of it, the best outcome economically for you is to shoot it, shovel it under the ground and shut up about it, because otherwise you potentially face the situation where the productive capacity of your land and the income you can generate off your land will be restrained and basically you will bear the cost of the preservation of that threatened species for the benefit of the wider community.<sup>70</sup>

5.87 The Committee was advised that this is what happened in the United States before financial incentives were introduced:

In the US where the term 'shoot, shovel and shut up' came from, that was as a result of some of their threatened species legislation. They woke up to this. They therefore introduced a system of incentives in recognition of landholders' rights. And as a result of that, they have turned the situation around. People can be proud of the high quality habitat they have got. They actually earn more money for high quality habitats. Not only do the rare bits get protected, but the rare bits become less rare because more people try and nurture landscapes through and return it.<sup>71</sup>

5.88 Another poorly targeted incentive relating to the regulations supporting land use concern the so called '10 year' rule. The *Native Vegetation Conservation Act 1997 (NSW)* provides for clearing of native vegetation, when the vegetation is regrowth less than 10 years of age and the land has been previously cleared for the purposes of cultivation, pasture or forestry plantation. The Five Ways Landcare Group advised the Committee that:

Regrowth of eucalypts, wilgas, wattles, and other species is so vigorous in the red soils of the central western plains that we are now compelled to remove them all within ten years. There is no opportunity as we have done in the past, of letting some areas grow with the view to selectively clearing 15, 20 or 30 years later. The risk of having a clearing application refused has caused the

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70 *Transcript of Evidence*, p. 294.

71 *Transcript of Evidence*, p. 295. The Institute of Public Affairs also refers to the 'shoot, shovel and shut up' consequence of financially unsupported conservation measures imposed on landholders. See submission no. 156, p. 2.

aggressive removal of all regrowth younger than 10 years. This is the antithesis of the aim of the government policy!<sup>72</sup>

- 5.89 Another landholder advised the Committee about the effect of the ten year rule on his farming practice:

I have shortened my rotation to keep the grass segment of the pasture under ten years. This has increased my workload and increased my cost of production, due to an increase in my cropping area at a time when grain prices are low. My beef cattle are more prone to bloat in a lush season, as more of my pasture paddocks are legume dominant, and I have less grass areas I can safely run them on.<sup>73</sup>

### **Do current policy approaches contain inequities?**

- 5.90 The dominant theme underlying submissions and testimony from landholders is what they described as the ‘inequity’ inherent in the present arrangements. The need to avoid inequities, in contrast, appears to underlie much policy development. As the Productivity Commission advised the Committee, ‘The issues of public good conservation have far reaching implications that test the skills of policy makers in defining and prioritising problems and then devising appropriate equitable solutions’.<sup>74</sup> The attempt to devise a cost sharing scheme is, in part, driven by the concern to apportion the costs of public good conservation in an equitable way.<sup>75</sup> The result is that, while policy makers advocate approaches and principles that they consider equitable, the evidence from landholders indicates that the current approach is seen to be permeated with inequity.
- 5.91 The feelings of inequity experienced by landholders are palpable. One landholder in South Australia provided a submission in which he stated:

Our immediate neighbours operate a farm of identical size and topography to ours. In fact the only difference is that all regrowth on their property was completely cleared prior to 1983. They do very well while we live in poverty. Some of this difference in situation can be attributed to the following: for every acre we crop, they crop 20; for every cow we run, they run 5. Moreover, they have access to bank finance, assistance from government schemes (e.g. Eyre Peninsular Regional Strategy), have obvious economies of scale advantages, ability to employ labour and obtain

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72 Submission no. 124, p. 4.

73 Submission no. 81.

74 Submission no. 189, p. 13.

75 See, for example, submission nos. 231, 238, 246.

Centrelink administered employment incentives and training assistance. ...

One wonders how there could be a more obvious and blatant case of injustice and discrimination than the current South Australian legislation which denies a farming family the use of 75% of their property while denying adjacent neighbours 5% and 8% respectively.

The 75% of our farm harbours excessive numbers of kangaroos and foxes which feed mostly on the 25% of the land we are permitted to cultivate.<sup>76</sup>

- 5.92 The inequity of the present arrangements was a theme of the NSW Farmers' Association's submission. The Association captured the equity considerations succinctly:

When being told an asset can no longer be counted on for productive use, offering funding to fence it off is little consolation and does nothing to address the question of equity or the continued viability of the business.<sup>77</sup>

- 5.93 Mrs Jenny Blake suggested that inter-generational inequities have arisen. Mrs Blake advised the Committee:

It is interesting to note that in some instances those whose forbears cleared all the significant areas are the most vocal when calling for the retention of native vegetation but they do not have to wear the economic implications – they can do what they like with their cleared ground; it is only those of us who have been either stupid or responsible who are financially disadvantaged as a result of our commitment to the environment.<sup>78</sup>

- 5.94 The inequities that are believed to have arisen between landholders, as well as the inequity that emerges from a failure by government agencies to acknowledge public good conservation activities, were put to the Committee by the Five Ways Landcare Group:

There is a very definite trend toward locking up any remaining vegetation (especially regrowth) as a counterbalance to the overclearing that has taken place in other locations – there has been little attempt by any government department to order replanting of trees in sensitive areas, just this singleminded determination to keep all existing trees. This simply shifts the weight of responsibility from the landholder that has cleared

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76 Submission no. 61.

77 Submission no. 177, p. 13.

78 Submission no. 197, p. 5.

extensively to the landholder who has taken a more moderate approach to developing his holding over a longer period of time. Many landholders have either preserved areas on farms and/or have only progressively cleared small amounts each year. There is no recognition of this approach. In fact they may be penalised for it as they may now have some of the last patches of remnant vegetation or may be surrounded by what others believe is excessively cleared country. To disallow further development without significant forms of compensation is a huge impost on the very landholders who have been the most conservation-minded farmers of the past at the expense of their more aggressive neighbours.<sup>79</sup>

- 5.95 The Five Ways Landcare Group went on to express the feelings embodied in many submissions from landholders. Landholders feel that they had been singled out for unfair treatment:

All governments place a low priority on compensating or reimbursing farmers for their conservation measures – these activities are demanded by Governments that would not take this action against any other group or entity in the country.<sup>80</sup>

- 5.96 One landholder put his concern in these words, the sentiment of which was shared in other submissions:

The West Australian Government is forcibly using my land for conservation purposes, and not paying me for the use of it. This conservation is for the public good. Many other farmers have over-cleared, and made money in the past decades – thus paying income tax to the Federal Government. The Government has benefited – so too has the public welfare.<sup>81</sup>

- 5.97 The perceived inequities between agricultural industries was noted by the NSW Farmers' Association who advised the Committee that:

In Australia the precedent has already been set. The forestry industry with 25 times less employees than agriculture has been offered compensation of \$120 million for the impacts of conservation initiatives by the Commonwealth's Forest Industry Structural Adjustment Program in addition to significant State contributions.<sup>82</sup>

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79 Submission no. 124, p. 5.

80 Submission no. 124, p. 8.

81 Submission no. 213.

82 Submission no. 177, p. 4.



5.98 The Pastoralists and Graziers Association of Western Australia suggested that ‘People who have invested their savings only to have the value of their property devalued by changing the rules that apply to it have been unfairly treated’. Mr John Hyde, representing the PGA, expanded on this line of thinking in a public hearing, and testified that the gradual removal of the rights of landholders to manage land was imposing a serious injustice upon them:

The Crown normally does not take the whole bundle [of property rights]; it recognises that it should not. But the practice has developed of stripping off the individual rights. It has not happened to me but it has happened to many people I know. Taking the right to say, ‘Clear the land and crop it,’ has reduced [a landholder’s] bundle of rights to very little value, but he is still the nominal owner of the land. That is every bit as egregious as taking, in a case that we are familiar with, six or seven out of his 10 paddocks. It is the same loss, and that is his savings. That is what his family has been putting away. Instead of putting it into a super policy or something like that, he has put it into land. It is not fair.<sup>83</sup>

5.99 The importance of equity considerations was acknowledged by Commonwealth and state government agencies. For example, Environment Australia advised the Committee that:

Equity considerations include both fair processes and fair outcomes. Equity is important both for its own sake, and because programs and policies that are perceived to be equitable enjoy greater support, and require less external compliance efforts. Equitable cost sharing also helps to generate necessary financial resources.<sup>84</sup>

5.100 As well, the Productivity Commission also acknowledged the importance of equity considerations in the development of agri-environment policies.<sup>85</sup>

5.101 In testimony, Mr David Hartley of the Western Australia Department of Agriculture sketched the inter-generational equity issues from the point of view of a policy maker:

There is an inter-generational equity issue here, in that it is unfair to expect future generations to carry the burden of mistakes that we are making now. Similarly, it is wrong to expect the current generation of farmers to carry the burden of decisions that were

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83 *Transcript of Evidence*, p. 393.

84 Environment Australia, submission no. 231, p. 9.

85 B. Aretino, *et al*, *Cost sharing for biodiversity conservation*, pp. 18, 21, 30.

made by previous generations of farmers, in many cases on the advice of governments. That is an issue that we do have to come to grips with: how the current generation have to make decisions to protect the future generation but also need to be assisted with the mistakes of previous generations. That is a very difficult thing.<sup>86</sup>

- 5.102 The inequity of governments imposing public good conservation measures on landholders, while exempting themselves, was also raised in government and landholder submissions. For example, the Native Vegetation Working Group reported that, in its view:

... a serious inequity would exist if government policies expected landholders to protect and manage privately-owned bushland and undertake significant revegetation work, but did not also act to ensure those areas directly under government control were also well-protected and managed.<sup>87</sup>

- 5.103 What emerged during the course of the inquiry was a difference of opinion between landholders and landholder groups, and policy makers and governments over the nature of 'equity'. This is demonstrated in this comment from the Native Vegetation Working Group:

... it would be inequitable to provide assistance packages for landholders prevented from clearing without also providing similar packages to those who voluntarily stopped clearing their properties many years ago, when problems of salinity and biodiversity loss first became apparent.<sup>88</sup>

- 5.104 The Committee notes that 'equity' involves tailoring the treatment a person receives to that person's particular circumstances so that right is done by that person. For this reason, assistance provided to a landholder who refrained from clearing some years ago would differ from a package provided to a landholder who did clear. There is no reason in equity to provide a similar assistance package to both.

- 5.105 However, even if specific assistance packages differ, the point is that all landholders should receive some assistance, if needed, that is tailored to their particular circumstances in order to assist them with public good conservation activities and the transition to ecologically sustainable land management practices.

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86 Mr David Hartley, *Transcript of Evidence*, p. 372.

87 Native Vegetation Working Group, *Final report*, p. 10.

88 *Final report*, p. 9.

## Conclusion

5.106 The object of public good conservation policy is to procure outcomes that advance conservation values and the transition to ecologically sustainable land management practices. The evidence provided to this Committee indicates that more needs to be done across Australia to develop appropriate programs and encourage transition to ecologically sustainable land management practices, that promote the development of public good conservation while managing the effect upon landholders and rural communities. The evidence received by the Committee suggests that there is a perception that in the effort to allocate the cost of public good conservation activities, some Australian governments have lost sight of the goal: promoting public good conservation outcomes and the transition to ecologically sustainable land management practices. It would appear from some of the evidence that the practice of cost allocation has become an end in itself rather than a means to procure an end.

5.107 As this inquiry found, the existing approaches to cost allocation are not as straight-forward or appropriate as assumed.

5.108 Moreover, evidence indicates that the present cost allocation processes and the particular approaches taken has led some landholders to feel distress and experience hardship. Others have expressed anger and injustice. Moreover, the current approaches have fostered the development of poorly targeted approaches. Policy makers have not effectively recognised the problems inherent in the current approach and have not revised their policies and programs in ways that would be more acceptable to landholders. The Five Ways Landcare Group summed up the feeling expressed in many of the submissions from rural Australia:

For too long the extremes in all sections of our community have had too great an influence on decisions that are made that affect our entire social and economic fabric – it is time that commonsense and moderation are introduced into the discussions and policies that are being made.<sup>89</sup>

**5.109 Commonsense and moderation should underpin the policies that aim to foster public good conservation and the transition to ecologically sustainable land management. These policies must be directed at clearly identified goals. In the next chapter, the Committee sets out such an approach.**

**Recommendation 3**

**5.110 The Committee recommends that the policy foundations for public good conservation funding be focused upon attaining good conservation outcomes while addressing the equity issues revealed in this inquiry.**

**Furthermore, the Commonwealth should work with the states to recast the existing cost-sharing principles so that they focus on achieving conservation outcomes, while including a full recognition of the equity concerns of landholders raised in this inquiry.**