

10 June 1999

The Secretary
Standing Committee on Primary Industries and Regional Services
Parliament House
Canberra ACT 2600

Dear Ms Bright

**Re: Inquiry into Infrastructure and the Development of Australia's
Regional Areas**

Thank you for the opportunity of making a late submission to this inquiry.

Background

Retail Employees Superannuation Trust (REST) is Australia's largest superannuation fund as measured by membership with approximately 1,000,000 current members. On behalf of these members REST has invested approximately \$2.3 billion in a diverse range of assets.

A small but significant part of these investments are direct investments in regional areas of Australia. One group of these investments may be of interest to the Committee and some of our experiences in this area are relevant to the Committee's terms of reference.

REST's investments in farming land and operations

In August 1995, after two years of assessment, REST decided that carefully selected investments in farming were suitable for superannuation funds and offered potentially attractive returns. In partnership with another superannuation fund REST started a program of farm purchase and development.

REST has, to date, committed to investing \$45m in dryland cropping farms in Queensland, New South Wales and Victoria. REST's partner fund has committed a further \$15m. These investments have been made through the Warakirri Agricultural Trusts (WAT), which were specially established for this purpose.

WAT has invested \$53m in acquiring and equipping 10 properties, and the associated management company has set up offices in Victoria and Queensland. There are currently 39 staff on the payroll in addition to significant numbers of contract service providers.

The aim of the investors is to achieve acceptable and consistent returns over the long term, without placing the long term viability of the properties at risk. The strategies being followed by WAT and the management company involve:

- combining the best elements of the traditional family farm with the effective planning, management and control typical of successful enterprises;
- the application of new technology and using the strength of the group;
- attracting quality managers by providing opportunities and a career in professional farming for younger people with limited access to capital.

The economies of scale in these operations come from an efficient sharing of management resources and capital equipment between largely autonomous farms. It is not part of WAT's strategy to create a small number of large farms.

As with any successful business, two of the key factors are effective communications and control of costs. In these two areas, some of the major impediments to WAT achieving its full potential are listed below:

1. Communications – mobile phones

Access to a reliable and cost effective mobile telephone system is critical for each farm manager to effectively co-ordinate farming operations involving numerous staff, casual labour and contractors. Inadequate mobile phone access on a large property means significant time is wasted travelling to a point of access to land based telephone services. Such farm businesses are at a significant disadvantage compared to urban-based businesses.

Although most WAT properties are reasonably close to major rural centres, a number of them have poor access to the digital and analogue systems with some more remote properties having no access at all. With the forthcoming closure of the analogue system and the introduction of the CDMA system, Telstra's website advises that "Telstra's first priority is to rollout CDMA into areas that are currently covered by the analogue network so customers should retain continuity of service during the period of analogue closure." This is inadequate for areas where the current service is deficient.

Access to the iridium satellite system would circumvent this problem but the cost is currently prohibitive.

2. Communications – Internet access

A number of WAT properties do not have access to the Internet on a local call basis. This causes a number of problems:

1. It inhibits effective and timely communication between management and farm staff.
2. It inhibits the ability of farm personnel to access information on technological developments in agriculture. This information is critical to the ability to achieve productivity gains and keep up with major competitors such as the USA and Canada
3. Many of the staff wish to build on their existing tertiary qualification and/or are looking to extend their personal qualifications via distance learning. Internet access is crucial to most of the relevant courses of study.

Timed-call charging results in prohibitive costs for services which urban-based people and businesses take for granted. With regard to Item 3, specific assistance could be given through specific allowances under the education budget. At the very least, the costs of internet access should be designated as eligible deductions for self-education.

3. Costs - Transport

The transport cost of grain is one of the most expensive components of the cost structure to customers, both domestic and overseas, when compared to the major competing growers in the USA and Canada.

Clearly, the road, rail and port infrastructure must be maintained and enhanced to ensure efficiency improvements and cost reductions to maintain competitiveness for Australian grains on the world market.

4. Costs - Stamp Duty/Land Tax

State based stamp duty on the acquisition of agricultural land raises the barriers for new entrants to agriculture and, again, imposes a penalty on Australian farmers compared to their competitors in North America.

Our research has shown the capital imposts of land acquisition in the USA are an average of 1% to 1.5% of the purchase price compared to a level of 5% to 6% in Australia.

Individual primary producers are exempted from land taxes on agricultural land in most states. However, corporations and institutional

investors which may represent huge numbers of individuals must pay the taxes.

We understand that the future of state-imposed stamp duties will be clarified when the GST situation is resolved.

In summary, we believe that there are attractive opportunities for institutional investors in the development of Australia's Regional Areas. However, there are a number of impediments to efficient operations which, because they emphasise differences in regional and urban development environments, may have an inhibiting effect on regional investment out of proportion to their actual costs to investors.

Please feel free to contact me if there is any additional information which would be of interest to your Committee.

Yours sincerely

for Retail Employees Superannuation Pty. Limited

Michael Lillicrap
General Manager