National Farmers' Federation

Submission to Inquiry into Family Business in Australia

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Prepared by David McKeon

NFF Member Organisations

Definition of 'family business'

While the NFF is not in a position to determine how 'family business' should be defined, any definition should recognise the range of family businesses that exist. Even within agriculture there are a broad range of enterprises and business structures that would need to be considered in any work to define 'family business'.

Contribution of family businesses to Australian agriculture

There are approximately 135,000 farm businesses in Australia[1], 95 percent of which are family owned and operated[2]. The contribution of these businesses to the broader Australian economy is significant, contributing to our social, economic and environmental sustainability. A few facts about Australian agriculture's contribution are outlined below:

Social

Each Australian farmer produces enough food to feed 600 people, 150 at home and 450 overseas[3]. Australian farmers produce almost 93 percent[4] of Australia's daily domestic food supply.

As of 2010-11, there are 307,000 people employed in Australian agriculture[5]. The complete agricultural supply chain, including the affiliated food and fibre industries, provide over 1.6 million jobs to the Australian economy.

Economic

The agricultural sector, at farm-gate, contributes 3 percent to Australia's total gross domestic product (GDP). The gross value of Australian farm production in 2010-11 was $48.7 billion[6].

Yet this is only part of the picture. When the vital value-adding processes that food and fibre go through once they leave the farm are added in, along with the value of all the economic activities supporting farm production through farm inputs, agriculture's contribution to the GDP averages out at around 12 percent (or $155 billion)[7].

Australian farmers export around 60 percent of what they grow and produce. Australia's farm exports earned the country $32.5 billion in 2010-11, up from $32.1 billion in 2008-09, while the wider agriculture, fisheries and forestry sectors earn the country $36.2 billion in exports[8]. The value of our farm exports, and indeed the future of Australian agriculture, depends largely on conditions in overseas markets, due to our high level of exports.

Australian farmers continue to face the challenge of declining terms of trade in agriculture, yet remain internationally competitive through efficiencies and productivity growth. The growth in the farm sector has increased steadily over the 30 year period from

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[1] Australian Bureau of Statistics, *Agricultural Commodities, 2010/2011, Catalogue No. 7121.0,*
[2] ABARES, 2012
[3] *Keogh M, Australian Farm Institute, 2009, "Australia's response to world food security concerns", Address to the 1st NFF Annual congress.*
[4] *PMSEIC (2010), Australia and Food Security in a Changing World. The Prime Minister's Science, Engineering and Innovation Council, Australia.*
[5] Australian Bureau of Statistics, *Labour Force, Australia, 2010/2011, Catalogue No. 6291.0*
[6] *Abares, Australian Commodity Statistics, 2011*
[7] Australian Farm Institute, March 2005, *Australia's Farm Dependent Economy*
[8] *Abares, Australian Commodity Statistics, 2011*

1974-75 to 2003-04 at an average rate of 2.8 percent, consistently out-performing other sectors. In more recent times, agricultural productivity growth has slowed to 1 percent per annum, illustrating the need for an increased spend on research and development to ensure the industry can meet the food and fibre needs of the growing world population[9].

Environmental

Australian farmers are environmental stewards, owning, managing and caring for 61 percent of Australia's land mass.

Farmers are at the frontline of delivering environmental outcomes on behalf of the Australian community, with 94 percent of Australian farmers actively undertaking natural resource management. The NFF was a founding partner of the Landcare movement.

Availability and reliability of information and statistics

Development of sound policy depends on the provision of adequate and accurate information and statistics. The NFF would support moves to collect and analyse more information and statistics to inform policy impacting on family businesses.

The NFF note the following areas could be considered relevant:

- Ownership and operational management structures – including the shift in farming businesses moving from sole trader and partnership arrangements towards trust and company structures.
- Impact of regulation and on operation of family business – this includes the ability of smaller businesses have a reduced capacity to spread the cost of regulation across their business.
- Nature and number of employees in family businesses
- An understanding of sectors and regions where a greater proportion of family farms exist

Structural, cultural, organisational, technological, geographical and governance challenges

Many of the structural, cultural, organizational, technological, geographical and governance challenges faced by family farm businesses will also be applicable to any other farming business. Due to almost all farm businesses in Australia operated by families, the following challenges are relevant to the Inquiries terms of reference.

Not just another business

A complex interaction exists between family and business, in a family farm, as with other family businesses. However, the close interactions between the family members and the drivers of the business will differ between organisations. While commercial viability is of upmost importance, family businesses such as farming operations may often make trade-

[9] *Department of Agriculture, Fisheries and Forestry, At a glance 2010; Australian Government Productivity Commission, Trends in Agriculture 2005*

offs for other benefits broader than profit maximisation. It is these drivers that need to be considered in any policies impacting on the operation of family farms.

Some agricultural policies, such as national drought policy, recognise the differing needs of the business and the individuals within the business and provide targeted support accordingly. The NFF is supportive of policies that recognise the differing needs, of the farm business and the farm family, and are adapted accordingly.

It also needs to be noted that family owned businesses can vary in size and structure. While many family farms could be described as a small business, many family-owned farms are also large entities, operating under a corporate structure turning over millions of dollars annually.

Family farms underpinning regional communities

Agriculture and food production underpin communities throughout regional Australia. While agriculture underpins 12% of GDP when factoring in flow-on economic activity, it is estimated that the farm sector represents more than 40% of the GDP of regional economies. Once multiplier effects are taken into account, this escalates to 70-80% in many communities. These figures illustrate that many of the communities in regional Australia are highly dependent on farm families. In addition to the economic contribution, farm families are also an integral part of the social fabric in rural communities, underpinning many community organisations.

The challenges associated with moving food and fibre from regions to the cities and international markets, and supporting the families and workforce that make their living in regional Australia will remain. Investment in infrastructure, including for transport and communication, is an opportunity to reduce the cost of business in regional Australia and increase the attractiveness of regional locations for family businesses and their workforce. The NFF has advocated for measures to support regional development, such as regional tax concessions, to recognise the additional cost of doing business in regional Australia and to diversify and grow regional economies to provide these communities with greater economic stability. The NFF has the strong belief that policy support is required to foster the growth of regional family businesses and provide viable opportunities for regional population growth.

Complex operating environment

A key issue that family farms face on a daily basis is the complex operating environment and high cost of doing business in Australia. Farmers in Australia have to pay high costs for land, labour and capital, combined with a strict regulatory environment. This can often prove difficult for smaller family businesses, as their ability to absorb overhead costs and provide resources to understanding complex compliance regimes and constantly changing regulations are limited.

> Acknowledging that there is a large amount of variability between commodity groups, overall Australian agriculture is the most volatile sector of the economy over the past four decades[10]. The value of output from the agriculture sector has been almost two and a half times more volatile than the average for all the major sectors of the economy. With the volatility of Australian agricultural businesses the second highest of any nation over the

[10] Including Risk in Enterprise Decisions in Australia's Riskiest Businesses, Mick Keogh AFI, Farm Policy Journal vol9. No.1 Autumn 2012.

period, Australian farm businesses have faced a more risky operating environment than anywhere in the world over the last 40 years.

Family farms are world class food and fibre producers and pride themselves on their resilience. Products produced by Australian farmers go into a marketplace competing with goods produced overseas with much fewer restrictions on operating. Despite a 50 per cent fall in agricultural terms of trade since 1960, Australian farmers have tripled their production, as well as quadrupled the real gross value of their produce (from $10.6 billion in 1960-61 to $43.3 billion in 2007-08)[11]. There is a misconception among some Australians that this productivity is built on handouts from the public purse. Government support for Australian farms represents just 4 per cent of farming income. By comparison, according to the Organisation for Economic Cooperation and Development (OECD), in Norway it is 61 per cent, Korea 52 per cent, European Union 23 per cent, Canada 17 per cent, and in the United States 9 per cent[12]. In fact, Australian farmers are among the most self-sufficient in the world.

Australia is a wealthy country and has high living standards which result in costs being higher than those of our economically less developed neighbours. This is an ongoing economic issue for Australian producers. To be competitive, family farms need to continually improve production and efficiency. Government cooperation with industry is required to ensure innovation can be encouraged and applied. Further, it is important that industry and government work together to avoid over regulation and to seek solutions which can minimise regulatory costs whilst still delivering the required outcomes.

In NFF's experience, regulation presents particular problems where policy areas fall across government departments and where jurisdictions develop separate regulation. National consistency in regulation (for example, transport regulation) to reduce barriers and costs at state borders would assist the agricultural industries, as well as other industries. Similarly, different government departments can act as policy 'silos', and develop policy and regulation without a broader view of the work being undertaken in other government departments and where cross over or duplication may exist. Examples of government departments acting as policy silos include the development of water policy for the Murray Darling Basin.

Complex environmental interactions

In addition to the complex social and economic interactions in a family business, farms also operate in a unique nature with the environment. Farmers occupy and manage around 61 per cent of Australia's landmass[13]. Through responsible land management, the agriculture sector provides a number of benefits to the Australian society from environmental services, such as: biodiversity, clean water, clean air, management of pests, weeds and diseases.

The sustainable production of food and fibre is a key interest of Australian farmers, but also the broader community. As outlined in a recent ABARES report, 85 per cent of farmers are managing their native vegetation for on-farm production and/or environmental benefits. Many farmers indicate they were also looking beyond their farm. Nearly one-quarter were considering the connection between their native vegetation and

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[11] Australian Government Productivity Commission, *Trends in Australian Agriculture 2005*.; ABARE, *Australian Commodity Statistics*, 2011

[12] OECD Factbook 2011: *Economic, Environmental and Social Statistics*

[13] Australian Government Department of Agriculture, Fisheries and Forestry, *At a glance 2010*

the vegetation on neighbouring properties or Crown land. A larger proportion of farmers (30 per cent) took into account how their native vegetation management contributed to regional or landscape outcomes (such as contribution to a catchment plan). About 15 per cent were managing for both connectivity and landscape outcomes[14].

Even though farmers play an important role as front-line environmentalists, there is a general lack of recognition by the Australian consumer of the breadth and depth of these environmental services and the positive work undertaken. Partly due to this lack of understanding, increasingly farmers in Australia are being required to comply with environmental regulations that are designed to achieve a benefit for the entire community, but which have a significant cost for individual farmers. Environmental outcomes such as the preservation of threatened species, the conservation of biodiversity and the amelioration of greenhouse emissions are benefits the entire community enjoys. However, in Australia these outcomes are being achieved via the imposition of regulations on the use of natural resources, which often have an adverse impact on farmers.

Succession

Australian farmers recognise the importance of new entrants, and succession planning, to secure the future of our agriculture industry. Just like every other sector in the Australian economy, there is a requirement to plan for the future.

The flow of people in and out of the agricultural industry is much lower than other sectors of the economy, with farmers generally showing a long-term commitment to their business, or lacking opportunities to leave under favourable conditions. As a result, there is a relatively low turnover in the agricultural workforce, with about half of the workforce being in their current job for 10 years or more, and about a third being in their current job for 20 years or more[15].

Exit and entry rates in agriculture (around 11%) have been found to be lower than rates across other industries (including mining, manufacturing, construction, retail trade, accommodation, finance and business services, education, health and community services), which averaged around 19%[16]. This is reflected by the rising average age of farmers, currently in the order of 52 years of age, up from 44 in 1981. Since 1976, the number of men aged in their 20s entering farming has more than halved and the number of women in their early 20s entering agriculture has declined by 80 per cent[17].

This has a number of implications for the farming sector. An example of one for the positives, is that long-term tenants of agricultural land are more likely to actively invest in best management practices given their long-term interest in productivity of the land[18].

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[14] ABARES, *Native vegetation management on agricultural land*, 2012
[15] Productivity Commission 2005, Trends in Australian Agriculture, Research Paper, Canberra
[16] Productivity Commission 2009, Government Drought Support, Report No. 46, Final Inquiry Report, Melbourne
[17] Drought Policy Review Expert Social Panel 2008, It's About People: Changing Perspective. A Report to Government by an Expert Social Panel on Dryness, Report to the Minister for Agriculture, Fisheries and Forestry, Canberra, September
[18] Land and Water Australia, *Australia's farmers: Past, present and future*, Canberra, 2005

One of the challenges associated with farmers long-term commitment to their business is planning for the next generation. Succession of farm family businesses and intergenerational transfer has been an ongoing concern for agriculture, with ageing of the farm population evident over past decades. In 2010-11, seven out of every ten farm owner-managers (71%) is aged 45 years and over. 23% of all farmers are now over the age of 65, and 95 per cent of farm businesses are family owned[19]. This reflects, in part, a decline in the rate of entry of young people into farming, along with a deferral of retirement, possibly because farmers are continuing on in the absence of a family successor[20].

Succession planning in a family farming business is a complex and protracted process. Research results show that about one in five Australian farm families find it stressful to address succession planning. The core of the problem is poor communication between family members – parents simply find it difficult to discuss succession planning with their children[21].

Recently, a survey[22] conducted by National Australia Bank Agribusiness, covering more than 5000 agribusinesses across Australia, found that:

- Around 90 per cent of respondents under the age of 40 have a very clear timeframe for retirement or transitioning out of the business. However, 36 per cent of those 70 years and over do not know when they will retire.
- When it comes to what will happen to the business, farmers expecting to stay involved for at least another 20 years are largely confident they will pass it on to their children or other family, at 65 per cent.
- For those looking to retire in the next two years the figure drops down to 28 per cent. Almost half expect instead to sell it to someone not currently involved, while 17 per cent of owners intend to wind down their business and it will then cease to exist.
- Business owners' plans for the future vary by type of agriculture – grain growers are more likely to pass their business onto their family, while those in horticulture are less likely to pass their business onto family and the most likely to wind down their business on retirement.

There are many obstacles to be overcome while developing a sound succession plan. For example, parents passing the farm business on to their children may be concerned that they will be marginalised. Where one or more children have left the farm to pursue other careers, parents may find it difficult to decide how to ensure that all children receive an equal inheritance, without rendering the farm business unviable. Adult children who are largely responsible for the financial performance of the farm business may not have the capacity to seek debt finance to expand the business, especially if they do not have ownership or control of any major assets.

Succession planning is an essential part of farm management and comes with its inherent challenges in business, social and family contexts. By making use of the available

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[19] Australian Bureau of Statistics, *Year book Australia 2010-11*.
[20] Barr, N. 2004, The Micro-dynamics of change in Australian agriculture 1976–2001, Australian Census Analytic program, ABS, Canberra.
[21] Crosby, Elaine, *Succession and Inheritance on Australian Family Farms*, University of New England (Rural Development Centre), p 7.
[22] http://business.nab.com.au/nab-urges-farmers-to-rethink-succession-planning-2251/

resources and support, keeping communication channels open and frank, it is possible to not only overcome these challenges, but to achieve a thriving business, a happy family unit, and to attract fresh business leaders, innovators and people with great ideas to an industry that has a bright, dynamic future as a result of their talent and dedication.

Role of family trusts

As farm businesses become more complex in operation and larger in size, there has been a gradual shift in operating structures from sole trader and partnership, to more operating in a trust or company structure. Due to the ever-increasing professionalism of Australian farms, many changes are occurring to the structure of the businesses. For example, there are an increasing number of family farms that have different entities for the ownership of the land and the operation of the business. As these changes evolve, it is important that government policy settings outside of taxation reflect the changing circumstances and remain relevant, meeting the needs of today's agricultural businesses.

Trusts are fundamental small business structures in Australia that can be extremely helpful in the management of family owned and operated businesses, like family farms. Family farms may establish a trust in place to protect assets, enable inter-generational transfer of assets and distribute income to beneficiaries in an efficient and flexible manner.

The NFF is keen to reinforce the important role that trust structures play for the agriculture sector, including:

- Helping farmers to manage complex asset and succession issues;
- Assisting farmers to protect the family group's assets from the liabilities of one or more of the family members (e.g. in the event of a family member's bankruptcy or insolvency), or the death of a senior member of the family;
- Providing a mechanism to pass the family farm and other assets onto future generations; and
- Providing flexibility to distribute income earned by the trust to prescribed beneficiaries in an appropriate manner – trust structures allow for this distribution to vary from year to year.

In recent years, the NFF notes that there have been a number of adjustments to the taxation of trusts (e.g. relating to non-commercial loans and following the Bamford case). A number of these changes have had unintended adverse affects for the administration of farm trusts that have needed follow up legislation to remedy. While the NFF has been grateful for the Government's resolution of such issues, collectively these changes have created the perception that the future taxation treatment of trusts is uncertain. For this reason, the NFF hopes that once the current reform process is complete, that further modifications to the taxation of trusts will be limited. This will allow farmers and their accountants to have an increased level of certainty over how they administer their trust structures and plan their future financial business structures with confidence.

Family business responses to the challenges of the GFC and post GFC resilience

The growth of the Australian agriculture sector over the past 20 years has consistently outperformed other sectors, and was a key reason Australia avoided recession during the global financial crisis.

The March 2009 (during the GFC) national account figures were a timely reminder of how fundamental Australia's farm sector is to our economy, with agricultural production and growth – in seasonally adjusted terms up 10.9% in the December 2008 quarter on top of the previous quarter's 13.4% – helping to stave off recession. In addition, between November 2007 and November 2008, an extra 17,255 Australians have found work in the farm sector.[23]
As NFF president David Crombie stated:
"Mining booms come and go, but Australian agriculture is the constant that gives the Australian economy the surety it needs during good and turbulent times. That's not a slight against other sectors, just recognition that regardless of the fluctuating fortunes of various industries that, at the end of any day, people still have to eat."

These factors give the agricultural sector some confidence in seeing regional Australia, and indeed the broader economy, through the impacts of the GFC - with the assistance of strong support from the Australian Government.

Conclusion

Although family businesses will come in many shapes and sizes, they exist throughout Australia and are a core part of the Australia's society and economy.

With 95 percent of farms within Australia owned and operated by families[24], the contribution of these businesses to the broader Australian economy is significant, ensuring our social, economic and environmental sustainability.

It is important that any decisions made by Government consider these factors and provide an operating environment conducive to the ongoing success of family businesses within Australia.

[23] ABS, Nov 2008, 6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly,
[24] ABARES, 2012