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Defence Acquisitions, Marlborough – Cost and benefit analysis of beef industry

Introduction

Property Rights Australia (PRA) was formed in 2003 to provide a strong voice for landowners with regard to property rights issues. It aims to promote fair treatment of landowners in their dealings with government, businesses and the community. PRA takes a broad view of the social landscape in which it pursues its aims and is acutely aware of the damage that can accrue when single issue objectives become the primary focus of decision making.

With this in mind, PRA asks that the government take an open and accountable approach when considering the options before proceeding with its current proposal to meet obligations to the Singapore Government under the Singapore Australia Comprehensive Strategic Partnership.

As a general observation, many of PRA's constituents are increasingly coming to the view that all levels of government are too keen make headlines announcing deals with multinational companies and foreign governments – and that they tend to do so without any meaningful consultation. It would appear that the attraction of millions (or billions) of dollars blindsides consideration of the people, their property rights, local economic disadvantage, amenity of life or care for the environment. Governments should consider the interests of Australian communities and landowners first, not last. People should not be seen as simply an impediment to implementing what has already been decided.

Summary

The analysis in this document focuses on the expansion of the Shoalwater bay military training area and the cost of the loss of highly productive cattle properties in the Marlborough district. The cost of the loss in the Charters Towers district from the expansion of the Townsville military training area will be dealt with separately.

There are further economic impacts not explored in this document as it deals with the beef industry only. It should also be recognised that within the expansion area at Marlborough there is a significant commercial fishing business. It also supports beekeeping and a small amount of commercial timber harvesting. The businesses in the nearby town of Marlborough will lose enough of their customer base to be no longer viable. These businesses include a mechanical repair business, a hotel, grocery & take-away store, and a post office.

The benefit promoted for the Rockhampton region is the injection of \$1 billion over a 25 year period under the agreement in the Singapore Australia Comprehensive Strategic Partnership.

Although this amount may appear to be very large, the analysis in this document clearly demonstrates that the beef industry directly and indirectly contributes far more to the regional economy. After 25 years there will be no more payments from the Strategic Partnership along with the permanent loss of a highly productive beef fattening area.

Methodology

PRA believes that the issues involved in the proposal to compulsorily acquire good quality grazing land in the Marlborough area can be clarified using a Triple Bottom Line (TBL) approach in the decision process. The TBL approach has been recommended by the Australian Government to other levels of government and business for assessment and reporting (see, for example, *Triple Bottom Line Reporting in Australia: A Guide to Reporting Against Environmental Indicators*, Department of Environment and Heritage, June 2003). TBL emphasises that the financial, social and environmental returns and consequences of a decision should be assessed and – in cases such as this – made public before a decision is reached.

PRA believes that sufficient data and modelling is available to apply the TBL approach in weighing up the costs and benefits of the proposed acquisitions against the objective of expanding defence training facilities. PRA is of the opinion that the proposed acquisitions could not be justified on any of the criteria applied in TBL decision making.

PRA asks that decision-makers consider the following as a TBL approach:

Financial costs and benefits

Preliminary advice from graziers in the Marlborough area is that there are 37 properties in the area which may be affected by this proposal. The carrying capacity of the properties has been estimated at between 60,000 and 70,000 head of beef cattle.

Further advice is that most properties run a breeder cow base and progeny are fattened suitable for slaughter. The annual turnover of cattle is estimated to be around 30 per cent of the total cattle herd. For the purposes of this analysis the very conservative figure of 25 per cent will be used. These are primarily finished cattle (Jap ox and fat cows) which, on current prices are averaging about \$1500 per head.

If the properties are compulsorily acquired, this production income will be permanently lost to the central Queensland region.

For the following FINANCIAL COST calculation, turnover is estimated conservatively as 25 percent of 60,000 head (15,000) at \$1500 per head.

$$15,000 \times \$1500 = \$22,500,000 (\$22.5 \text{ million})$$

This is the direct income forgone through loss of sales. In addition to this direct cost, there is the multiplier effect of this income being expended in the region. The multiplier for the beef industry is 2.18 (see Queensland Department of Agriculture, Fisheries and Forestry, *Input-Output analysis of the proposed Charters Towers abattoir and meat processing facility – and industry support value added effects impacting the Northern Queensland regional economy*, July 2014). This multiplier reflects expenditure associated with the production process – wages, purchase of stock feed/supplements, services, etc.

Total direct and indirect cost then is: $\$22,500,000 + \$22,500,000 \times 2.18 = \$71,550,000$ (\$71.55 million)

Over a 25 year period, cattle prices may rise and fall, but it is reasonable to assume that real returns will generally average out and real prices will remain relatively constant. The following table shows the total cost over 25 years for loss of sales and loss of sales plus the multiplier if the properties are taken out of production:

	COST: Loss of sales	COST: Loss of sales plus multiplier
One year	\$22,500,000	\$71,550,000
Twenty-five (25) years	\$562,500,000	\$1,788,750,000

The region has been offered \$1,000,000,000 (\$1 billion) from an agreement with a lifespan of 25 years. If an average was applied over 25 year period this would then be \$40,000,000 (\$40 million) per year.

The Office of Best Practice Regulation (OBPR) (Department of Prime Minister and Cabinet) recommends that future costs and benefits be discounted to obtain present values. As stated above, it is reasonable to assume that returns from beef production will maintain relative value over time (on average). However, cash compensation must be discounted to estimate present values.

For the following FINANCIAL BENEFIT calculation, the table presents net present value (NPV) calculated using the OPBR recommended discount rate of 7 per cent p.a., but with values for 3 per cent and 10 percent also calculated.

	BENEFIT: NPV at 3 per cent	BENEFIT: NPV at 7 per cent	BENEFIT: NPV at 10 per cent
1 year at \$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000
Over 25 years at \$40,000,000 p.a.	\$710,700,393	\$478,130,137	\$371,284,080

As a comparison of the COST and BENEFIT tables shows, \$1 billion in compensation over twenty-five years does not cover the lost production at the recommended 7 per cent discount rate, even before the multiplier is considered. The added affect of any multiplier would be to make the compensation amount irrelevant at any discount rate.

The costs of this proposal far outweigh any benefits that could possible accrue.

Compensation, even generous compensation, does not make up for what is often lost to a community. The land itself is also often of much greater value to a landowner than its value as a factor of production. Money, time, sweat and sacrifice has often gone into building a productive property, often over generations. The sacrifice made for the greater good is also an emotional one. The multiplier used above recognises the financial impacts on businesses in the community. Direct compensation may be available to the affected property owners. But this will not extend to the small businesses that depend on them. The impacts on many of these will be severe and government has a duty to protect their interests.

Social Costs and benefits

It is difficult to put a price on the emotional costs of having a life – an individual or an entire family – uprooted from their community and the place where they live and work. But the minimum social cost that will be inflicted on a community can be measured in loss of employment.

For the SOCIAL COST calculation, it is necessary to look at the number of people who will lose employment if these properties are compulsorily acquired and the employment multiplier which applies to the beef cattle industry.

In 2007-8 (the most recent official data that has been identified, there were about 11.6 million beef cattle in Queensland and about 32,000 people employed on farms involved in production of beef cattle, including employees, employers, own account workers, family workers and unpaid voluntary workers (*The Queensland Beef Industry: Current trends and future projections*. Updated 2010. Queensland Government. <https://futurebeef.com.au/wp-content/uploads/2011/09/Beef-situation-analysis-2010.pdf>). This equates to one employee to every 362.5 head of cattle. For 60,000 head, this represents 166 jobs.

In addition, work undertaken for the Queensland Council of Social Services by the University of Queensland identified that the employment multiplier for the beef industry in Queensland was 1.501. This is the highest multiplier in the agricultural sector. (Mangan, J. *Implications for the Queensland Economy from Current World Economic Conditions*. Report undertaken for the Queensland Council of Social Services. c. 2011)

Applying this multiplier to the figure of 166 jobs lost from people directly employed in beef cattle production, the total job losses would be: $166 + 166 \times 1.501 = 415$ jobs.

The latest unemployment data indicates that unemployment in the Fitzroy region (which includes Marlborough) fell 1.4 per cent over the past year to 6 percent. (Media Release: *Regional and youth jobless rates underline value of employer incentives*. Treasurer, Minister for Aboriginal and Torres Strait Islander Partnerships and Minister for Sport, The Honourable Curtis Pitt . Tuesday, January 24, 2017.) While this is below the 6.5 percent unemployment rate for the State, the loss of 415 jobs in the Fitzroy region would have a significant negative effect on regional unemployment. Further investigation may be warranted to why the unemployment rate did fall over the past year. If it was because of any short term youth employment programs and nor because of long term secure jobs, then there is the possibility, the negative impact on regional unemployment, especially youth unemployment, will be further compounded.

Against this, it is difficult to identify any SOCIAL BENEFIT if the properties are compulsorily acquired. It is not likely that the number of jobs created through increased defence training activities would offset the potential 415 job losses identified.

The government needs to acknowledge that this proposal will have a profound impact on the landowners targeted to be removed from their land, as well as on their community. The land area and the number of families affected will be very great in a small community. The effects will be profound.

As to the future of families who are forced off their land, the value of replacement properties of similar quality and size (in the unlikely event that any such properties are available) will skyrocket. Up to forty families could be searching within the same processor catchment area. The decision therefore has the potential to destroy both a community and a local economy.

Environmental Costs and Benefits:

It is understood that one of the main drivers for the proposed acquisition of land in the Marlborough area is that the land used for training in the Shoalwater Bay training area has become unsuitable due to regrowth. The proposed solution is to acquire adjoining cattle properties which have been maintained clear of regrowth (and in many cases planted with improved pasture) for grazing purposes.

It does not seem to have dawned on Defence (or whoever else is driving this proposal) that land which continues in a cleared state over time remains that way because someone is doing the work. Indeed, the great explorer and New South Wales Surveyor-General Sir Thomas Mitchell observed, in 1848:

“The omission of the annual periodical burning by natives, of the grass and young saplings, has already produced in the open forest lands nearest to Sydney, thick forests of young trees, where, formerly, a man might gallop without impediment, and see whole miles before him.” (Mitchell, T.L. 1848. *Journal of an Expedition into the Interior of Tropical Australia in Search of a Route from Sydney to the Gulf of Carpentaria* (<http://gutenberg.net.au/ebooks/e00034.html> 30 January 2014)

But if no one takes any notice, history repeats itself.

Property owners seem to fight a never-ending battle on environmental issues. Contrary to the strident and often unscientific claims of the green organisations who seem to wield disproportionate influence with governments, groundcover – not just trees – prevents erosion. With a thoughtful mosaic approach, clearing without erosion and excess sedimentation is achievable. These sound land management principles are available and effective. They are what most property owners strive to achieve. However, most property owners are acutely aware that government controlled land is not usually maintained to an acceptable standard. The land may succumb quickly to erosion (think of the effects of tracked vehicles on fragile soils) and becomes a safe harbour for pests and weeds.

If the current training area has become overgrown or thickly forested such that more open country is required for manoeuvres, PRA suggests that, rather than acquire country that has been cleared, thinned, planted with grasses and improved pasture, and husbanded over many years for productive purposes, the government should be clearing some of the present area for its purposes. It is time that the government stepped up and shouldered its own land management responsibilities rather than simply taking from the people – and leaving an unmanaged wasteland in its wake.

There are no ENVIRONMENTAL COSTS involved in this. The training area can continue to be maintained as a suitable training area and good quality grazing land can continue to be maintained as productive grazing land.

But there are ENVIRONMENTAL BENEFITS to be realised. Allowing regrowth to take over formerly open country has the detrimental effect of reducing the carrying capacity of the land for domestic stock (if it is privately owned) or for native animals (if it is public land).

Clearing re-growth and maintaining it in a cleared state would provide useful for Army Engineers and Pioneer units. It would give the added benefit of providing less cover for pest animals, which are problem for adjoining landholders.

In short, in any cost-benefit analysis, there is much more to recommend Defence restoring its land to its previous condition and maintaining it in that state, and nothing to recommend the alternative of acquiring good quality grazing land as a replacement.

Conclusion

PRA believes that the government needs to urgently reassess how it approaches these matters. Lacking is an appreciation of subtle differences between how rural communities collectively operate and what happens in urban communities. Lacking is an appreciation of collective local knowledge over a wide geographic area.

If government approaches a local community with what the need is and provides the opportunity for input, local knowledge can result in a practical outcome avoiding many pitfalls not even considered from a desk in a capital city.

PRA believes that this document using the Triple Bottom Line approach clearly demonstrates that financially, socially and environmentally, the costs by far outweigh any benefits of the proposed acquisitions to expand defence training facilities.

Another lesson that can be learnt from the calculations within this document is that decision makers must examine the productive capacity of the area in which a land use change is sought to be imposed. While the high productive capacity of the land near Marlborough results in the cost being far higher to the economy than any benefit from the injection of funds arising from the Singapore Australia Comprehensive Strategic Partnership; if land was acquired with far less productive capacity, then the benefit will outweigh the cost.

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