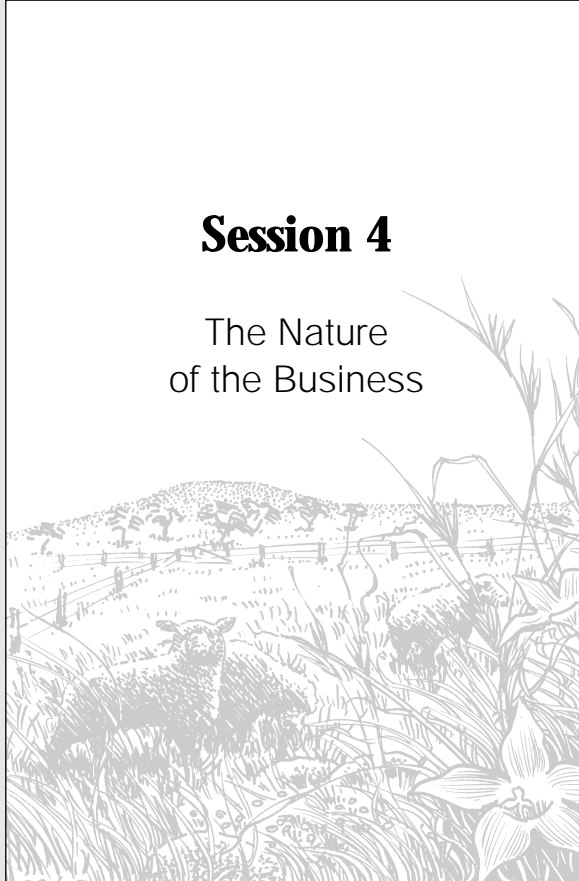


Session 4

The Nature
of the Business



Grazing management of native pastures in hill country

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Native grasses are more productive and persistent under rotational grazing than continuous grazing. Most hill country in SA, however, is continuously grazed. Graziers can immediately improve the productivity and persistence of their native grass pastures by, in simplest form, running twice the number of animals for half the time rather than set stocking.

To fully implement rotational grazing, additional subdivisional fencing is generally required. With the current low profitability of sheep and beef cattle, graziers are unlikely to be able to recoup investment for subdivision.

Graziers have tended to maintain stock numbers in spite of reduced fertiliser application. This has effectively increased stocking rates, putting even more pressure on native grasses. Native grass pastures should either be fertilised annually at maintenance, or the stocking rate reduced to offset the lowered pasture production.

Without an increase in commodity prices, there is no easy solution to these issues. Hill country pastures are particularly at risk in the long-term due to the high cost of management and fencing and their environmental sensitivity.

In spite of the remarkable persistence of native grasses, they are declining in most of the state's hill country. Once they are lost, they are gone forever – current technology cannot commercially re-establish them.

They are the most economic pasture base in hill pastures and profitable grazing systems need them to persist and produce at their best.

The farm business and natural resource management

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Considering native grassy vegetation as just one of many resources that are utilised within the farm business opens up new prospects for achieving its conservation.

Farm management economics can help evaluate alternative survival strategies for the farm business, and how native grassy vegetation might fit within those strategies. After an assessment of all the resources available to the farm business, investment opportunities can then be identified and evaluated for their effects on the profitability and cash flow of the whole farm business and on other goals of the owners.

It will be shown through case studies that the next best investment on the farm may sometimes be on native grassy vegetation, and at other times it will not be. It will also be shown that if a more profitable business strategy than the present one can be identified and successfully implemented, then any costs associated with conservation become more affordable. The message to land owners, their advisors and extension officers is to creatively think about different business strategies for the whole farm, and what place native grassy vegetation might have in them.

The message to conservation policy makers is to adopt approaches which assist owners to set new directions for the farm business or which change production systems across the whole farm. Treating 'whole farm' instruments as complementary to mechanisms like covenants, fencing grants and rate rebates is more likely to increase long-term chances of success and minimise public costs.

Keywords: farm business, strategy, conservation

The whole farm approach and native grassy vegetation

Farm leaders often say that farms need to be profitable before there will be more conservation. Meanwhile, public initiatives in conservation and land management tend to focus naturally on physical areas that are of public interest, such as grasslands, rather than on other entities such as farms or grazing systems. A link between the private and public interest can be made by using farm management economics. The whole farm orientation of this approach makes it a suitable method for examining the use of any area in a farm business context (Boehlje & Eidman 1984; Makeham & Malcolm 1993).

The farm management economics perspective is valuable because it can accommodate differences between farms in terms of goals of the owners, the

available resources, and how those resources are combined in the various farm activities. In this perspective, all the significant influences on a farm business need to be considered if the place of native grassy vegetation within the farm system is to be understood. It is argued here that treating native grassy vegetation as just one of many resources that are utilised within the farm business opens up new prospects for achieving its conservation.

The economic value of native grassy vegetation to the farm business is determined by its expected contribution to net profit for the farm business. This contribution is relative. It depends on other possible uses of all the resources under the owners' control, including the land occupied by the native grassy vegetation. Expectations about how the contribution of different resources might change in the future are also important.

The starting point for an assessment of a farm business must be its current profitability and cash flow. This is followed by an assessment of the

available resources, including the characteristics of each pasture type and its contribution to feed supply. Different options for utilising the native grassy vegetation area and other farm resources can then be examined. The standard budgets of farm management economic analysis (Makeham & Malcolm 1993) are used for this purpose. Economic and financial criteria for evaluating the options include **extra** profit/loss, comparative return on marginal capital invested, capacity to finance the change, and riskiness. The options can then be evaluated for their effects on conservation values and long-term sustainability.

Conservation management options for native grassy vegetation can be evaluated in a similar way. These options may be directed at improving the long-term productivity of the land from which the owner will ultimately benefit, or may aim to maintain conservation values and minimise off-site effects of agricultural activity from which the public or others primarily benefit. Examples include temporarily destocking or resting the pasture, retiring land from production, and subdivision to allow better grazing control. The aim is to see how these options would fit into a changed farm business operation—specifically, whether significant loss of income will result.

The case studies

Results from eight case studies provide insight into the place of natural resources within farm businesses¹. Four case studies have been undertaken

on the natural grassland areas of the Riverine Plain in Victoria and NSW (Crosthwaite & Malcolm 1999) and four on the hills and tablelands of those States (Crosthwaite & Malcolm 1998). A criteria for selecting these case study farms was that native grasslands or pastures be important in the farming system. All the properties on the Riverine Plain and the one in south-western Victoria have native grasslands with conservation characteristics recognised as important by governments (Department of Environment 1996; Department of Natural Resources and Environment 1997). By contrast, the hill properties have native pastures valued for their place in sustainable farming systems, specifically for providing grazing opportunities while minimising erosion, salinity, and acidity problems. These native pastures, usually with few native species other than grasses, are generally found on more difficult terrain or soils; they complement introduced pastures on the farm.

Current management of grasslands varies, although there are some common elements. None of the farms studied employ a regular rotational grazing system. Only one consistently rests native grassland in spring. Others may rest paddocks in particular years. Several are increasing the amount of resting. Long-term stocking rates may be higher than desirable from a conservation management viewpoint on several properties. The native grassland occupies between 40 and 100% of the grazing area on the properties (Table 1).

Table 1. Characteristics of the case study farms

	Case farm							
	Plains				Hills			
	1	2	3	4	5	6	7	8
Size – ha	4,791	8,000	2,430	852	361	907	1,215	
Area of farm in native pasture – %	100	94	30	87	66	75	63	75
Crop & fallow area – ha.		500	1,619	50				
DSEs carried	5,860	8,619	7,150	2,092	6,658	3,300	5,616	8,003
Ewes – no.	2,500	3,500	2,700	700	1,725	-	1,250	2,500
Wethers – no.	0	0	1,700	400	1,000	-	900	1,200
Fat lambs (bought in) – no.			1,000					
2 yo fine wool – no.							700	
Beef cows – no.		80			100	60	12	60
Dairy cows – no.						100		

¹ A ninth case study farm on the basalt plains of southwestern Victoria has also been undertaken (Crosthwaite and MacLeod, in press).

Self-replacing flocks of merino sheep are run on all but one property. They also carry some wethers, and several produce cross-bred lambs. One farm runs a dairy herd, and several carry beef cattle. Stocking rates were found to be lower on the native grassland than on introduced pasture. The contribution of native pasture to animal feed supply ranges is above 30 per cent in all cases. The seasonal variation is important, with native pasture contributing relatively more when green feed is short in summer and autumn.

There is considerable short-term financial pressure on several of the case farms (Table 2). Return to capital is not generally high. Many carry sizeable debt. Net cash flow is often negative or low. Farm goals vary and are influenced by the age of the operators, level of off-farm income, number and age of dependents, and expectations about the future of the farm. Most need to increase income in the long-term if the farms are to remain viable units.

The outlook for the properties on the Riverine Plain is mixed. Case farm 1 is a grazing property on which income needs to increase. The owners expect to achieve this by expanding the area of saltbush planted, which will particularly increase income in poor years. This approach is arguably compatible with maintaining conservation values.

On case farm 2, sheep and cattle are grazed and rice is also grown. Net farm income is currently better than on case farm 1, but maintaining it in future is considerably more uncertain as the farm has an insecure water entitlement and faces possible

pasture decline due to expansion of unpalatable Dillon Bush (*Nitraria billardierei*). The owner's options are to do nothing, stock more lightly, or plant Old Man Saltbush (*Atriplex nummularia*). Stocking more lightly will cause cash flow to drop unacceptably. While saltbush plantations are likely to be profitable and thus balance the effects of lighter stocking, a large investment might also be risky. The owners are doubtful about the value of investing in saltbush, particularly as they question the decline expected by the agronomist who surveyed the pastures.

Income is satisfactory on case farm 3 where there is grazing, large-scale cropping and opportunistic buying and fattening of lambs. However, unlike case farms 1 and 2, this farm has large debts, and boosting cash flow is a priority. Stocking rate on the 500 ha of native grassland is falling, probably due to soil compaction. The property is already intensively run, and the future farm business is likely to be similar unless alternative enterprises are found. The owner's plan to include most or all of the grassland in a crop rotation, as previously occurred in the 1960s. The alternative is to lighten stocking rate, which is consistent with public conservation goals.

Case farm 4 is a farm run by an elderly couple for whom current income from grazing and limited cropping is adequate. Grasslands of high conservation value cover 25% of the farm, occupying four different blocks of land. It is probable that the blocks will be sold off separately within 10 years, with land sale price

Table 2. The current economic and financial situation on the case study farms

	Case farm							
	Plains				Hills			
	1	2	3	4	5	6	7	8
Total capital (\$'000)	1,190	1,646	1,476	747	1,251	845	1,340	1,680
Equity %	88	82	87	100	95	85	100	100
Economic performance								
Expected operating profit after tax (\$'000)	14	32	72	11	18	2	28	10
Return to capital %	1.2	2.0	5.6	1.5	2.3	0.2	1.8	1.4
Financial situation								
Cash in (ie. income) (\$'000)	155	293	484	75	159	98	161	195
Cash out (\$'000)	162	270	438	62	168	114	132	173
Net cash flow (\$'000)	-7	23	47	13	-9	-16	29	22

likely to be determined by expected returns from cropping.

The scenarios for the four case study farms on the hill country is somewhat different to those on the plains.

Case farm 5 runs sheep and cattle. Income needs to increase over time. Pasture investments on the better land classes are expected to make the most significant contribution. The owners will also fertilise the native pasture, but may continue to rotate applications rather than adopt the strategy of slowly building up fertility on selected areas with light annual applications as Simpson and Langford (1996) advocate. There is no intention of replacing native pasture, though advances in sowing technology or persistence of introduced grasses could change this.

Net farm income on case farm 6, which runs dairy and beef cattle, is very low and must increase substantially if the family is to stay in farming. The current program of more heavily fertilising dairy pasture is not likely to be adequate. Sub-dividing and fertilising a large native pasture paddock used by the dairy herd is expected to make a sizeable difference to net farm income, which might then be just at a level to provide for farm re-investment and to maintain the family. However, given their tight cash flow, the owners may have difficulty with this investment.

The owners of case farms 7 and 8 have a 'reasonable' income, but are concerned that they must keep increasing farm productivity to stay ahead. Pasture investment options available to case farm 7 are confined to the large areas of native pasture. The owners are keen to retain the native grasses and are embarking on a program of increasing production from this pasture by direct drilling clover seed, using fertiliser, and sub-division. They have accepted that the strategy will not yield significant benefits for several years. Options on case farm 8 include investments on both previously sown introduced pasture and on native pasture. They are embarking on the first, but are not yet convinced that the second is a realistic option.

In summary, there are clear differences between the properties in terms of alternative directions that the farm businesses might take, and some have more scope for management that is consistent with public policy goals than others. For properties on the plains, opportunities for investment on the farm are more likely to involve native grassland than other areas of the farm—either replacing the

native grassland with cropping or changing its management by adding saltbush for example. On properties in the hills, there are more likely to be opportunities elsewhere on the farm, for example improving run-down pasture. On the hills, further investment in native pasture is also feasible without destroying its base of native grasses, though quick returns are not possible.

Where small areas of high conservation value are of concern then there is likely to be less difficulty in identifying an acceptable farm investment strategy that allows its conservation while still increasing income. This can be most clearly seen for the four hill farms. The conservation options and the areas they would apply to are shown in Table 3. The options are to retire land from production, rest land for 6-12 weeks a year, and sub-divide small areas out of a large paddock. Estimates of the affordability of the conservation options are shown in Table 4. It might be difficult to identify such a strategy on newly purchased properties and others that are heavily in debt.

Table 3. Conservation options

	Case farm			
	5	6	7	8
	ha	ha	ha	ha
Retire land	50	30	27	
Rest land for 6-12 weeks a year	100	15	27	40
Sub-divide and rest				60

Implications for policy and extension

Five levels of opportunity for targeting policy and extension towards natural resources on farms are suggested. These are: the site-specific (paddock), the production systems, the farm business, the ownership and management of the farm business, and off-farm networks (Table 5).

The site-specific level relates directly to the area of conservation or land management interest. Questions about policy and extension must start, but not end, here. At the other end, focussing attention on the decision-maker is important not least because that person(s) may change. Further, the decision-maker is influenced by off-farm networks such as the local community, farm advisors, policy makers and players in the marketing chain (from inputs to end-products).

Table 4. Affordability of conservation options – expected after-tax farm operating profit

	Case farm			
	5	6	7	8
	\$'000	\$'000	\$'000	\$'000
Whole farm – without investments	21.0	1.8	24.1	21.8
Investments – rest of farm				
Direct drill – grass & clover	6.4	2.8		5.7
Fertilising pasture		8.1		4.9
Irrigation	3.1			
Investments – native pasture areas				
Fertilise only	3.6		4.5	8.7
Direct drill – clover & fertilise			8.3	
Sub-divide & fertilise		4.8		
Whole farm – with investments	34.2	17.5	36.9	41.0
Conservation options				
Retire land	-2.3	-0.5	-1.3	
Rest land for 6-12 weeks a year	-1.7	-0.4	-0.5	-1.6
Sub-divide and rest				2.0
Whole farm – with conservation options	30.2	16.6	35.1	40.6

Changing production systems on the farm, not just the site of interest, may lead to better public outcomes. Possible changes on the case study farms include increasing rotation of stock so as to rest pastures, planting saltbush to take pressure off pastures, and consideration of native grassland issues in planning crop-pasture rotations. Incentives to change the grazing system further away from set-stocking and more towards rotational grazing may be appropriate, and could include reimbursing any direct costs associated with making the shift, support in learning new management and pasture recognition techniques, motivational rewards, and possibly tax deductions.

Table 5. Target for conservation initiatives

Ultimate target	Proximate target
Site of public interest	Production system
	Farm business
	Owners and managers
	Off-site networks

The farm business level places the management of the native grassland in the context of farm business goals and how all resources, including labour and capital, are utilised. Developing an appropriate policy and extension approach requires information about what business strategies might be available that meet, or more closely reconcile, public and private objectives. However, incorporating environmental issues into farm planning alone is unlikely to be adequate. While standard farm management texts place a great emphasis on planning (Boehlje & Eidman 1984), capabilities and competence may be equally if not more important. Drawing on recent economics literature (Crosthwaite 1999), three important aspects of enterprise behaviour are important in considering appropriate policy and effective extension. These are:

- discovery or creation of opportunities, and taking advantage of and anticipating new situations;
- significance of routine (good and bad habits) in maintaining stability and success of the organisation; and
- capabilities and competencies available to the enterprise, including coordination skills, effectiveness in the use of time, adaptability and how managers learn from their experiences.

Arising from these considerations are four broad areas to which public assistance might be directed in the case of farms with resources of public interest: creating opportunities, developing business skills, increasing capabilities and competencies, and providing a network of support. These are now discussed in turn.

Farmers need to be involved in the creation and elaboration of strategies that might either reconcile public and private interest, or come close to it. At present this entrepreneurial role is largely left to the individual farmer, some of whom may engage farm management consultants or other advisors to assist in this role or who may attend PROGRAZE, Property Management Planning, Dairy Business Focus and similar courses.

Providing business planning courses as well as expert advice to targeted groups of farmers with native grassy vegetation, especially those with high conservation value sites, might be appropriate.

Once a farmer embarks upon a strategy, failure is always a possibility. Good business training that imparts skills in analyses (including budgeting), monitoring, goal-setting, planning, tactical decision-making and negotiation can help minimise the risk of failure.

Increasing the capabilities and competencies of farmers, and opening up avenues for them to draw on the expertise of others, lays the foundation for them to create new opportunities and to take advantage of and anticipate new situations. This may include reviewing the farm operator's routines and skills, many of which involve choices that are not made consciously. Some routines will be essential for the stability of the operation, while others are barriers to improved management.

Finally, creating networks of like-minded people or of those facing similar management issues is important for reinforcing implementation of the chosen strategy and of reviewing and revising it as required.

The solutions will vary from farm to farm. An illustration of how the approach outlined in this paper might work is shown in Table 6.

Table 6. How the approach might work for properties where investment in saltbush plantations has been identified as a strategy

The example is illustrative, and is not an unqualified endorsement of the role of saltbush.

Objective: successful establishment of saltbush and its use in the grazing system to help manage rangelands in a sustainable manner.

Possible actions:

- fund the establishment of saltbush and provide appropriate technical support;
 - provide assistance to encourage effective integration of the plantations into tactical grazing management;
 - monitor performance of the plantation, effects on livestock and pasture, and profitability;
 - evaluate the owners' capabilities and business and management skills, and possibly provide targeted assistance to improve these skills;
 - assist in development of a whole farm plan with physical and business planning elements;
 - seek to involve the owners in appropriate support networks.
-

Conclusion

New dimensions to the conservation and land management problem emerge when it is examined from the whole farm perspective.

It has been shown that the next best investment on the farm may sometimes be on native grassy vegetation, and at other times it will not be. It has also been shown that if a more profitable business strategy than the present one can be identified and successfully implemented, then any costs associated with conservation become more affordable. While identifying such strategies may not be easy, the message for land owners, their advisors and extension officers is to creatively think about different business strategies for the whole farm, and what place native grassy vegetation might have in them.

The message for conservation policy makers is to adopt approaches that assist owners to set new directions for the farm business or which change production systems across the whole farm. The problem does not have to be conceived in terms of payments to compensate for private costs. The problem is instead how the business can be developed while maintaining native grassy vegetation or other natural resources of public interest.

Although there is no guarantee of success, this approach is likely to both increase the prospects of lasting success and reduce the costs to government. In the case of farms with native grassland of high conservation value, there is no alternative to public involvement because grasslands are unique and there is the possibility of irreversible losses. The question is what sort of involvement. Here, the farm business approach can be treated as complementary to mechanisms like covenants, fencing grants and rate rebates.

A starting point in adopting this approach might be to set regional targets for the number of farms with important native grassy vegetation receiving on-going business advice, funded initially through government programs in conservation and land management.

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http://www.landfood.unimelb.edu.au/research/grass_eco/

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Marketing opportunities

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The cost/price crisis currently confronting Australia's grassland producers has defied some of the most creative thinking and responses that government policies and extension programs have initiated in recent times. This paper proposes that for some producers the keys to addressing the price dimension of their business lie in their own astute marketing strategies, which are, in turn, framed by the marketing arenas they choose to operate within. This framework of marketing arenas is initially outlined, followed by instances of new thinking and new action that typify entrepreneurial responses by producers to the opportunities that exist there for them. The risk factors and critical success factors that accompany these initiatives are also identified, since they provide an indication as to why these new strategies require significant strategic skills and commercial leadership.

Keywords: producer marketing opportunities

Introduction

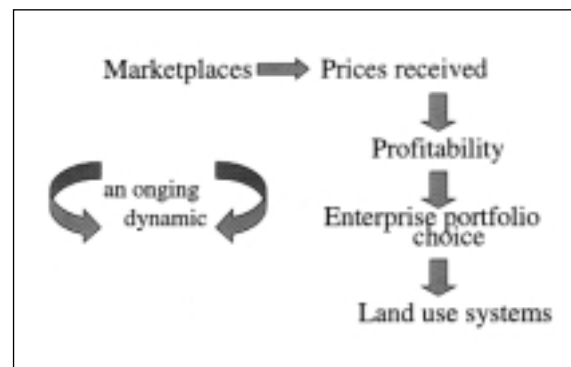
Marketing opportunities have always represented an ongoing dynamic for rural producers to seek out, evaluate and embrace. In certain situations they change the outlook of an industry so profoundly that producers are literally forced to adjust to them. The thrust of this paper focuses on developing a framework for analysing Australia's complex rural marketing landscape and then applying this framework to identifying opportunities for rural producer marketing. First though, it is important to forge a link between rural marketplaces and the environment, particularly grassy landscapes.

Linking marketplaces with grassy landscapes

The key elements of this linkage are outlined in Figure 1. The linkage begins with the assumption that because rural production is fundamentally a commercial activity, rural markets are the places where the value created by specific rural products is determined and expressed back to producers through prices received. Market prices are, in turn, one vital component in the relative profitability of

various rural enterprises. Therefore, rural producers are influenced by marketplaces in their choice of enterprise portfolio. Ultimately, enterprise portfolios become major determinants of land use systems, of which grassy landscapes are an example. One instance of this connection is the status of the wool industry marketplace. We will hear at this conference of the impact on land use systems of the long-term decline in viability of the Australian wool industry. There will be divergent views on whether these impacts are positive or negative, but it is highly likely that many will see the extent of these impacts as profound.

Figure. 1: Linking marketplaces with grassy landscapes



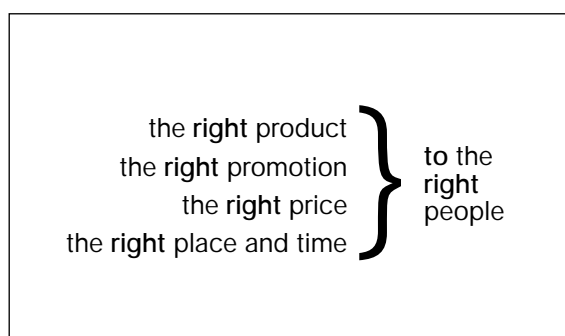
From a marketing and commercial perspective there is an important lesson here, that is, *no industry value chain has an innate right to continue to exist*. This right is earned day after day and year after year in a competitive marketplace, by continuing to provide superior value to final end consumers at acceptable profit and risk to major stakeholders in the chain (Lanning & Phillips 1991; Dept Primary Industries and Energy 1998). If any one of these just-mentioned criteria begins to be eroded, the entire industry chain can be threatened. Ultimately, the final consumer marketplace is frequently the stage on which the future of the industry is unravelled or re-stitched, since any viability issues for its stakeholders are reflected in the appropriateness of its product offerings. We turn next to consider what marketing is as a business and as an organisational process. This is an essential step in appreciating the role of marketplaces in providing rural producers with commercial opportunities.

What is marketing?

The evolution of marketing as a concept makes instructive reading (e.g. Assael *et al.* 1995; Kotler *et al.* 1998) and is a reflection of the various commercial eras that Western society has passed through over the past century. We are currently in the era of 'strategic marketing', where competitive survival and advantage is as important as listening to customers and responding to what they say (Dunne 1999).

However, from a rural producer perspective, it is important to convey a clear message about the elements that comprise a marketing approach so that these elements can be analysed and effectively actioned. For this reason I put forward the definition of marketing in Figure 2.

Figure 2. What is marketing?



The role of this definition is to emphasise that marketing as an activity must produce a mix of strategy outcomes (e.g. product, price, place and promotion), which are driven by an understanding of target customer needs and wants. It is a selling approach, not a marketing approach, that says 'here is my product, now how effectively can I dispose of it?' A marketing approach begins with the customer and asks 'here are my target customers, how can I sustainably provide a mix of benefits that will be a superior value offer to them in a competitive marketplace and at acceptable profit and risk to myself?' (Lanning & Phillips 1991).

The second aspect of this definition is that marketing, like most aspects of human activity, is only meaningful when criteria are developed that create and define purpose. That is, it begs the criteria that in any given situation prescribe what is 'right' for customers (and, ultimately, for producers).

The difficulty for rural producers, as indicated to me at seminars and marketing courses, is that marketing in the terms described above is too challenging to implement. For instance:

- they are struggling producers not marketers;
- therefore they do not have the resources or time;
- nor the mindset, inclination or skills;
- they live in industries that are not focused on the customer anyway;
- it's really someone else's job; and
- they are getting older!

One response in the face of these comments is to suggest that a further framework exists that specifically covers rural producer marketing situations and allows rural producers to recognise opportunities that relate to the *way* they can approach marketing their products. We term this framework 'rural producer Marketing Arenas'.

Marketing arenas

Marketing arenas are defined as: essential ways in which rural producers can choose to market their products. In this context we will focus primarily on how these ways of marketing (i.e. arenas) can assist producers to recognise and seize opportunities, and to appreciate the critical success factors they must work on.

The three arenas that form this framework are:

- the COMMODITY arena;
- the CONTRACT/ ALLIANCE arena; and
- the BRANDED PRODUCT arena.

I will define and give examples of these arenas then review them in terms of opportunities and success factors. More detailed discussion of the framework appears under NSW Agriculture (1992) and Watson (1999). Other articles (Watson1995a; Watson1995b) further explore the issues of marketing opportunities for rural producers.

The commodity arena

Definition: crops, fibres or livestock sold through selling systems for the 'price on the sale day', at a range of possible gradings and prices (see also Kondinin Group 1997).

Examples: saleyard cattle; wheat in various grades; fruit broadly graded and sold through central markets

Some producer mindsets:

'I sell to my selling system':

- I accept the auction price/pool price on sale day (or I hedge or take out an exchange traded option);
- someone else downstream in the selling system does the consumer marketing, therefore my role is 'production';
- the selling system will accept almost any quality grade I produce, at its going price, but good quality is not always rewarded;
- if I don't supply this season, the selling system will still be there for me next time, without penalty.

Opportunities (including risk reduction):

- reduce selling costs;
- improve forecasting and selling system information to optimise sale timing and prices;
- foster relationships with selling system stakeholders (e.g. agents) to improve strategy, especially when there are geographical price spreads;
- minimise price risk via disciplined selling plans and hedging/options strategies;
- networking ability with other producers to build sales/supply bargaining power.

Critical success factors:

- forecasting ability for;
 - long term/medium term industry outlook
 - short term fundamental supply/demand forces
 - short term technical price indicators;

- researching ability to;
 - obtain selling system and price information;
- networking ability to;
 - leverage supply power.

The contract/ alliance arena

Definition: Products/services are supplied by rural producers to buyers (processors, wholesalers, resellers, retailers) on the basis of contracts, which typically specify volume, quality, delivery and price.

Examples: Beef quality alliances; producer-exporter contracts; vegetable processor contracts; contracts to cooperatives; lamb contracts to beef wholesalers/retailers; wine grape contracts to wineries.

Some producer mindsets:

'I have a key relationship with my buyer to physically supply my product on the basis of price, volume, quality and delivery':

- therefore it is important that I negotiate the best possible contract deal;
- even though someone downstream will still do the consumer marketing, my contract keeps me aware of consumer requirements;
- to retain my buyer relationship I need to fulfil my contract and be aware of any potential penalties;
- production and quality control are therefore vital.

Opportunities including risk reduction:

- building negotiating power and skills;
- partnerships/ networks to improve quality and timing;
- developing relationships as preferred suppliers; and
- reducing downside risk of not fulfilling contracts.

Critical success factors:

- negotiation skills to develop the best possible contracts;
- obtaining industry market information to evaluate the best buyer/ contract opportunities;
- relationship skills to develop long term, preferred supplier status;
- creating networks or more formal business partnerships with other producers to improve supply power, quality and timing;
- entrepreneurial leadership (particularly if other suppliers are in collaboration) to sense and respond to emerging opportunities.

The branded product arena

Definition: Traceable products/services that carry the differentiating brand of the rural producer(s) accountable for the pricing, promotion and delivery to target customer segments.

Examples: Haddon Rig Merino Stud; Millamolong farm homestays; Batlow apples; Cassavene wool garments.

Some producer mindsets:

‘With my brand on my product, I am accountable for creating, promoting and delivering the value at the right price, which will attract and keep my target customers and enable me to operate at sustainable profit and risk’:

- therefore, it is important that I research my customer needs;
- it is important that I benchmark my business processes and maintain quality and customer service; and
- my reputation as a business marketer is totally linked to my ability to consistently and reliably supply this value to my customers.

Opportunities including risk reduction:

- niche markets not well served by commodity/contract players;
- creating the right relationships to secure competitive advantage;
- obtaining appropriate skills and advice to reduce risk.

Critical success factors:

- the full range of entrepreneurial skills, especially:
- skills for investigating customer needs;
- skills in preparing business plans;
- skills in managing/ promoting a branded product or service to a target group of customers.

Using the three arenas framework to understand opportunities and critical success factors

The value of this arenas framework is that it provides rural producers with a map to assess opportunities, risks and critical success factors via the way they choose to market their product(s). Some key aspects to keep in mind are:

- none of the arenas offer a recipe for marketing success. They are all useful to rural producers once their appropriateness to the industry and strengths and limitations are understood;

- they can apply to marketing situations involving one producer or many;
- producers tend to operate in and look for opportunities in arenas that match their existing ‘comfort zones’ e.g. the commodity arena;
- when producers do consider moving from one arena to another they will encounter shifts in mindset/ new know-how and skills/ new tools and techniques/ new relationships to create and maintain. Typically such shifts pose a threat to existing comfort zones since they call for a different ‘marketing hat’. To make these shifts, producers frequently need the incentives that emerge through different relationships with stakeholders in their value chain. One such relationship has been pioneered in Victoria by Casticum Brothers meats with lamb producers (Dept of Primary Industries and Energy 1997);
- some rural producers are adept at holding a portfolio of enterprises that are marketed across different arenas, e.g. Millamolong at Mandurama NSW (pers. comm.) may, simultaneously, sell wool at auction (commodity arena), prime lambs on contract (contract arena), and operate an international farm homestay (branded product arena);
- other producers may use the three arenas to market one enterprise, e.g. the MacSmith family in Central Western NSW (pers. comm.) may sell a percentage of their anticipated harvest of Canola on a forward contract, a further portion for the going price on harvest day, and brand sell a further portion as ‘cold-pressed’ ‘Country Canola’ oil in bottles to retailers.

Conclusion

This paper has looked at pathways for rural producers to consider in their ongoing search for marketing opportunities, and in understanding factors critical to their marketing success. With the benefit of a marketing arenas framework, rural producers can more effectively consider their overall approach to opportunity search rather than relying solely on the trends of the moment to guide them. The arenas concept is also useful in assisting producers to consider the mindset and skills requirements of moving to a different mode of marketing, especially when this threatens their personal marketing comfort zone. It also enables producers to gain a deeper understanding of the critical success factors as they move from arena to arena in their marketing approach.

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Creating private markets for nature conservation

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This paper argues that private markets for conservation will need to be created to successfully conserve grassy landscapes. Australia has a national parks system of which it is justifiably proud. However, native grassy landscapes, which are generally privately owned within agricultural regions, are not well represented within Australia's national reserve system. A new approach is needed where individuals are encouraged to invest in nature conservation. In this area, Australia has much to learn from Europe and North America where governments are just one player in the nature conservation game.

The paper reviews current approaches to nature conservation and proposes a model 'Conservation Management Network' for coordinating conservation effort across land uses and tenures. Policies for putting a Conservation Management Network in place through partnerships with landholders are discussed. These range from legislative and legal controls to education and incentive programs. Emphasis is placed on getting the mix of policies right rather than focussing on any single solution.

Finally, mechanisms for encouraging private investment in nature conservation are discussed. The challenge of creating a philanthropic market is put forward, that is, encouraging direct investment conservation by concerned city dwellers. The role of conservation trusts and tax incentives in creating this market are highlighted.

Keywords: private markets, conservation, policy tools, conservation trusts, tax

Introduction – the need for private sector involvement

There are a number of important drivers when considering the private and non-government sectors in developing successful approaches to the conservation of native grasslands. The first set of drivers relate to a fundamental shift in approaches to achieving nature conservation¹ outcomes:

- It is broadly recognised that many of our most vulnerable ecosystems (groups of native plants and animals) are found on land that is managed by private landholders. Examples include the temperate woodlands and grasslands of the wheat–sheep belt, and parts of the rangelands.

Traditional approaches to public conservation through National Parks will not work in these regions. Rather, an approach that fosters conservation stewardship by individual landholders is required (Pressy 1995; Binning & Young 1997).

- Nature conservation is fundamentally directed at the conservation of biodiversity at all levels, that is, genetic, species and ecosystems. Loss of biodiversity is perhaps Australia's most urgent environmental problem (Commonwealth of Australia 1996). The protection of biodiversity requires a landscape approach where the protection of natural systems and the ecological processes that underpin them are effectively integrated with human production systems. A landscape approach to nature conservation demands a much broader set of strategies.

¹ It is noted that the term nature conservation as used in this paper should be interpreted in the broad context set out here.

- Any approach to conserving natural areas requires effective engagement of regional and local communities and must be underpinned by strategies that maintain the economic viability and social vitality of regional communities.

For these reasons, it would be difficult to sustain an argument that new approaches to nature conservation are not required. The second set of drivers relate to the characteristics of the non-government sector and what they can add to the achievement of on-ground conservation outcomes:

- The non-government sector is independent and may be more successful in engaging private landholders in nature conservation programs. The experience of Trust for Nature (Victoria) would suggest this is indeed the case. Likewise, the employment of local landholders as extension officers is proving to be a highly successful innovation in many conservation programs (Lambert & Elix 1998).
- The non-government sector is large, powerful and diverse. The task of managing our natural environment is a complex and difficult task that cannot be left to governments alone.
- The non-government sector has greater scope to be innovative. Non-government organisations are often less constrained than government agencies and are better able to gauge community needs and to develop entrepreneurial solutions. An important niche exists for the non-government sector to be the innovators in conservation planning and program development.
- Free of bureaucratic processes, non-government organisations are often able to deliver on-ground outcomes more efficiently than government organisations. This is particularly true at local and regional scales where individual knowledge and networks are often critical.
- Finally, the non-government sector has scope to develop pragmatic solutions to nature conservation that are often outside the political reach of government institutions.

Nevertheless, governments also have played and will continue to play a critical role in planning for and achieving conservation outcomes. Governments are leaders and must establish the institutional structures that correct the failure of markets to adequately recognise conservation as a public good.

In the next two sections of the paper a conceptual framework for achieving conservation outcomes is put forward followed by a brief summary of policies and strategies for engaging private landholders in

conservation before returning to the main topic: engagement of the private and non-government sectors.

Conservation Management Network – a conceptual framework

There are currently no mechanisms for accounting for and quantifying the contribution of the non-government sector in achieving nature conservation objectives. Lack of institutional recognition means that the contribution of private initiatives cannot be readily quantified. This is important for two reasons. First, it means that the role of private conservation is often neglected in the development of government policy at national, State, regional and local scales. Second, the poor public profile of private conservation impedes its future growth.

The concept of a Community Conservation Network has been developed to address this concern (Prober & Thiele 1996, 1999; Binning & Young 1997). Under this approach, all activities relevant to nature conservation are monitored and coordinated on an ecosystem basis across all land tenures. Some tenures, such as National Parks and local reserves, allow for conservation to be the exclusive land-use. Others, such as State forests and rural land, may require that land be managed for a range of purposes. The concept of a community conservation network is depicted in Figure 1.

The objective is to develop management strategies that maximise the contribution that each tenure of land can make to the achievement of conservation outcomes. No tenure is considered 'superior' to another. Rather, management strategies that maximise opportunities for integrating conservation objectives with other land-uses are actively pursued on all land tenures. For example, in the case of rural lands, conservation actions would need to be integrated with agricultural

Figure 1. The concept of a conservation management network



practices and the protection of corridors of native vegetation. The framework is inclusive and acknowledges that in many regions conservation objectives will not be met exclusively through formal reserves requiring greater integration between on and off-reserve conservation.²

The challenge is to operationalise the conceptual framework put forward through a community conservation network. This requires monitoring and recording the status of ecological communities across all tenures. A useful starting point would be to ensure that databases for recording both on an off reserve conservation data are effectively coordinated.

Effective strategies and policies for working with landholders

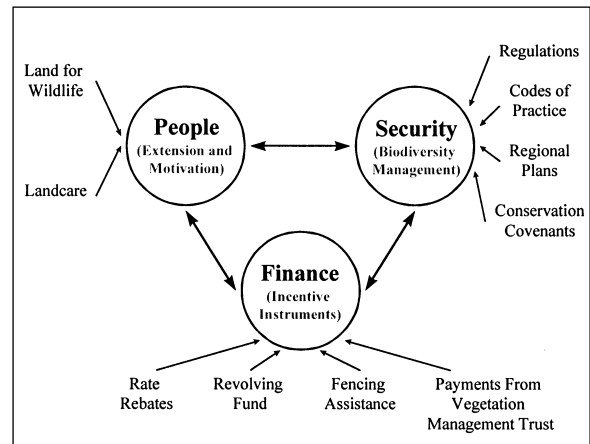
Ultimately, it is the actions of private land managers that will determine how effectively many of Australia's most threatened ecosystems, including grasslands, are conserved.

There is much debate on how effective partnerships may be engendered with private landholders. One approach, as exemplified by the Landcare movement, emphasises the importance of education and participation to raise the awareness and skills of landholders. An alternative approach seeks to establish minimum standards through regulation of the clearing and management of native vegetation.

Too often such policy tools are seen as competing mechanisms that should be offset against one another. Young *et al.* (1996) and Binning and Young (1997) find that a mix of these policy instruments are most likely to effectively conserve biodiversity by seeking to: address multiple land use objectives; retain landholder support; and manage for uncertainty and the prevention of irreversible loss. A framework that integrates the various mechanisms available for off-reserve conservation is shown in Figure 2. The core components of successful policy development can be characterised in the following way:

- *People*—the tools that can be used to motivate and retain landholders support for biodiversity programs;
- *Security*—the mechanisms that can be used to provide secure adaptive management of biodiversity; and
- *Finance*—the incentives that can be provided to share the costs of managing biodiversity.

Figure 2. Components of an effective policy mix for off-reserve conservation



The full range of tools identified in figure 2 is rapidly growing in Australia (Dore *et al.* 1999). Whilst work needs to be done, it is safe to conclude that the principle of using mixes of policy tools is well embedded. The challenge that remains is to more effectively engage the non-government sector, as alluded to in the introduction of this paper, in funding and delivering programs of this kind. It is to this topic that we now turn.

Conservation trusts – a model for private sector involvement

If the non-government sector is going to be effectively engaged in grassland conservation on private lands, a new range of organisations for private conservation will be required. These organisations, known as Land Trusts in the United States, would be able to access the full range of conservation tools, including the capacity to raise funds through donations and corporate contributions, enter conservation covenants and buy and sell land under Trust. The experiences of one such US based organisation, The Nature Conservancy, is described in Box 1.

² It is noted that such a framework is not entirely new and is consistent with the approach used in the United Nations Environment Program's Biosphere Reserve model

Box 1 The Nature Conservancy

The Nature Conservancy is a non-profit organisation established in the United States. The Nature Conservancy uses non-traditional market based solutions to protect land that is of high conservation value. The mission of the The Nature Conservancy is 'to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and water they need to survive'.

The Conservancy currently operates the largest private system of nature sanctuaries in the world, with more than 1600 preserves in the United States. Originally, the Conservancy achieved its goal by simply purchasing land of high conservation value from willing sellers. However to increase effectiveness and to extend its role, the Conservancy now protects land through gifts, exchanges, conservation easements, management agreements, debt-for-nature swaps, and management partnerships (See the discussion of mechanisms).

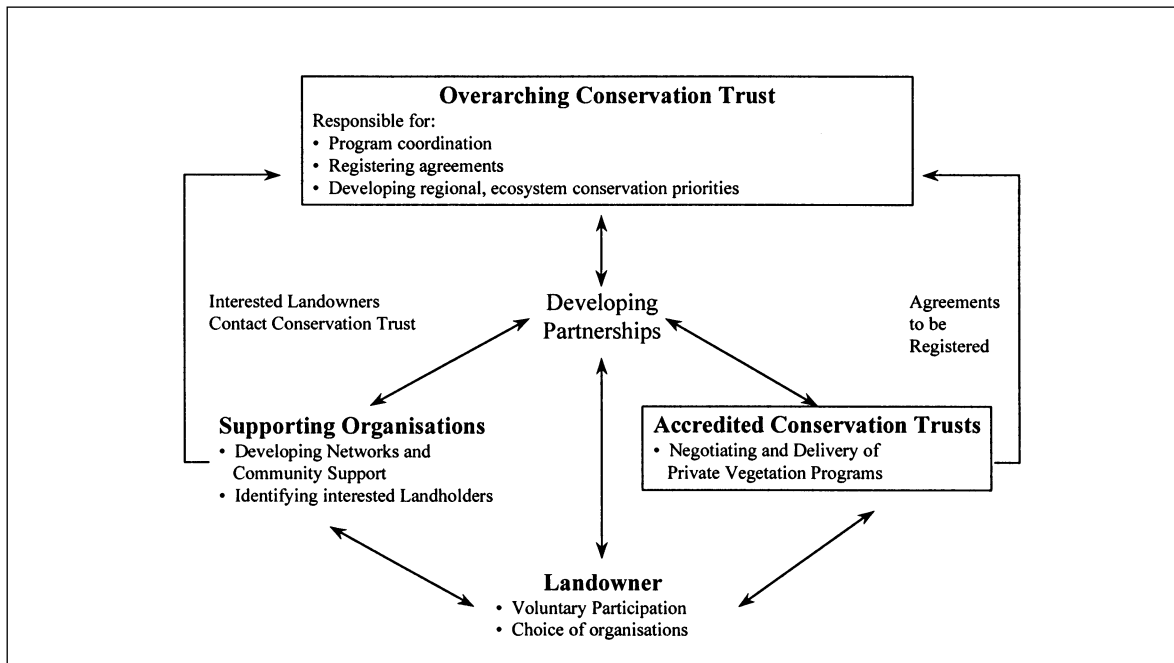
The Nature Conservancy now protects more than 9 million acres of ecologically significant land in the United States.

The Conservancy places primary importance on developing partnerships with landholders, businesses, academic institutions and government. Some examples are:

- Aluminium Company of America (Alcoa) and The Nature Conservancy signed a cooperative agreement in January 1996 that will result in the conservation and management of 1058 acres in Arkansas, USA;
- A partnership was established in 1996 between the New Jersey Chapter of The Nature Conservancy and a utility company called Public Service Electric and Gas Company (PS&G). Under contract the Conservancy is required to manage 16,000 acres of land owned by PS&G, which is home to 376 rare plants, animals and natural communities. 101 of these are listed by the State of New Jersey as endangered;
- Microsoft co-founder Paul G. Allen pledged to donate \$5 million to The Nature Conservancy of Washington in January 1997 in the form of a Challenge Grant donated through the Paul G. Allen Forest Protection Foundation. The Foundation will donate \$1 for every \$2 donated to the Conservancy until the \$5 million limit is reached. Allen's intention is to spur additional private donations to a total of \$15 million.

Through innovative programs of this kind the Conservancy has become one of the top 10 charities in the United States. This demonstrates the increased importance of nature conservation to individuals and corporations, who between them provide 80% of funding for The Nature Conservancy. Whilst The Nature Conservancy is limited by a reliance on donations and investments, this has encouraged innovative ways of expanding the program. The Nature Conservancy's annual turnover is \$450 million.

Figure 3. A model for establishing Conservation Trusts



Considerable progress has been made in promoting the use of conservation covenants in Australia. All States now have active covenanting programs, most of which are managed by State government agencies. Progress in achieving non-government access to covenanting powers has also been encouraging. Western Australia, through the National Trust, has recently established a program at arms length to government modelled on Victoria's Trust for Nature. Queensland and New South Wales are also in the process of considering the establishment of similar Trusts at arms length to government.

However, the weakness with all of the covenanting mechanisms in Australia is that they limit access to a single organisation, be it government or non-government. In no State is it possible for other organisations to access similar powers and develop other complementary programs. One possible way to address this impediment would be to develop enabling legislation that establishes clear criteria through which organisations could be accredited to access a range of conservation tools, including status to receive tax deductible donations and the ability to enter conservation covenants.

Two potential models for such legislation can be envisaged. The first model would involve the creation of an over-arching Conservation Trust with an independent board. This Trust would be responsible for holding a register of conservation

covenants and for supporting and accrediting new organisations seeking to negotiate conservation covenants. The process of accreditation could be based on strict criteria relating to factors such as the organisation being not-for-profit and having a demonstrated capacity to fulfil its land management responsibilities. The second model would involve the relevant Minister providing approval to organisations who meet the criteria established under the proposed legislation.

The essential difference between the two models is whether governments or a statutorily independent Trust should be in the position of accrediting organisations and keeping a register of all agreements negotiated under the legislation. A related issue is which organisation should maintain conservation covenants entered by organisations that fail/lapse after a period of time. The core elements of the proposed approach are outlined in Figure 3.

Financial tools for creating private markets and philanthropic giving

A second factor that sets the US apart from Australia in terms of engagement of the non-government sector is the range of financial tools and incentives available to promote private conservation.

These tools are beginning to be used in Australia, but are limited in their application because of tax and other legislative impediments. Each of these tools is introduced below.³

Basic ways of giving

- *Cash donations*—involves the capacity of a conservation organisation to receive donations from the public, corporations, philanthropic trusts and other charitable organisations.
- *Donations of assets* e. g. shares—involves the ability to make donations of property such as shares. The key issue with donations of this kind is the treatment of any capital gains.
- *Donations of land*—involves the donation of a particular kind of asset i.e. land. Of particular interest is when land of high conservation value is donated to a conservation organisation that agrees to protect and manage it in perpetuity.
- *Bequests*—involve the donations of assets or money in a will. Once again the key issue is the treatment of capital gains associated with any property donated.

Mechanisms that involve conservation covenants

- *Donations of conservation covenants*—a conservation covenant is a restrictive covenant, in much the same way as a covenant protecting goodwill in a business. A key issue is if any change in the value of land arising from entering a conservation agreement would be tax deductible.
- *Deducting costs of managing conservation covenants*—businesses, such as primary producers, are able to deduct the costs of managing land from their income or claim a 34% Landcare rebate. A key issue is whether land covered by a conservation covenant should be given access to similar tax deductions.
- *Negative gearing and primary producer status*—based on a public interest argument, it has been suggested that people who buy and manage land for conservation should be given the same tax treatment as primary producers (conservation becomes a ‘business’ in this sense). This would allow land to be negatively geared and all costs associated with its management either depreciated or claimed as an outright tax deduction. The key issue here is whether taxation

arrangements that apply to businesses could be carried over to conservation activities.

- *Land taxes and local government*—most classes of land are exempt from land tax and many rural areas enjoy lower differential rates. It would be possible to exempt land covered by a conservation covenant from Land taxes and Local Government rates
- *Revolving funds*—involve the purchase of land, placement of a conservation covenant that protects native habitat in perpetuity, and then resale to a willing landholder, thereby maintaining the organisations capital base. The Commonwealth government is committed to the establishment of revolving funds through Bush for Wildlife. Key issues include the ability to enter conservation covenants and access to exemptions from stamp duty and other charges associated with the purchase and sale of land.

Other financing options

- *Bargain sales of land*—involves the sale of land to a conservation trust at a discounted price. In the United States, the gap between the full market value of the land and the sale price is considered a donation and is therefore tax deductible. Further, the portion of land value donated is exempt from capital gains tax. This is the single most effective private land conservation instrument currently applied within the United States.
- *Landswaps and exchanges*—involve a land trust exchanging land of high conservation value for land or other assets of a similar value. The key issue here is to ensure a capital gains tax event is not triggered through the acquisition and disposal of assets.
- *Capital gains roll over for voluntary acquisition*—when land is compulsorily acquired by government agencies the landholder enjoys a 12-month capital gains relief during which time they may acquire a replacement asset. This roll-over provision could be extended to land of high conservation value that is voluntarily sold to a conservation trust.
- *Donation of land with retained right of occupation*—land is donated to a conservation trust subject to the current owner being able to live on the property until they die. The key issue is the treatment of the donation both in terms

³ The analysis contained in this section is drawn from the document *Philanthropy – sustaining the Land* prepared by Binning and Young (1999) in collaboration with the Ian Potter Foundation.

Table 1. Basic ways of giving

Tool	U.S. Situation	Australian Situation	Changes Required
Cash donation	Cash donations are deductible and can be apportioned over 5 years	Cash donations are deductible only in the year they are made	Apportionment over 5 years
Donation of assets – e.g. shares	Deduction at full market value Capital Gains exempt	Deduction at full market value from July 1 1999	Capital gains tax exemption
	May be apportioned over 5 years	Subject to Capital Gains	Apportionment over five years
Land	Deductible Capital Gains exempt	Deductible from 1 July 1999	Capital gains tax exemption
	May be apportioned over five years	Subject to Capital Gains Tax	Apportionment over five years
Bequests	Exempt from capital gains tax	Exempt from tax	

of tax deductibility and in terms of capital gains treatment.

- *Financial options, annuities and trusts*—a wide range of more sophisticated financial tools are used by land trusts in the United States. These include entry into options for the purchase of lands of high conservation land, payment of annuities to people who donate land or other assets, the use of tax free bonds, and sales of shares in conservation lands. These tools raise complex tax issues, but are given favourable treatment within the United States.

As noted, the application of many of these tools is limited in Australia because of tax and other legislative impediments. The current situation in Australia and the United States is compared in Tables 1 to 3, noting the changes in taxation arrangements required to achieve a level playing field with the United States.

Conclusion: Actions required to engage the non-government sector

This paper has alerted to the need to foster non-government sector participation in the conservation of grassy landscapes. It has done so within a conceptual framework of working in partnership with landholders. Strategies for engaging landholders through a mix of financial,

educative and regulatory instruments have been highlighted. It has been argued that these mechanisms are developing well in Australia. Further, there is an opportunity to better integrate on and off reserve management through the creation of Conservation Management Networks that coordinate management across tenures.

The significant gaps that have been identified in this paper are the effective engagement of the non-government sector and the creation of private markets for nature conservation. Lessons from the United States have been drawn on to identify a number of strategies for addressing these gaps. The paper is concluded by summarising these strategies in three recommendations put forward for consideration by decision makers.⁴

Recommendation 1

To facilitate private sector involvement in nature conservation, put in place arrangements for the establishment of private conservation trusts. These arrangements should allow for the following in an administratively simple way:

- allow broad fund raising powers that allow for donations from individual or organisations, provided the donation is consistent with the objectives of the Trust;

⁴ Once again these options are drawn from the document *Philanthropy – Sustaining the Land* (Binning & Young 1999).

Table 2. Mechanisms that involve conservation covenants

Tool	U.S. Situation	Australian Situation	Changes Required
Donation of Conservation Covenants	Deduction of the difference in land value before and after the covenant is entered.	Not currently May be allowable under existing gifting provisions if a statutory covenant is considered property. Requires a test case.	Confirm current situation and make legislative changes if required.
Deduction of management costs	No	No – unless a primary producer	Give access to the 34 % Landcare rebate to land covered by a conservation agreement
Negative gearing and primary producer status	Not Applicable	No	Allow negative gearing of properties covered by a conservation agreement Give landholders who enter conservation covenants primary producer status for tax purposes
State Government land tax	Exempt in many, but not all, U.S. States	No exemption provided	State governments would be required to exempt land covered by a conservation covenant
Local Government Rates	Exempt in many, but not all, U.S. States	A small number (less than 15) local governments provide rate exemptions NSW Voluntary Conservation Agreements are exempt from rates	State governments would be required to exempt land covered by a conservation covenant
Revolving Funds	Exempt from land sales taxes and charges in some States	Only Trust for Nature (Victoria) and State agencies are currently exempt	Allow Conservation Trusts to enter conservation covenants Exempt registered Conservation Trusts from taxes and charges associated with the purchase and sale of land

Table 3. Other financing options

Tool	U.S. Situation	Australian Situation	Changes Required
Bargain Sale of Land	Deductible Capital Gains exempt May be apportioned over 5 years	Current taxation arrangements do not allow for Bargain Sales	Allow the gap between sale price and full market value to be a tax deductible gift Capital Gains exemption Apportionment over five years
Landswaps and Exchanges	Does not trigger capital gains tax	Capital gains tax would be triggered by the disposal and acquisition of assets	Allow capital gains to be rolled over in negotiated land swaps
Capital gains roll-over for land voluntarily acquired	Proceeds may be reinvested in similar capital (i.e. land) within two years provided a government agency has committed to compulsorily acquire the land in the absence of voluntary sale	No arrangements in place	Allow capital gains roll over for properties voluntarily sold to conservation trusts
Donation of land with retained right of occupation	Donation of the value of the land is allowed over five years and is capital gains tax exempt	[Uncertain]	Allow deduction for the donation of land with retained right of occupation Capital gains tax exemption Apportionment over five years
Conservation annuities, bonds and shares	Receive favourable taxation treatment especially in relation to capital gains and estate taxes	[Uncertain]	Allow donations of the principle to be deducted over five years Exempt from capital gains tax Treat life time annuities as income

- provide for conservation trusts to be placed on the register of environmental organisations that allows donations to be deducted from income;
- allow the conservation trusts to enter statutory conservation covenants that are legally binding in perpetuity and registered on the title of land; and
- allow existing conservation trusts to sponsor the development of subsidiary/accredited trusts that are given the same status as the parent organisation.

Recommendation 2

To facilitate greater private contributions, allow all donations of property to conservation trusts to be tax deductible over five years and exempt from capital gains tax. The definition of property for the purposes of this recommendation could be extended to:

- all land, physical and financial assets;
- conservation covenants;
- bargain sales of land, that is, the gap between sale price to the conservation trust and the full market value of the land;
- donations of land with the retained right to occupation of the existing owner; and
- donations of assets for which a limited lifetime annuity is paid.

Recommendation 3

To facilitate the creation of private conservation reserves, provide the following tax incentives to land covered by a conservation agreement:

- access to tax deductions, or the 34 % Landcare rebate, for costs associated with managing land covered by a conservation covenant;
- exemption from State land taxes;
- exemption from local government rates similar to NSW practice;
- exemption for conservation trusts from stamp duties, taxes and charges on the purchase and sale of land in the operation of a revolving fund; and
- allow private conservation reserves to be negatively geared and give their owners primary producer status.

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