



National Farmers'
FEDERATION

National Farmers' Federation

**Submission to the
Productivity Commission inquiry into the efficacy of
current national disaster funding arrangements**

6 June 2014

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NFF Member Organisations



The National Farmers' Federation (NFF) welcomes the opportunity to comment on the Issues Paper, as part of the *Productivity Commission Inquiry into the efficacy of current national natural disaster funding arrangements*.

Given the unique operating environment of Australian farmers, characterised by a highly variable climate, exposure to international market forces and minimal Government intervention, it is particularly important that natural disaster funding arrangements are effective in mitigation, resilience and recovery of natural disasters. This is relevant to both hazards eligible under the National Disaster Relief and Recovery Arrangements (NDRRA), and also hazards not directly addressed within the inquiry, such as drought.

Australian agriculture competes with other sectors of the national economy for human, land and capital resources; while making a significant contribution to export earnings of around \$38 billion per annum¹. As part of that cross-economy investment process, business or sector volatility is an important consideration.

The Productivity Commission have reported that '*Agricultural activities, because they generally have a larger environmental component, are different to production systems elsewhere in the economy. Many of these physical and biological factors, such as variations in rainfall and the onset of disease, are largely outside the control of farmers, yet they can have a significant effect on the level of production, input use, prices and the performance of farms.*'²

There is a large amount of variability between agricultural commodities, but overall Australian agriculture is and remains, the most volatile sector of the Australian economy over the past four decades³. 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. Further, data indicates that the volatility of Australian agricultural businesses has been the second highest of any nation over the 40 year period. That is, Australian farm businesses have faced a more risky operating environment than has been the case anywhere in the world over the last 40 years. Despite this challenge, Australian farmers have consistently found productivity improvements greater than other sectors of the economy, increased their commitment to environmental stewardship and sought to meet changing community expectations.

Even though their operating environment is extremely volatile, Australian farmers are much more self-sufficient than their international competitors (with whom we compete on both an international and domestic level). At 0.2% of National GDP, Australian agriculture has the lowest level of support in the world⁴. Accordingly, this evidence suggests that Government expectations around regular or normal business risk management practices may not be appropriate or as useful for the agriculture sector. The reality is there are many viable and profitable farm businesses that simply require a small amount of assistance to manage through an uncontrollable natural disaster event.

¹ http://data.daff.gov.au/data/warehouse/agcstd9abcc002/agcstd9abcc0022013/ACS_2013_1.0.0.pdf

² Productivity Commission, 2005, Trends in Australian Agriculture, Research Paper, Canberra.

³ Including Risk in Enterprise Decisions in Australia's Riskiest Businesses, Mick Keogh AFI, Farm Policy Journal vol9. No.1 Autumn 2012.

⁴ <http://www.oecd.org/tad/agricultural-policies/monitoring-and-evaluation.htm>

Drought is not within the current definition of a natural disaster under the NDRRA. However, it is an important consideration for farmers, as it is also a naturally occurring event that causes serious disruption to communities and regions. Drought policy has been constantly evolving for decades in Australia. For example, from 1971 until 1989, drought was included under the Natural Disaster Relief Arrangements (the basic structure which still exists today). **It would therefore be prudent for the inquiry to consider how the Commonwealth's approach to drought policy aligns with the framework for natural disasters.**

The NFF's view is that it is appropriate that the Government provides drought assistance to businesses in a consistent, structured manner. Drought policy should include recognition of the need for profitability of the industry, specific policy measures that facilitate drought preparedness, and targeted programs for in-event support. This provides certainty to businesses affected by the drought and certainty to taxpayers providing the assistance. Drought policy needs to provide a comprehensive suite of measures to help farmers, their families and rural communities cope with the range of business, social and health issues associated with droughts. The flow-on impacts of drought on rural communities is a key reason for the need for government assistance.

The NFF's view is that the national drought policy set to start in July 2014 is insufficient to meet the challenge and is in many ways a backward step for drought policy in Australia. The new policy has not incorporated elements from previous drought policies that have helped farmers and assisted government to help farmers. The new approach lacks substantial measures to assist farmers to prepare for drought and it fails to adequately address in a structured way in-drought support. The lack of a framework for Commonwealth-State cost-sharing arrangements is clearly a factor in the gap between drought announcements (such as drought loans committed in February 2014) and delivery of these measures (yet to be available to farmers as this submission was finalised 6 June 2014).

The NFF's view is that Government policy should facilitate preparation by farmers for future drought events. Policies need to recognise that preparedness requires time, skills and resources to be effective, and must also acknowledge that there may be future drought events which are beyond the reasonable capacity of farmers to prepare for. Improved taxation arrangements and activities that facilitate skills development need to be well-resourced and aligned with other government processes and measures.

Taking the above considerations into account, it is also pertinent to look at all potential risk mitigation measures for the agriculture sector. There are a number of assumptions made about insurance in the Issues Paper. However, apart from insurance for fire and hail damage, there are currently limited options for agricultural producers to insure themselves against production risk in Australia⁵. The large gap in the current insurance market is coverage for one of the major drivers of crop failure – drought and rainfall extremes. The lack of a market for commercial delivery of such products within Australian agriculture needs to be

⁵ Government Drought Support, Productivity Commission, Report No. 46, Final Inquiry Report, 2009.

acknowledged as the Commission considers any recommendations to Government on changes to natural disaster arrangements.

The NFF recognises that under the Australian Constitution most natural disaster mitigation, resilience and recovery activities are the responsibility of State and Territory Governments. However, it also noted that the Commonwealth has responsibility for coordinating responses when interstate management is required, and supporting the development, through State and Territory Governments, of a national emergency management capability. Within these responsibilities it is important that the Commonwealth acknowledges the inequities in eligibility and support for individual businesses between States.

Farmers invest significantly in their own businesses to manage the vagaries of the weather and it is important that any Government policy settings are transparent and consistent. It is also important that all levels of Government continue to invest in effective mitigation, resilience and recovery of natural disasters. Within this context, the NFF encourages the Commission to consider the importance of ongoing Government commitment to a well-funded and transparent framework for natural disasters in Australia. If the Commission is seeking any further information regarding this submission, please don't hesitate to contact David McKeon (Manager, Rural Affairs) on 02 6269 5666.