

21 October 2014

**QFF MEMBERS**

**CANEGROWERS**

Cotton Australia

Growcom

Nursery & Garden  
Industry Queensland

Qld Chicken Growers  
Association

Qld Dairyfarmers'  
Organisation

**ASSOCIATE  
MEMBERS**

Queensland Chicken  
Meat Council

Flower Association of  
Queensland Inc.

Pork Queensland Inc.

Queensland United  
Egg Producers Ltd

Pioneer Valley Water  
Co-operative Limited

Central Downs  
Irrigators Limited

Burdekin River  
Irrigators Area  
Committee

Emerging Primary  
Industries Groups

- Australian Organic
- Queensland  
Aquaculture  
Industries  
Federation

## **PRODUCTIVITY COMMISSION INQUIRY INTO NATURAL DISASTER FUNDING ARRANGEMENTS – DRAFT REPORT**

The Queensland Farmers' Federation (QFF) collectively represents primary producers in Queensland's intensive agriculture industries: sugarcane, cotton, horticulture, dairy, nursery, chicken meat, flowers, eggs and pork. We also represent local irrigator groups and emerging industry groups such as organics and aquaculture. QFF engages in a range of economic, social, environmental and regional issues of strategic importance to the growth, profitability and sustainability of the sector.

QFF supports this Inquiry especially given the opportunity it provides to improve the effectiveness and efficiency of natural disaster mitigation, resilience and recovery initiatives. A submission was provided to the Productivity Commission in response to the Issues Paper in June 2014. This submission addresses some specific matters that have been raised in the Draft Report (September 2014).

There is a case for the government to provide assistance for post-disaster relief and recovery. Whilst QFF does not support any form of dependency on post-disaster funding especially where this may detract from self-sufficiency measures, it recognises that disasters do overwhelm businesses and whole communities.

The Draft Report discusses a number of issues relating to public financing of natural disaster funding and the funding arrangements in place between all levels of government. QFF is not in a position to comment on these aside from saying that it is very supportive of a renewed approach which emphasises mitigation and sees any post-disaster funding efficiently delivered to those in need.

What is of relevance to QFF and its members is the scope of mitigation and preparedness measures and the nature of relief and recovery assistance measures when triggered; and whether both of these measures achieve the intended policy outcomes. There are two key points that QFF offers in this regard.

1. There are insufficient options for private insurance against natural disaster for the vast majority of farmers. This is a particular challenge for intensive crops and high rotation production systems even for a profitable enterprise.

As identified by contributors to the Draft Report (p. 399) multi-peril crop insurance is a potential solution but is unlikely to be a viable option without government subsidy. QFF understands the reticence of governments to intervene in the commercial insurance market. However, governments do need to address the thin market where limited number of buyers and sellers result in reduced availability, affordability and sustainability of crop insurance schemes.

There is currently only one company offering multi-peril crop insurance in Australia and their policy is restricted to broad acre winter crops, targeting the very largest operators.

2. Providing assistance to small businesses including primary producers provides an unique conduit to support the sustainable recovery of the local economy. In this sense, the assistance addresses the macro-economic or regional economic activity, rather than the micro-economic or individual/business economic activity.

Small to medium enterprises (SMEs) are geographically invested in the local region so much so that most could not relocate following a disaster event even if they wanted to. Larger businesses are better positioned to respond to a disaster since they have access to a large financial resource base and may be able to focus operations or service delivery on another location.

The ongoing regional presence of SMEs and their links with businesses and individuals means their purchasing behaviours underpin demand for regional goods and services. The Draft Report refers to research suggesting that government assistance after a natural disaster was "... at best, irrelevant to the businesses' ultimate survival and recovery." (p.109). QFF would like to see more research into this aspect of government interventions to boost natural disaster recovery efforts. Our experience is that prompt recovery of regional agribusinesses and SMEs has a strong spill-over to the whole community.

The report also cites opinion that provision of financial assistance does not necessarily lead to sustainable recovery for the local economy or community and "... devoting resources to broader community and economic recovery (such as repairing roads and other critical infrastructure) may be a better use of government funding." (p. 109). Whilst this is a rational economic view it may underplay social capital as one of the fundamentals of community recovery particularly the value of social networks.

To reiterate point 1 above, the lack of adequate insurance products means that it is difficult even for viable SMEs to manage risk. They therefore represent an appropriate target for the provision of assistance.

With regard to the draft recommendations and findings in the Draft Report specific comments on those issues of relevance to QFF's members are offered below.

#### **Budget treatment of natural disaster risks**

QFF supports the recommendation that the Australian Government publish estimates of the future costs of natural disasters and provide through annual appropriation for some level of natural disaster risk.

### **Funding arrangements for recovery**

QFF has no comment on cost sharing arrangements between jurisdictions. However, QFF does support the recommendation for increased autonomy for the State to manage relief and recovery expenditure in a way that best assists the community needs – which is presumably what is intended by the statement “... in a way that reflects the preferences and characteristics of their communities”.

QFF would also support the publication of existing data on expenditure on past events, as well as more detailed data collection and communication of future expenditure.

### **Funding arrangements for mitigation**

QFF supports a repositioning from relief and recovery to improved emphasis on mitigation, noting the Commission’s definition of mitigation as “measures taken in advance of disasters to reduce their impacts”. QFF makes the following comments in regard to this issue:

- While QFF supports an approach that improves investment in preparedness, a natural disaster is a situation which is overwhelming by definition and there will always be a need for industry and governments to work together to support farming communities to respond to a disaster.
- While the total value of annual mitigation expenditure is debatable (currently estimated at a maximum of \$200 million), it would be more logical to distribute funds on a risk basis rather than a per capita basis.

Risk would need to consider the complex interplay of the nature of the natural hazard, the exposure and sensitivity of a sector, and the capacity of businesses/individuals to positively cope with change associated with a natural disaster. Dedicated research would be required to quantify that risk.

Another approach may be to apply an ‘average’ cost of preparedness for a business/individual. Again this would require research to quantify reasonable mitigation measures to achieve an acceptable level of risk. Expenditure could then be based on meeting an agreed proportion of the average cost.

- QFF would support a process for mitigation project selection based on evaluation which includes cost-benefit analysis (CBA) and assessment of non-quantifiable impacts. However, disasters impose on the agriculture sector a number of impacts which need to be mitigated for, but which have not previously been quantified. For example, the costs of on-going lost production capacity, loss of potential production due to supply chain disruption and increased production costs. These indirect impacts tend to appear progressively after an event and are underreported. While these impacts are quantifiable no attempt has been made to do so and it would therefore be difficult to include them in CBA without some detailed prior analysis.
- In many cases there are no feasible private insurance schemes available to farmers. This is a particularly acute issue for the horticulture and mixed cropping industries.

- There are comparisons to be drawn here with the approach used in developing the National Drought Policy where drought was redefined as a risk to be managed rather than a natural disaster. There are many learnings for the sector in managing for climate variability from the pilot of drought reform measures in Western Australia. However the associated costs are prohibitive.

#### **Transitional requirements**

QFF would be happy to provide input on the development of assessment tools as they apply to the agriculture sector.

#### **Interaction with federal financial relations**

QFF has no comment to offer.

#### **Government insurance**

QFF has no comment to offer in relation insurance of road assets for natural disaster damage.

#### **Managing shared risks**

As detailed in point 2 above, QFF considers there is a case for assistance to be provided to SMEs to support relief and recovery. We would support the use of untied grants as the most appropriate assistance measure for SMEs including primary producers.

QFF also supports legislation of eligibility criteria for the Australian Government Disaster Recovery Payment and the Disaster Recovery Allowance. However our preference would be for the use of clear and transparent guidelines for all assistance to be developed in consultation with industry.

#### **Information**

QFF supports the recommendation that new natural hazard data or modelling is made publicly available. Consideration needs to be given to the best method for delivery of this data to the agriculture sector so it can be meaningfully applied in business risk management.

#### **Regulating the built environment**

QFF has no comment to offer.

#### **Insurance**

QFF supports any effort by insurers to make their policies and the implications of natural hazards more understandable.

EOD