

28 July, 2008

Productivity Commission,
Locked Bag 2, Collins Street East,
Melbourne. VIC. 8003

Dear Sir/Madam,

Government Drought Support Inquiry – Submission

I own and manage a grazing property on Flinders Island, which has been severely affected by drought like most of the lower rainfall areas of Tasmania. Livestock numbers on my property are well down from the usual winter number, and income will be significantly reduced for the next 3 years. My application for drought assistance was declined because I am still trading profitably.

My drought management strategy is simply an extension of the total management strategy for my grazing business, and that is to manage production and financial risks by aiming to maximize productivity and profitability by applying sound and proven technical production techniques to maximize production efficiency, minimize overhead costs per unit of production and manage market risks by forward sales. In my view these strategies have allowed my business to remain profitable despite the conditions.

It is disconcerting to see a number of “inefficient” graziers on Flinders Island receiving drought assistance when they have done little to plan and manage the risks of drought, or other production or market risks for that matter. In my opinion, this approach by the Government to drought has a number of significant adverse impacts on agriculture.

Non-viable farmers are being encouraged to remain in farming. Debt levels are increasing and assets eroded. For some the end result is that their equity is being eroded.

Although the personal stresses associated with their precarious financial position are temporarily relieved by the financial support, they will soon return; the relief is very short term.

I noted a report in the Melbourne Age (4 March 2008) in which ABARE head Phillip Glyde said that “government assistance was making things worse for 25% of Australian farmers who have battled to achieve positive incomes during the last two decades”. My observation is that this is occurring on Flinders Island.

The drought assistance being provided to un-viable and “poor” managers is helping to sustain land prices, and reducing the opportunity for more productive and viable farm businesses to expand.

Without the interest subsidies more land would be on the market and the normal market driven by supply and demand would not be distorted. In my view the drought assistance is limiting opportunity for viable businesses to expand, and that is essential for the long-term profitability of the agricultural industries.

The current drought assistance measures are constraining the rate of re-adjustment. I applaud the statement for Mr. Glyde that “we need to get governments out of the way of successful farmers and let them get on with the job” (The Age, 4 March 2004).

Farmers generally need to continually improve their productivity and their self-reliance. I believe the current drought assistance is contrary to this objective. Farmers who are not self reliant are assisted to remain in business; inefficient businesses and land prices are propped up.

In my opinion the key strategy for managing drought is for businesses to be as productive, profitable and efficient as possible, so that when a drought arrives the business is financially resilient. Of course fodder reserves can help, but they are costly to provide and maintain; financial strength provides the greatest flexibility.

I do not understand the logic of providing an interest subsidy to an unprofitable farming business during a drought. One commonly stated justification is that farm businesses in difficulty are unable to borrow additional funds from ordinary commercial sources. However, I suspect the reason is not that these businesses have sufficient collateral, but rather that the lenders believe the risk is too high, perhaps based on a history of low levels of profitability.

It is ironic and inappropriate that farmers that are not viable are more likely to get assistance.

I would prefer a drought assistance process that rewards excellence in the management of financial and physical (and natural) resources. Better management of these resources would allow businesses to be better prepared for drought. This could be enhanced by training programs, enhancement of the Farm Management Deposit Scheme and accelerated depreciation or incentives for investment in capital to assist drought preparedness. Training should focus on improving productivity and efficiency and the development of risk management strategies.

An assistance measure for farmers in isolated areas would be a freight subsidy. The cost of freight to Flinders Island is a significant issue, and a subsidy would help all producers not only those currently eligible for a drought subsidy.

In a sense I see drought as a means of sorting out the inefficient businesses; commercial forces should be permitted to take their course.

I certainly do not oppose Government assistance for farmers struggling to meet the financial needs of their families; a welfare safety net is essential. Farmers in difficulty should be eligible for income support on the same basis as all Australians. However, those needs should be balanced with the need for re-adjustment in agriculture. Helping businesses that have little chance of achieving viability in the

long-term is a like providing pain relief to a person with a terminal disease (or shuffling deck chairs on the Titanic).

I am anxious to see people in rural areas helped in times of crisis. But there is a need to consider long-term viability and thus the health of agriculture. These two objectives require different solutions; a single approach like that applied currently is not in the best interests of agriculture.

John Cooper