

# **EYRE PENINSULA DROUGHT TASK FORCE**

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Government Drought Support Enquiry  
Productivity Commission  
Locked Bag 2, Collins St East  
Melbourne Vic 8003

Dear Commissioners,

## **Drought Policy and Exceptional Circumstances (EC) Review**

### **Executive Summary**

The Eyre Peninsula Drought Task Force (EPDTF) welcomes the review of drought and EC policy and provides the following comment for the information of the review group.

The base consideration is that businesses in low rainfall areas are profitable enough to accrue reserves and assets during good seasons, to assist with surviving periodical low production years.

It is recognised that it will be a number of years until drought affected regions have achieved the “drought preparedness” referred to in the Issues Paper.

Exceptional Circumstance assistance needs to continue until drought recovery has progressed sufficiently to achieve drought preparedness. To achieve preparedness, the farming industry needs to establish the ability to retain more of the income it generates.

Current policy and taxation regimes, together with climatic and economic conditions restrict opportunity for appropriate preparedness for drought in many lower rainfall areas of the State.

Eyre Peninsula is a major contributor to the agricultural output of South Australia and therefore has a significant role in assisting with the food security of Australia (Eyre Regional Development Board Statistics).

The following key information and strategies need to be considered to ensure that drought preparedness can be achieved.

- Support environmentally and economically sustainable rural businesses through the taxation system, by extending cash reserve incentives (eg, superannuation type packages), quicker depreciation write-offs and special incentives for initiatives that assist drought proofing (beyond Farm Management Deposits).
- Develop taxation strategies and programs that encourage the accrual of assets and loan repayments for businesses in low rainfall regions, and also strategies that allow these assets to be utilised without penalty during poor seasons.
- Remove stamp duty and review excise and GST on fuel.
- Fund research and development for energy efficient farming systems.
- Fund programs that continue the gathering and dispersal of scientific information that assists future decision making (Minnipa Agricultural Centre).
- Continue and enhance Farm Management Deposit Schemes and other incentives that genuinely allow for succession planning.
- Continue Extenuating Circumstance type assistance until “drought preparedness” is significantly progressed.
- Implement strategies that recognise the land management role of farmers in low rainfall areas, and that provide an environmental and economical platform for long term natural resource management.
- Encourage and support the development of alternative industry to “buffer” the effects of drought on agriculturally based rural communities.
- Provide trade and market development assistance, creating some true value adding opportunity that, over time provides alternatives to the bulk production of a commodity where there is little market control. Needs to be community driven with government sponsored trade delegations.
- That considering the possibility of an ongoing and detrimental effect on the viability of some low rainfall areas due to climate change, that a package be developed that provides a viable option to exit the industry.
- Research and implement carbon measurement and accreditation systems for agriculture.

Further to the abbreviated key points above, the Eyre Peninsula Drought Task Force provides an overview and suggestions for discussion based on the Issue Paper questions, in the attached information.

Joint Chair  
 Eyre Peninsula Drought Task Force  
 Jeff Pearson

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## **The Eyre Peninsula Experience**

The Eyre Peninsula (EP) has experienced three significant events in recent times. Drought, initiating the Eyre Peninsula Strategy in 1994 to 2000; the Wangary Bushfire in 2005; and the current drought situation, that have necessitated assistance programs that reflect a land management approach to farming systems.

Dryland agriculture on Eyre Peninsula is a major contributor to the agricultural output of South Australia and has a significant role in assisting with the food security of Australia.

Eyre Peninsula typically produces around 45% of South Australia's wheat and about 20% of the barley. Almost half of all farms (48%) on the Eyre Peninsula are classified as small farms (an output of less than \$150,000). The majority of the region's agricultural production occurs on medium and large sized farms. (*Source Eyre Regional Development Board - ERDB*).

Of the total value of agricultural production, 80% occurs on farms that have a value of production exceeding \$300,000 per annum, and over 55% of the agricultural production is from farms that have a value of agricultural production of greater than \$600,000 per annum. The average farm cash income on broad acre farms in the Eyre Peninsula is generally above the national average, but varies significantly more from year to year than the national average. The last 5 years in particular have seen negative results initially due to poor prices and more recently drought. This is a reflection of the direct relationship between farm performance on Eyre Peninsula and seasonal variability. (*Source ERDB*).

In the Eyre Peninsula region broad acre farms account for 95% of farms, of which 85% depend on grain growing, or combined grain growing with livestock production.

Agriculture on Eyre Peninsula is low input by world standards, with farming systems that are based on minimal tillage and trash (carbon) retention for sustainability.

There are increasing community expectations that farms be managed in an environmentally sensitive manner, to ensure the sustainability of the natural resource. Farmers as resource managers need the support and backing to respond to these community expectations so they still have the capacity to meet the financial challenge of operating in an environment of increasing climatic variability.

The immediate major impact of drought is on crop yields and pasture production, resulting in a decline in profit with many businesses incurring significant financial losses and erosion of financial reserves and assets.

To be in a position of preparedness as outlined by the Productivity Commission means that measures need to be in place that will allow businesses to recover from the current drought and then position the farm and the rural business to handle drought in the near future. This would include building financial reserves and other initiatives at farm level, eg, grain and storage, water storage and supply systems, livestock confinement areas, etc. It may also mean further changes of farming systems.

The cumulative effect of recent seasons and commodity prices is that businesses on Eyre Peninsula have not been able to build reserves and therefore are not well prepared for the drought conditions that are currently being experienced.

Despite the terms of trade (as measured by the Australian Bureau of Agricultural and Resource Economics - ABARE) tracking a steady decline over many years, farmers have made efficiency gains and responded to the lower profitability of their enterprises by increasing scale and investing in technology. The uptake of minimum and no till farming and improved livestock management on Eyre Peninsula has demonstrated enormous environmental benefits, but requires significant capital investment which itself depletes reserves or is funded through borrowings.

The servicing costs from capital expenditure that achieve environmental benefit, can become a serious burden in low cash flow years.

The base consideration is that the industry has to be profitable enough to allow reserves to be accumulated and under the current assistance measures, businesses that have such reserves are penalised, both in the Interest Rate Subsidy Scheme and in the Social Security programs. A combination of farm profitability and government assistance will be required as well as strong support for research and development, to identify sustainable farming and business practices in a changing climatic environment, to recover to a drought prepared state.

Overhead costs impact significantly on the ability of a farm business to survive drought. Overhead costs are those costs that are incurred regardless of whether or not any actual farming is done. These include licences and registration, council rates, stamp duty, general insurance, permanent labour, work cover, financing costs, etc. They are costs that a farming business cannot pass on and therefore they come straight off the bottom line of farm profit. Many are government imposed or influenced costs. As these costs rise, farmer's terms of trade decline and the threshold for business survival rises.

There is a further argument that structural adjustment enables farms to become larger and more efficient. This rationalisation exchanges people for capital and has a dramatic effect on rural communities. This does not reduce business risk and

preliminary work by farm consultants on Eyre Peninsula with the Minnipa Agricultural Centre, and the Australian Greenhouse Office, shows no correlation between business size and business survival in droughts. There is a better correlation with business age and equity.

Appropriate Natural Resource Management cannot be maintained if farming units are not profitable.

There is a line of thinking that if IRS's are to continue, farming unit comparative debt levels prior to, and after the commencement of drought, may be considered as a measure to assess the future eligibility and level of assistance. If this were to be considered as an alternative, further modelling at Government level would be required to determine the most appropriate method of application.

Some assistance programs have provided barriers to families that have felt obligated to pursue off farm employment to supplement the farm business. Other examples of the side effects of current assistance programs are –

A family has a teenage child undertaking tertiary education and that child receives Youth Allowance based on the parental income - the parents sell assets to support the farm business cash-flow because of drought - the capital gain on the sale of the assets is deemed as income by Centrelink and the child is excluded from their Youth Allowance.

Young Farmers Schemes – the EPDTF suggests that this scheme would encourage the retention of people in a business that may not have the capacity to support them in the longer term. An alternative is to provide the incentive to the corporate sector with the financial capacity to employ them, where they can make a good career in agriculture. Farmer development programs remain crucial for those that remain in the industry, to provide self and community leadership.

## **Issues Paper Questions**

The following dot points address the specific questions raised in the Issues Paper.

### **Rationales for Government Drought Support**

- Intervention required when circumstances are assessed as detrimental to the continuation of healthy farming systems and rural communities. Clearly that is the case for many areas at present. Assessment criteria to be developed that recognises trigger points where Government intervention is necessary.
- That Government support does not unfairly distort existing market forces.
- Industry must be profitable enough to accumulate reserves (current assistance measures penalise this).
- That support is provided to a viable agricultural industry.
- Assist in developing a broader base of economic activity in rural, regional and remote areas.
- Encourage a sustainable balance between Natural Resource Management and Economic Development – Sustainable farming systems that use minimal soil disturbance to achieve greater water use efficiencies and enterprise mix.
- Recognise the importance of supporting vibrant and sustainable communities to deal with the social and economic needs of a region the size of Tasmania.
- Support must provide reasonable exit options with realistic application requirements, where necessary.
- Income support for families (EC Relief) needs to be retained in a basic safety net system.

### **Impediments to Greater Self Reliance**

- Loss of production due to lower than average rainfall and “economic” droughts in recent years, as well as other adverse influences.
- Exhaustion of financial capital.
- Depreciation of physical and emotional capital.
- Uncertain commodity prices, and limited education on price risk management.
- Steady decline of terms of trade.
- Decline of information and knowledge bases.
- Current taxation rates and rules.
- Lack of incentive to accrue assets and reserves.

## **Are Assistance Measures Effective and Efficient in Severe Drought?**

### **Policy Design**

- It is reasonable to argue that EC Relief type payments should be maintained to support families during drought. If there is no other business support available to business, then off farm asset limits should be very generous in assessment for EC Relief. This is because off farm investment income and/or capital from these assets would be used to support the farm business.
- That Interest Rate Subsidies (possibly in a revised form) should be considered as part of future Exceptional Circumstance assistance measures.
- Interest Rate Subsidies in their current form however are not well targeted (many businesses are not able to access them), they may postpone structural adjustment and they can disadvantage those who fail to qualify.

### **EC Declaration Process**

- Current geographical boundaries appropriately cover affected farmers in the Eyre Peninsula region.
- EC process may provide some incentive to States to seek assistance from the Commonwealth.
- EC is relatively new for most of the Eyre Peninsula.
- That National/State EC criteria and assistance measures remain consistent.

### **Business Support Measures**

- Support the Rural Financial Counselling Service, which has played a key role for many businesses.
- Support the development of alternative industries (eg, mining, aquaculture, etc) to ensure communities maintain multiple lines of revenue raising ability, as a buffer against the destructive effects of a drought, particularly on communities solely reliant on agriculture.
- Support farmers who are operating in an environmentally and economically sustainable manner. Do this through the taxation system, by providing cash reserve incentives (eg superannuation type packages), quicker depreciation write offs and special incentives for initiatives that drought proof farm business's.
- Develop taxation strategies and programs that encourage the accrual of assets and loan repayments (rather than maintaining heavy debt and purchasing machinery that has had a "managed" deterioration in drought periods) during "good" years, and that also allow for accrued assets to be utilised without penalty during times of low rainfall and poor years.
- Allowance needs to be made for succession planning (superannuation), as many producers have exhausted these funds or relinquished AWB and ABB

Grain Ltd. shares accrued over decades, to stay solvent. This has left many older farmers without the capacity to exit the family business.

- Review Stamp Duty. With GST implementation this duty restricts unnecessarily overdraft and property ownership amendments, and should be removed.
- Review excise and GST on fuel.
- Fund Research and Development that develops energy efficient holistic farming systems that fit well with increased energy costs and the environment. An example could be the establishment of crops using machinery with lower draft techniques – maybe discs and wider rows with full residue retention. Varieties may need to be bred to fit these systems.
- Support pilot projects that identify vulnerabilities or “hotspots” relating to climate change at the local level; that continue to gather knowledge and understanding in the “science” of the issues involved; and that will increase community capacity to allow a better understood, smoother, and more credibly based progression into a climate change response phase, with particular regard for mitigation and adaptation.
- Research and implement carbon measurement and accreditation systems for agriculture. In some parts of the world, farmers who have sustainable minimum soil disturbance crop establishment systems and residue retention systems receive payments for carbon credits generated with these practices. If this is possible on Eyre Peninsula, it would provide an underpinning stable line of income that would assist in dealing with climatic and income variability. There would be the opportunity to link this with an environment management payment to encourage sustainable environmental management.
- Continue the Farm Management Deposit program. The program is successful in encouraging farmers to accumulate some reserves for lean times. Consider ways that it could be enhanced, eg, to allow for succession planning.
- There is the opportunity to provide trade and market development assistance to provide some true value adding opportunity so that there may in time be some alternatives to the bulk production of a commodity where there is little market control. This has to be community driven to be successful, but there could be some government sponsored trade delegations.
- That the Federal Government provide support for the recognition and extension of Grain Co-production models, (similar to those implemented by ACCL in Western Australia) that place the tax implications on the scheme, as an avenue for farmers to access capital to establish cropping programs.
- Consider incentives for rural business’s to better equip themselves to cope with new risk, eg, education and training, climate change, deregulation of grain marketing, etc.



- Develop exit strategies for affected areas that allow a transition into another field of work that is attractive, and allows producers to exit farming with some dignity. Land.
- Consider alternative land management options for large parcels of vacated farm land, for implementation if required.
- Continue and expand Research Development and Extension Funding, particularly for the Minnipa Agriculture Research Centre, to accelerate investigations into crop varieties and techniques that assist low rainfall farming.

### **Income/Family Support**

- Review the social security “assistance” elements of current programs, to eliminate unintended consequences and inequities in the system. The business assets and income need to be quarantined from personal income and assets in the assessment process.
- Support communities by encouraging education and training for rural people, so that they have the capacity to assess and make good business decisions.

### **Other**

- Ensure that community infrastructure including health, aged care, transport services, education, roads and other services, are there to support them. **The funding models required are different from city based funding models.** Health and Education services particularly have serious economic influences on rural communities.
- Encourage economic development in the regions to provide a breadth of employment and investment activities that provide the critical mass of people and ultimately viable and worthwhile communities. This could include some employment incentives to attract and retain a rural workforce.
- Support information and education programs including the “National Agricultural Monitoring System” program and website, that compiles a range of climatic and production information for dryland/broadacre and irrigated industries across Australia. This statistical information is important to assess trends and influence future farm strategies.
- Maintain monitoring and funding for required health programs that can be implemented at short notice to meet community needs, as issues emerge over prolonged drought periods. Economic failure over prolonged periods continues to have a major effect on rural communities.

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It needs to be recognised that there will be significant assistance required to encourage and enable farmers to shift to a position of drought preparedness.

There is a comment in the paper about the small level of adjustment out of farming. In this region any farmer who has survived the climatic and business environment of the last twenty years, is here because they want to be. They have not chosen another vocation or relocated their business elsewhere. Despite the climatic variation, growth in business net worth over the last twenty years has been good and rivals that of alternative investments. In many cases the last three years have seen a contraction of net worth, but farming is a long term business and provided the lows can be survived, one would think the managers who are still here are likely to be the ones who will be here in the future.

The Eyre Peninsula Drought Task Force respectfully presents these comments for consideration during the review process.

Yours faithfully

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Eyre Peninsula Drought Task Force

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cc. The Hon Tony Burke – Minister for Agriculture, Fisheries and Forestry  
The Hon Rory McEwen – Minister for Agriculture, Food and Fisheries  
Ben Bruce – Director, Sustainable Systems, PIRSA