Drought Review Submission:

Plunkett Orchards

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Background:

Our family farming business is based around horticulture in the Goulburn Valley, Victoria. Apple, Pear and Stone fruit production, as well as packing and marketing, make up the core activities of our business.

Hence, comments made in this submission should be taken in specific relevance to horticulture.

We will address three key issues:

- Financial preparation for climatic disasters
- Effectiveness of current EC funding.
- Structural adjustment.

1) Financial Preparation:

In our opinion, government assistance in creating structures that enable preparation for disasters is by the far the most important issue, and the most likely to create a vibrant, successful agricultural industry. Proactive policy is far more beneficial than reactive policy.

The occurrence of drought and hail storms are the two major risks for our business, each important. Because we are in an irrigation district, drought forces up the cost of water (in the case of 2007-8 conditions water costs rose from $50 000 to $570 000 for our business). Hail storms can wipe out our crop completely, and therefore can be significantly more damaging for our business. Several climatic models suggest greater likelihood of hail events due to increased tropical type summer storms.

To mitigate risk in our business we utilise the Farm Management Deposit (FMD) scheme. By putting away tax free income in better years we can ensure that we have liquid cash reserves set aside should drought/hail events occur.

However, the current $400 000 cap per partner is horrendously insufficient for our business. In our case, with a wage bill of around $2-3m per annum, and a business comprising 3 partners, a FMD fund of $1.2m is helpful, but way short of providing enough funds to get through a disaster year.

It is however recognized that due the labour intensive nature of horticulture, there are countless businesses that would not be able to put enough reserves aside in FMD to cover their annual costs.

We would therefore like to see the FMD cap greatly increased. This could be done by either:

- Increasing the cap per partner. In our case we would need to see this increased to a figure of $1-$1.5 million per director.
- Changing the cap to be determined as a percentage of the company's annual turnover.
- FMD's to be extended to primary production related companies. In our case, this would apply to our packing/cool storage business, which is run separately to our fruit production operation. This may also apply to businesses reliant on agriculture ie Farm machinery dealers, farm supply retailers etc.

The aim of our business would be to have enough reserves to completely support our business through a disaster year, and increased FMD allowance would be an effective way to achieve this.

Taxation changes would also help. Accelerated depreciation schedules, and expansion of the assets with 100% deductibility within one financial year for certain assets would certainly assist. Irrigation improvements or any spending relative to salinity is a current example of 100% deductibility. In our case hail netting would be another example of assets that 100% deductibility or accelerated depreciation would be of great benefit.

Examples of farmers having a profitable year and upgrading tractors one year, and then struggling to finish the payments on the same tractor two or three seasons later in drought and bad weather conditions, are common. This could easily be avoided by reviewing depreciation schedules.

Rebates or incentive programs would also assist, but government may find these policies harder to implement politically (heading to a subsidy type arrangement) and are often inherently difficult to manage and police.

2) Effectiveness of current EC funding:

We do not have access to the industry figures of EC funding uptake, so we can only comment our own situation.

The declaration process could potentially be improved by defining areas not only by geography, but also by industry. The current process also requires an immense amount of work by voluntary membership industry bodies (example in our industry's case is Fruit Growers Victoria) to get an EC declaration.

Our business does not qualify for any EC funding, except for the State Government fixed rate rebate on irrigation water rates. Off farm asset testing etc prevents our business from being eligible. This point in itself raises issues, as the businesses that have diversified off farm to have non farm income or to prepare for drought etc are potentially penalised for doing so. It could be said that this policy actually inhibits farmers investing off farm, although it is unlikely farmers would be making business decisions around drought funding criteria.

EC rates assistance is another contentious issue, even aside from eligibility issues. Businesses with little debt receive substantially less than those with high debt, but are suffering equally in the drought conditions.

Potentially, current EC funding rewards the more vulnerable businesses and provides no assistance to businesses that have been pro active in financial self sufficiency preparation.

The type and magnitude of EC funding also needs to be closely monitored. It would appear that often the smaller grant type projects cost more to administer and manage than is the value to industry, and often the consultants working in the system are the clear winners in the program.

Structural Adjustment:

Within structural adjustment there are several areas worthy of discussion:
- Exit assistance
- Industry Rationalisation
- Research and Development

Exit Assistance:

Exit assistance would appear to have been poorly taken up by agriculture. This is probably due to the size of the potential payout relative to the cost of purchasing equivalent housing within a town, and the taxation implications.

The exit assistance is only the first step though. Government needs to ensure that the farm that has been exited from is handled appropriately. If one farmer walks off, and another on, there is little net gain for society, and indeed the same problem is likely to occur in the future on the very same farm.

Industry Rationalisation:
In the case of horticulture one potential problem is small land holdings with large capital investment. A small farm may have a very valuable house on it. This leads to problems, as a neighbour may be prepared to buy the farm to expand, but has little interest in the house, as he already has one. An option may be to sub divide the house, but this will not meet present council requirements.

The result is potentially a stranded asset. Past planning and government policy has created an undesired situation, and government intervention may be required.

In the case of horticulture, often it is a natural event such as drought occurring simultaneously with a market factor (over supply, low prices etc) that causes a greatly unprofitable environment. Hence, industry rationalisation may need to be assessed on an industry by industry basis, and have influences beyond the drought review to determine whether industry rationalisation may be needed.

A current example of this would be the decline of the canning pear industry in the Goulburn Valley. Prior to the drought this was emerging as an issue. In isolation it may have been manageable with market forces as equity in individual businesses may have been able to withstand this single issue.

The drought's arrival compounded the problem, most businesses do not have the reserves to cover both issues, and hence some sort of government rationalisation policy may be warranted to resolve the problem.

Research and Development:

Industry wide large scale research and development programs can be of great benefit in times of industry difficulty. In the case of apple and pear production, the Department of Agriculture, Forestry and Fisheries funded "Future Orchards 2012" project has been example of what government can do to assist. This project focused around the need to update production methods and practices to move to world standard.

It has been greatly supported and received by industry, and clear directions forward have been gathered, with the help of numerous visiting international visitors. However, currently, the industry may lack the appropriate access to capital needed to move forward.