Submission to the Productivity Commission Inquiry on Drought Support

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As a grazier and climate scientist, I have a somewhat different perspective than many to the issues of drought "relief". I would submit that the underlying issue is neither climate variability nor climate change, but the fundamental characteristics of Australia's agricultural sector. In particular:

1. **A lack of resilience in farm profitability—an on-going slide that has been noted, but apparently not recognised as causal; and**
2. **A failure of agricultural enterprises, in the main, to act like and be treated like "real" businesses.**

Resilience

I hesitated to use this term, as it has been bandied about nearly as freely as "risk management". However, I have been unable to come up with a better word to describe the state of profitability in Australian agriculture. ABARE's 2008 report, *Australian Farm Survey Results 2005-06 to 2007-08,* paints a dismal portrait of the state of Australia's agricultural enterprises. Three statistics in particular stand out. Across all of Australia's farms:

- **between 62% and 79% of farms had, or were forecast to have, NEGATIVE business profits in each of those three years**
- **the rate of return, excluding capital appreciation, was between -0.4 and 1.2% over the same period**
- **the level of profit at full equity is essentially the same as the off-farm income of the manager and spouse**

While this 3-year period is unarguably drought-affected, similar statistics were found by Hajkowicz and Young (2002), in their analysis of a "normal" climatic year, 1996/97 and for the 5-year period 92/93 to 96/97. I would argue that this underlying lack of resilience in profitability is not specifically a function of drought.

It's a bit like the Emperor's New Clothes—there seems to be a general willingness to ignore the evidence that agricultural enterprises in Australia are not, on average, viable businesses. How can farms become more self-reliant and able to manage the risks of climate variation and climate change, if the enterprise has no appreciable return on investment and can only survive with off-farm income? I can't think of another industry in Australia that expects the spouses of the managers to maintain the viability of the enterprise! Yet we have come to accept this as a matter of course for farming.

The inevitable response to this lack of resilience in profitability is for farming enterprises to run down their physical capital and their natural capital, and to reduce the level of outside employment on the farm. This has been happening for a long time, independently of drought cycles. The net result, of course, is to accelerate the slide into negative farm profit.

In the context of "exceptional" drought, this pattern results in widespread inability to cope with the extra pressures of drought. Farm finances are stretched even in good years, and it is not easy to put funds aside for bad years. Plant and machinery are not maintained or replaced regularly, and break down more readily under the demands of daily feeding and watering of stock. Pastures and landscapes are stressed even in good years, and have no resilience to offer in the truly bad years. Rural communities in decline have little ability to cope with the financial and emotional demands of an economic slump.

And the current system of drought relief simply perpetuates the model of "not a real business". Can you think of another industry in strife where the response was welfare instead of structural adjustment? Where the eligibility criteria for assistance included the assets owned by the managers and the income generated by their spouses? This is what I mean by not acting like or being treated like "real" businesses.

What do we need to do to change?

Somehow, we need to find a way to lift the profitability of Australian agriculture. I don't believe that much, if any, of the rhetoric out there (and in your issues paper) about better training, education, planning, self-reliance, etc. will be sufficient to make a dent in this issue. It comes back to the inexorable squeeze on margins in agricultural commodities. We are very unlikely to outcompete other agricultural countries on price. Increasingly, we are unable to do so on quality, as the quality of produce and fibre raised elsewhere continues to improve.

And as a society we are increasingly concerned about running down our natural capital—the function of our landscapes, whether "conserved" or in production. This entirely valid concern will only put more financial pressure on farming enterprises.

My suggestion is that we should turn the environment card face up: support farming enterprises to regenerate their production environments through stewardship arrangements that provide a return comparable to other investments.

A 5% return on investment on 30% of a farming enterprise would make a significant improvement in farm profitability. Simultaneously, it would start to rebuild the resilience of natural capital on farms (and thereby preparedness for severe drought), and provide additional employment and income flow into rural communities.

Using environmental stewardship to reverse the decline in farm profitability is potentially a powerful tool for rebuilding the production environment and rebuilding declining rural communities. When considering the level of funding required, the whole suite of possible benefits (not just in one portfolio!) needs to be included in the analysis.

References

ABARE 2008, Australian Farm Survey Results 2005-06 to 2007-08, Canberra

Hajkowicz, S.A. and M.D. Young (Eds) 2002 Value of returns to land and water and costs of degradation, A consultancy report to the National Land and Water resources Audit, CSIRO Land and Water, Canberra