



# Fleurieu Regional Development Inc.

*Helping business & industry*

## RESPONSES TO NATIONAL DROUGHT POLICY REVIEW: PRODUCTIVITY COMMISSION

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Agency:

**Fleurieu Regional Development**

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NOTE:

Where possible, give evidence to support views, such as data and documentation.

### **Rationales for government drought support**

*Which are the more important rationales for government intervention during severe drought? Are these the same rationales for intervention in other severe events?*

**Events such as bushfire, flood, storm and severe frost are usually sudden in their effect, with recovery likely to occur quickly, often over one season. Drought by its very nature is prolonged and although rain can suddenly change circumstances for the better, recovery can be slow.**

**In the Fleurieu region, and probably in others, periods of below average and above average rainfall appear to “cluster” over a number of years eg. six year increments of total annual rainfall calculated from data collected here between 1968 and 1981 were consistently above the average while those from 1993 to the end of 2007 were below.**

**In addition the flow on from drought or continuous low rainfall years upstream from South Australia, affects the availability of River Murray water at the lower end of the System. This can translate into business problems for irrigators and other businesses reliant on the River Murray.**

*What is your understanding of the meanings of preparedness and self reliance?*

**The above are essential to the business of farming but a high level of preparedness is expensive and self reliance is difficult to achieve in industries that are caught in a cost price squeeze. Very often, businesses which can be affected by the flow-on from drought, are caught unawares. In some instances, it may be the first occurrence in a generation and there is no previous knowledge inherent in the family/business on how to cope.**

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### **Impediments to greater self reliance and preparedness**

*What have been the lessons learned from the last drought and what strategies are farmers now adopting in response to those lessons?*

**Our perception is that the current strategies available are no different from those previously available. There will always be farmers who are not prepared to adopt strategies they see as expensive and that may in fact be unaffordable. Too many farmers under-insure and rely on the government and/or the community to rescue them from natural disasters.**

**The number that are unprepared and under insured rises slowly over time between droughts and decreases immediately the drought breaks. Mechanisms to ensure the lessons of history are not lost on the next generations are important.**

*What are the impediments to individual farmers, farm businesses, farm dependent rural small businesses and rural communities becoming sufficiently self reliant to withstand severe drought events?*

**Essentially the key can be a lack of resources, particularly where the event has been ongoing which exacerbates the long term nature of the detrimental effects of drought.**

**Another factor could be complacency developing during the (usually) long time between droughts.**

### **Are assistance measures effective and efficient in severe drought?**

#### ***Policy design***

*In general, do current drought support programs provide an incentive for farmers, farm businesses and farm dependent rural small businesses to become more self reliant and adopt strategies that better prepare them for instances of severe drought? Do they do the opposite?*

**We believe that very few farmers or farm businesses want to be reliant on government assistance. Where they have little choice other than to accept assistance that assistance must be carefully targeted according to immediate need and future prospects.**

**Interest rate support is effective but not necessarily fair to low debt or debt free businesses.**

**As a comment, assistance such as fodder and transport subsidies only tend to distort the market and are unfair on other regions not getting the advantages of subsidies.**

*To what extent do drought support policies prevent the development of market responses to manage drought risk? For example, have drought policies impeded the development of weather insurance or other weather derivative markets?*

**No. Farm Businesses in general will mitigate their risk with insurance if this is available and affordable.**

### **EC declaration process**

*Is the EC declaration process overly complex, long, non-transparent and open to manipulation? Is the current institutional approach the best and most effective way to achieve declarations of instances of severe droughts of low frequency, timing uncertainty and high consequence? Does the process need to be refined in the context of a changing climate to remain targeted towards such severe droughts?*

**The process is clumsy, takes far too long, uses too many resources and is difficult to apply equitably across all areas, particularly high rainfall areas. It is open to political manipulation.**

**Support should be delivered and managed by an independent authority removed as far as possible from the political process. The trigger keys and those who should press them must be in place well before the event – these groups need to understand the process and be resourced to undertake the work.**

**The bureaucracy needed to administer the process should be kept as small as practical but sufficient to ensure there is some consistency in experience and expertise available for each new event.**

*Do the geographical boundaries used in the EC declaration process unfairly exclude some farmers from relief payments or conversely include some that do not need assistance?*

**The geographical boundaries used can unfairly exclude farmers who are relevant to the EC declaration. Whether they are in need of assistance or not is up to the process to decide. It could be a case of not penalising the needy, because a few not in need gain access. Not always a good way to look at things.**

*Does an EC declaration influence behaviour, for example, does the potential for declaration delay the decision to adopt preparedness strategies?*

**No. Rather than delay such decisions it provides some degree of confidence in continuing to plan for the future.**

*Does the EC declaration process create incentives for states governments to apply for assistance given the Commonwealth is responsible for most of the funding?*

**No comment.**

*Have expectations of ongoing assistance being created as a result of many regions been declared as experiencing EC for several years?*

**Yes and those expectations are not unreasonable given the likely time needed to recover from a number of years of negative income. One of the most important long term problems caused by extreme and long term drought is the rundown in maintenance spending and capital expenditure stemming from a significant lack of working capital.**

*Is a trigger approach, such as an EC declaration, a necessary first step to determine individual eligibility for drought relief? Could assistance be delivered on the basis of individual circumstances without an EC declaration? What administrative efficiency issues does this raise?*

**Something is needed to provide a “trigger”. Maybe future at risk areas can be defined from the current experience and monitored using specially developed criteria.**

**The “low river allocation” droughts that have occurred, could have automatic triggers. These could be brought on stream at the same time water restrictions are confirmed.**

### **Business support measures**

*How effective have EC interest rate subsidies been in improving the survival of farm businesses and farm dependent rural small businesses? How are farm business decisions altered by EC interest rate subsidies? Do the current eligibility requirements create adverse outcomes, for example, by creating a disincentive for farming households to seek off-farm income? Would support based on business attributes other than debt be more effective?*

**It is difficult to generalise but in most cases where interest rate subsidies have been applied the chance of the business surviving has become much more likely.**

**Interest rate subsidies increase the likelihood of a business seeking carry on finance and planning advice. However, these may well provide a disincentive to working off farm.**

**Support based on business Attributes could be advantageous, if those attributes can be defined and equitably applied.**

*To what extent have farmers benefitted from other input (fodder, transport, rates and other transaction based) subsidies? Have the benefits gone to farmers or to others in the marketing chain, including financiers and farm input suppliers? Do such subsidies encourage poor farm management practices, such as maintaining excessive stocking levels?*

**All transaction based subsidies tend to distort the market, particularly when the subsidies are not consistent across the States.**

**The industry based model where a processor of the product produced by the farmer subsidises the borrowings required to purchase the fodder (or fertiliser) necessary to continue production at a reasonable level and to avoid disastrous variation in levels of production in the future may work a little better, but still effects competition and price.**

*What role do farm financial counsellors play in guiding farm business decision making prior to, during and following drought? How effective is their advice compared to that from other sources?*

**They have provided good, basic, “first port of call” help. Effectiveness varies with individual needs.**

*Should governments have structural adjustment policies which are triggered by severe drought? Why is there little use of current exit programs? Do severe droughts lead to an increase in exit from the industry? If not, why not?*

**Caution is needed with developing and administering such policies. Timing can be important. Current programs appear to offer little incentive, unless the situation is completely hopeless. Severe droughts are one of the many drivers of exit decisions.**

*If governments want to maintain rural communities, what are the most transparent, effective and efficient policies? What are the effects of incorporating these policies in measures directed to the preparedness for, management of, and recovery from, severe drought?*

**Any policy that confers a degree of market power to producers of food and fibre will be effective. This is inevitably in conflict with the desire of government to provide cheap high quality food to their voters.**

**Most rural communities have shown themselves to be very able to adapt to changing conditions. When those changes are sufficiently extreme and consequently are hard to anticipate and plan for adequately, those communities need some help to continue to, at the most basic, provide a secure supply of high quality food, and more generally to contribute to the wealth of the whole country.**

**Rural communities are at risk of losing key services from their towns when the flow-on effect hits. These can simply be the baker, the shoe shop or other retail outlets. It is difficult to determine the effect of drought on these businesses and how much they are affected. Measures to help the community as a whole go some way to maintaining confidence – however financial viability of individual businesses will be the telling factor of keeping the doors open.**

### **Income support**

*How effective are drought relief payments in providing a safety net for farming families?*

*Are the eligibility tests for farm family assistance suitable?*

**These are effective and reasonably well directed – some research is needed however to adapt the eligibility tests to modern times.**

*What have been the farm family welfare outcomes from the EC Relief payment? Are they satisfactory and at the level expected? For example, have farm families been able to meet their immediate health and education requirements? If not, what are some of the problems yet to be addressed in this area?*

**No comment.**

*To what extent, if any, are payments diverted to the farming business and is this a matter for policy concern?*

**It is probably inevitable that any “outside money” will allow a few more creditors to be paid. The budget on a farm is generally treated as one “bucket”.**

*What is the role for government in providing social security-type payments to self employed farmers and rural contractors/businesses during times of drought? Who should be eligible and in what form should payments be made? Should payments be drought dependent or instead based on individual circumstances? Should equity in assets be run down to some minimum level before households are eligible?*

**Any system that applies assistance at some arbitrary level will be unfair to some. Ideally, individual circumstances should define the result. The question of equity should be divided into two categories – on farm and off farm. The latter should definitely be considered as liquid and be means tested. In regard to the former, more research is needed with consideration especially given to the wealth generation capacity of our farms and businesses.**

### ***Environmental and natural resource considerations***

*How can the environmental consequences of severe drought be minimised while providing assistance to farmers? Do current government support measures change these consequences in either a positive or negative way?*

**In general farmers are the best custodians of the land. Farmers are under pressure from the realities of market forces to become more and more productive in order to survive. Responding to those pressures can have an adverse effect on the environment unless the farmer is adequately resourced in good times. Severe drought exacerbates the problem. The environment will be managed best by a prosperous farm sector made up of people with a long term interest in the land and its welfare. Some assistance package that includes a land care component could be investigated.**

### ***Interaction between programs***

*What role do FMDs play in helping farmers prepare for severe drought events? Is there evidence that FMDs are substantially drawn down during a drought? If not, what other 'needs' are FMDs fulfilling and is this an intended policy outcome? Do the eligibility criteria of the separate relief payments encourage or discourage the use of FMDs?*

**FMDs only have value where farms are already profitable to the extent that savings are possible as opposed to debt reduction and growth. Could the management of FMDs be somehow tied in with the provision of a kind of "insurance" scheme by the government (along the lines of, or eventually replacing?, current EC support) while taking into account the points raised in the Issues Paper? The "market failure"/s relating to insurance seem worthy of further exploration.**

### **Program Implementation**

*How has the implementation of drought support policies affected their accessibility and usefulness? Are there impediments to accessing support arrangements? Could support arrangements be delivered in a more efficient manner? For example, are the government institutions responsible for delivery of business and welfare assistance the most appropriate organisations and do state differences add to compliance costs?*

**Our experience is that it takes too long to initiate the process and to build a case for EC. The Fleurieu region for instance was forced to firstly create a structure to address the issue, before engaging with the State Government Bureaucracy to undertake any meaningful research. There was no single, easily identifiable, farm organisation available to take the lead, and that resulted in the Economic Development Agency, FRD, assuming the role. This in the end proved to be a good outcome although one that was pulled together during the event. The lesson learnt is that we should plan in advance for the regional development system to be given more direct links with the Federal Government - this might then enable the organisation chosen to be able to better respond to severe drought events and other natural disasters.**

*What is the time taken and cost incurred by farmers and farm businesses to prepare the necessary documentation and how long does it take to process these applications once submitted?*

**The process is very time consuming, particularly where the business applying is complex. Many farmers, particularly in times of stress, are already working long hours, with little time available to deal with the complexities of an EC application.**

**Our impression is that the processing of applications was done as quickly as resources allowed. It is an area that requires some sort of review to define where it can be done better.**

*Should there be a uniform national approach to drought policy?*

**Yes.**

### **What are the alternatives?**

*Are there alternatives to the current drought support policy measures that could meet the objectives of the NDP in a more effective and efficient manner, particularly in the face of significant long term climate change? What are the advantages and disadvantages of these alternative approaches?*

### **Other Suggestions**

The political process should be utilized to set out consistent Australia wide principles for the delivery of support and resources in exceptional circumstances

Support should then be delivered and managed by an independent authority removed as far as possible from the political process

The deliberations of such an authority should be supported by criteria that are clear and concise but sufficiently flexible to allow for the wide variation in what is "exceptional". The number of years when farm production is significantly below average occurs much more often in some lower rainfall cropping and grazing areas than in high rainfall areas

Minimise the bureaucracy needed to administer the process but ensure there is some consistency in experience and expertise available for each new event

Integrate the National Water Initiative and the water allocation planning process with the management of exceptional drought events, addressing the issues around the delivery of water for the environment and for "critical human needs".

Equity - the interest subsidy appears to have worked well, but is an issue for those who are debt free.

The assessment of business viability appears to have been effective and every effort should be made to ensure that process continues to identify those that should be helped to leave the industry.

The irrigation management grants applicable in the Murray Darling Basin have been effective but are equally relevant in parts of the Mount Lofty Ranges.

The provision of increased storage of stock, domestic and industrial water and new infrastructure for the delivery of that water has been an issue for some in the MLRs

There is a weakness of extension services, specifically in South Australia. And some effort in good times to equip organisations in regional areas to be the lead agency is warranted. The Regional Development Board network is capable of fulfilling this task and should be resourced to do this task.

Our staff in the past have had experiences working with extension services across many Australian States and it is quite clear that South Australia's rural/agricultural extension services are generally significantly weaker than other states, having implemented a "user pays" model to an extent generally not seen in (more extreme than) the other states.



This can become particularly important in circumstances such as drought, or other exceptional circumstances.

Due to the weakness in government extension, there is much greater reliance on farmer/industry-run organisations and Regional Development Boards to provide co-ordination and access to farmer networks to apply for and roll out drought measures in SA - at a time when farmers, industry organisations and communities can probably least afford it.

This weakness in extension (and the "user pays" model) is an impediment not only to applying for assistance (due to weaker human resourcing and poor ability to obtain financial or 'in kind' state government support to leverage other funding, such as federal funding) and the roll out of assistance, but is also an impediment to adaptation and greater self reliance and preparedness.

Part of the rollout of future arrangements (including rollout of measures to improve adaptation and increase self reliance and preparedness, as well as EC support) should take into account the capacity of each state/territory to facilitate access to the support - and any relative differences that might exist. Planning should be done in advance to prepare the chosen organisations so that there is a relatively speedy response to drought.

Tools to predict and react to drought could be made more accessible to farmers and business advisers within the economic development framework. Climate projections have only been becoming clear in the last couple of years - even for people well-connected to the research (eg. work by CSIRO, the IPCC, etc) - so even the "top" farmers will still be adjusting to take into account this information and these adjustments are likely to need to continue over the next couple of years, as projections and adaptation options are clarified and more information becomes available.

Impediments to adaptation include lack of information and extension (particularly in SA) - for example information about alternative practices/enterprises/species/varieties and their application in a particular region; but also requirements for capital expenditure (or the need to take financial risks in making changes) while many farmers have significantly reduced financial capacity (or are in financially precarious situations).

Also, impacts from the previous dry conditions are likely to continue for some time yet, requiring ongoing support for recovery, as well as development of "greater self reliance and preparedness", which will take some time. Abrupt removal of this (EC) support in the short term is still likely to have significant consequences and needs to be maintained for a couple of years yet.

Drought is only one type of exceptional circumstance.

There seemed to be an inappropriate level of emphasis on bio-physical conditions (or drivers) in previous assessments of exceptional circumstances.

The overarching criteria for exceptional circumstances are very sound, particularly that: the event must be rare and severe and results in a rare and severe downturn in farm income over a prolonged period and the event must not be predictable.

Severe financial/socio-economic impacts can result from exceptional circumstances that may not be strongly or directly linked to local climatic conditions. This can be the case, in particular, for high rainfall regions, for industries/regions particularly dependent on products from other regions (eg. livestock operations dependent on

bought-in fodder from other regions) and where there are key, exceptional non-biophysical drivers of severe socio-economic impacts.

The current criteria specify that the event must not be part of a process of structural adjustment. However, based on climate change projections, it could be argued that at least part (and maybe much) of the EC support is part of a process of structural adjustment to increasing climate change and variability - and support for this is important (as is recognised by most governments).

It could also be argued that other key exceptional circumstances being experienced, or that will be experienced - and may drive downturns in farm incomes - include exceptionally low river flows, high fuel prices, high grain prices (including as a result of significant changes in biofuels policies overseas), competition for labour from the mining industries (and impacts on the \$A, affecting export industries) and the introduction of emissions trading schemes.

As these conditions persist (as seems relatively likely in most or all of those cases), structural adjustment will be required - but, in the first instance, they can probably be reasonably viewed as exceptional circumstances, which could not have been predicted well in advance. This structural adjustment is not restricted to farm businesses. In the case of low river flows, we have seen many boating and tourism businesses severely affected by a downturn in trade. These have had their livelihoods taken away from them through no fault of their own. Indeed decisions made by politicians and managers of the river system have effectively curtailed many business operations. These deserve some help. Any study should include how we help businesses that suffer losses because of political or bureaucratic management decisions.

How future programs incorporate (or interact with other programs for) structural adjustment and non-biophysical drivers, such as those mentioned above, will be key to their success. EC support will need to operate in a context of structural adjustment (dealing with a number of changes).

Any changes to EC definitions/criteria need to foreshadowed well in advance (ie. a number of years in advance, phasing in any changes).

We believe that in any consideration to helping the farm and business sectors, there should be a "Level of priority" given to food supply and security.

The NDP objectives seem reasonable - however we recommend that you delete the word "climate" from the second objective (to "maintain and protect Australia's agricultural and environmental resource base during periods of extreme stress") and reduce the emphasis on drought.!

We believe there must be changes made to the implementation program and alternatives should be canvassed at a regional level. There must be better connectivity of the Australian government to the local regional levels, in designing and subsequently implementing a strategy.

If applications could be assessed individually, compared with the 2-tiered process (requiring applications and approval at both the regional and individual levels), that would seem preferable. These applications will need to be seen much more in the context of structural adjustment (which needs to be well supported over the next few years), which will hopefully gradually reduce some of the reliance on EC support - but that will need to be reviewed and evaluated on an ongoing basis, in the light of new events and changing circumstances. Strong and effective support for structural adjustment (as mentioned above) will be crucial though.

Interest subsidies have provided really good support for businesses that were in a "growth stage" when hit by the drought (and were thus particularly affected). Income subsidies, on the other hand, seem to have provided more widespread support, including to more "conservative" farmers (generally not in a "growth stage"). The combination of these two seems to provide reasonable coverage.

Income tax averaging provisions will continue to be very important to farm businesses - particularly in the context of likely increased climatic variability and occurrence of extreme events. It is important that this "kit bag" of financial tools is evaluated by policy makers on a regular basis, particularly in the context of climate change and variability.

It is extremely important that farmers are made aware of the tools at their disposal through good extension. This is not happening very well in South Australia. If the state governments are not willing to improve this provision, then maybe there is an opportunity of a partnership between the Australian Government and local government to deliver this program.

### **Beyond the Farm**

The regional economy is impacted greatly in times of exceptional circumstances. In our region, the current low river flows have devastated many businesses which rely on the Murray River for income. A recent business survey found that:

- Those businesses directly involved with marine activity are reporting up to 80% downturn. There are comments such as no orders for the last 6 months with consequent staff reductions.
- Those retail businesses who are at the "discretionary purchase" end of the spectrum are reporting significantly lower sales due to both economic and drought-related factors.

These businesses also are part of regional communities and have seemingly been forgotten in the "assistance" debate.

They are being impacted by decisions being made beyond their control and are asking for help. **This is an issue which requires a good deal of attention!**