



Background

The Western Australian Farmers Federation (Inc) (WAFarmers) is WA's largest and most influential rural lobby and service organisation.

WAFarmers represents approximately 3,500 Western Australian farmers from a range of primary industries including grain growers, meat and wool producers, horticulturalists, dairy farmers, commercial egg producers and beekeepers.

It is estimated that collectively our members are major contributors to the \$5.9 billion gross value of production (2005/06 – ABS, WA Agri-Food Industry Outlook – December 2007) that agriculture in its various forms contributes to Western Australia's economy.

Additionally, through differing forms of land tenure, our members own, control and capably manage many millions of hectares of the State's land mass and as such are responsible for maintaining the productive capacity and environmental well being of that land.

Introduction

This submission contains NO confidential material

WAFarmers welcomes the opportunity to provide comment on the Productivity Commission's Issues Paper, *Inquiry into Government Drought Support*.

WAFarmers appreciated the opportunity to meet with the Commission members in Perth on 16th July.

With some reservations, WAFarmers supports the view of Australian minister's for primary industries "that current approaches to drought and exceptional circumstances are no longer the most appropriate in the context of a changing climate.....that drought policy must be improved to create an environment of self-reliance and preparedness and to encourage the adoption of appropriate climate change practices."

WAFarmers reservations are that there will always be a place for government financial assistance mechanisms to assist farmers their families and associated communities during times of adverse seasonal and economic conditions and that self-reliance and drought preparedness to encourage the adoption of appropriate climate change practices cannot simply be training programs.

WAFarmers will be contributing a submission commenting on the government's *Carbon Pollution Reduction Scheme green paper* seeking greater recognition of the role of agriculture in climate change mitigation activities which will provide diversification and income generating opportunities through new and enhanced farming practices.



WAFarmers notes the reference to agriculture's declining contribution to the nation's economy and share of GDP. Whilst acknowledging these figures can be attributed to numerous factors, the resource boom being the most predominant, that fact remains that despite their diminishing contribution to the nation's economic well being, agricultural industries still feed 100% of the population. This fact should not be lost on government policy makers.

This submission will address those questions raised in the Issues paper that are relevant to WAFarmers role in the drought support process and member feedback of the effectiveness of drought support measures over time.

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

Governments have a responsibility to address economic, social and environmental impacts of drought, however, WAFarmers primary responsibility is to ensure the economic welfare of farmers and their communities during drought to ensure that post drought, farmers and their communities can regain productive capacity and viability in the shortest possible time.

Strong economic health ensures that the social and environmental responsibilities of farmers and the communities are preserved.

These rationales are the same for other severe events.

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

WAFarmers concurs with the view expressed in the issues paper.

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

It is difficult to answer this question at this point in time as drought affected farmers in Western Australia are emerging from drought into an environment of skyrocketing farm input costs. This scenario at present has the potential to drive more farmers from the land than the drought.

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?

Climatic change, unreliable long term weather forecasting, withdrawal of government services, economic downturn, high A\$ exchange rate, farm input costs, labour shortages, depressed commodity prices, subsidised competitors in the international market place are examples of impediments to self reliance that individually or in combination will hold back farmers, rural small business and communities.



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?

Farmers pride themselves on their ability to manage adversity and self reliance is a key component of their attitude towards adversity. Drought support programs should enable farmers to manage the impact of drought in a way that is in tune with their attitude towards farming in general and in a way that they can develop pride in accessing the programs.

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?

The greatest impediment to the development of weather insurance or other weather derivative markets is government reluctance to underwrite the schemes in the initial years. Considerable work was undertaken through the Grains Council of Australia several years ago to establish a Multi Peril Crop Insurance Scheme, however, the government of the time was more intent in finding reasons not to support the scheme than they were in finding ways to develop a workable model.

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?

WAFarmers believes that Western Australia is disadvantaged under the current EC process which has clearly been designed to meet the needs of eastern states farming practices. A simple statistical analysis of applications will demonstrate this fact. The membership of NRAC needs to ensure that state/regional specific issues are understood by NRAC.

With the progress of the Carbon Pollution Reduction Scheme, the EC process should be refined to recognise the potential for farmers to benefit from on farm carbon sequestration activities.

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

WAFarmers believes that lines on a map will always result in perceptions of exclusion and that declarations should be by area and should include buffer zones.



Individual applications for assistance should not be restricted thereby ensuring that exclusions will be as a result of failing to meet assistance guidelines as opposed to being on the wrong side of a line on the map.

Due to the difficulty experienced in Western Australia in achieving EC declarations, WAFarmers does not believe that the potential for declaration impacts on preparedness strategies.

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

WAFarmers believes that in the event of drought, State governments have a responsibility to access assistance for farmers from every available source.

WAFarmers works closely with the State government to ensure that state funded assistance is also available to farmers.

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

This may be the case in the eastern states but WAFarmers does not believe that proposed expectations exist in Western Australia.

Is a trigger approach, such as an EC declaration, a necessary first step to determine 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?

In 1997, the government of the day terminated the Rural Adjustment Scheme (RAS) which provided financial assistance to farmers based on individual circumstances without the need for any trigger mechanism.

As previously stated, there will always be a place for government financial assistance mechanisms to assist farmers their families and associated communities during times of adverse seasonal and economic conditions by way of drought relief payments or similar, however, a revamped RAS would be a far more effective tool to assist farmers achieve drought self reliance than existing EC provisions.

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?

The level of EC assistance provided to Western Australian farmers has not been sufficient nor has WAFarmers access to statistical data to provide responses to these questions.



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?

The level of EC assistance provided to Western Australian farmers has not been sufficient nor has WAFarmers access to statistical data to provide responses to these questions.

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?

The level of EC assistance provided to Western Australian farmers has not been sufficient nor has WAFarmers access to statistical data to provide responses to these questions.

Notwithstanding, WAFarmers strongly supports the role played by farm financial counsellors.

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?

WAFarmers would support the introduction of a structural adjustment policy which is based on individual circumstances and does not require a trigger mechanism.

The level of assistance provided under current exit programs is insufficient in comparison with Western Australian land values and farming enterprises to encourage uptake.

The recent extended drought in Western Australia has seen an increase in farmers exiting the industry.

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?

Long term policies that drive agriculture forward, encourage investment in regional areas and attract families to relocate to regional areas are desperately needed to maintain rural communities. Regrettably, the current focus on the resource boom is resulting in government policy that pays token respect to rural communities.

In Western Australia, the effect of incorporating these policies in (improved) measures directed to the preparedness for, management of and recovery from severe drought would be the revitalisation of rural communities.



How effective are drought relief payments in providing a safety net for farming families? Are the eligibility tests for farm family assistance suitable?

For those families able to access drought relief payments they have proven extremely effective in enabling many families to meet basic living expenses.

WAFarmers understands that eligibility tests have deterred many families from applying for assistance.

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?

WAFarmers does not have any data to respond to these questions.

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

WAFarmers does not have any data to respond to this question.

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?

Every other sector of the Australian community is able to access social security type payments. It would be discriminatory for government to deny access to self employed farmers and rural contractors/businesses.

Eligibility should be open to all and payments made on the same basis as they are to any other Australian citizen.

On farm assets should be excluded from any eligibility assessment. Regardless of these assets being unproductive during severe drought, erosion of income producing assets will severely hinder the ability of farmers and rural contractors/businesses to recover from the drought due to the high cost of replacing assets.

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?

Farmers undertake varying degrees of environmental stewardship as part of normal farming operations and carry the burden of public good expectation for environmental stewardship without any recognition by government.



Current government drought support measures are inadequate for the costs associated with environmental stewardship to be maintained. As previously mentioned, WAFarmers believes that the potential exists for farmers to achieve a level of financial recognition for carbon sequestration activities under the Carbon Pollution Reduction Scheme. Should this potential be realised, environmental consequences of severe drought may be minimised.

What role to FMDs play in helping farmers to 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?

In Western Australia, FMDs are by far the key mechanism utilised to enable farmers to prepare for severe drought.

WAFarmers has no evidence of FMD drawdown during drought, however, the upper limit on FMDs is considered inadequate to meet the average operational costs of Western Australian farming systems.

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?

WAFarmers does not have any data to respond to these questions.

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 bureaucratic process to access assistance measures is highlighted as a deterrent to farmers applying for assistance. Time and costs are greater in Western Australia due to the size of the state, isolation of rural communities and accessibility of government agencies based in major regional centres.

Should there be a uniform national approach to drought policy?

A “one hat fits all” approach to government policy consistently disadvantages Western Australia. State and regional differences need to be recognised in developing national drought policy.

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?



Refer to earlier comments regarding a revamped Rural Adjustment Scheme, the need for improved long range climate forecasting tools, Multi Peril Crop Insurance and opportunities for farmers under the CPRS.

With agriculture uncovered by the CPRS until 2015, during the intervening period, governments need to increase investment into agricultural R&D to ensure that emissions guidelines for agriculture are based on Australian data which reflects the efficiencies in Australian agricultural systems.

Taxation incentives for on farm drought preparedness investment in infrastructure e.g. water improvements and fodder storage should also be given serious consideration.

Several years ago, Mr David Trebeck delivered a paper on rural taxation issues which contained several recommendations for changes to the current taxation system which would benefit regional Australia. It is recommended that the Commission review this paper in conjunction with this Inquiry.

Conclusion

WAFarmers promotes a policy of self preparedness to manage drought, however, after successive years of drought and adverse economic conditions, agriculture has to regain its past viability. Loss of viability results in a lack of financial capacity to manage drought.

The current drought policy review is welcomed and in addition to the outcomes of the Productivity Commission's Inquiry and the Expert Social Panel's assessment, a simple question needs to be put to the government

“Does Australia want viable family farm driven agricultural industries and healthy rural communities?”

WAFarmers trusts that the response will be in the affirmative and if so looks forward to improved long term agricultural policies that drive agriculture forward rather than short term policies that are tinkered with after every election. The introduction of National Competition Policy and associated dry economic theory emanating from governments and their bureaucracies has torn agricultural industries apart over the past two decades.

With NCP having run its race, it is now time for governments to repair the damage it has caused to agriculture.

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