

Productivity Commission

Inquiry into Government Drought Support

July 2008

Submission by Macquarie River Food & Fibre
20th August 2008

Macquarie River Food & Fibre
PO Box 1657 Dubbo NSW 2830
Ph: 02 6884 9577 Fax: 02 6882 8838
Email: mrff@bigpond.com

TABLE OF CONTENTS

Executive Summary	Page 3
Irrigated Agriculture in the Macquarie Valley	Page 3
Agriculture in the Macquarie Valley and drought	Page 4
Rationales for government drought support	Page 5
Impediments to greater self reliance and preparedness	Page 5
Are assistance measures effective and efficient in severe drought ...	Page 7
Policy design	
EC declaration process	
Business support measures	
Income Support	
Environmental and natural resource management considerations	
Interaction between programs	
Program implementation ..	Page 13
What are the alternatives	Page 15
Tax reform	
Insurance and derivatives	
Choice of assistance options	
Other options	
Conclusion	Page 16

Executive Summary

The Productivity Commission Issues Paper appears to address some concerns of the current drought support policy, however it does not address the major concerns of irrigators. The debilitating drought since 2002 has impacted greatly on the irrigation sector and this has not been recognized by the state or federal governments.

Macquarie River Food & Fibre (MRFF) is the peak irrigation group for the Macquarie Valley. MRFF has completed this submission based on the concerns of irrigators in the Macquarie Valley. These concerns are shared by many irrigators, who have found themselves not able to conduct their business, required to pay water charges although there was no possibility for water allocation, and hence found it necessary to plant dry crops of wheat, barley, oats or canola only for these crops to fail and reduce their financial security within their businesses.

In this submission MRFF will explain the following major issues facing irrigators during this drought:

1. The lack of drought support available to irrigators and the inequities this represents to long term farming enterprises
2. The impediments faced by irrigators to improve self-reliance, such as minimum infrastructure support and changes to water sharing regulations
3. Limitations within the *Water for the Future* program for infrastructure improvements to assist irrigators in developing preparedness for drought and Climate Change impacts and the social impact of unnecessary blame by the Federal Government for the irrigation industry destroying the river system
4. The social and economic impacts to regional towns and communities.

This very severe drought has impacted more relentlessly than we have experienced previously. This was unforeseen and therefore impossible to prepare for. The state and federal governments have linked this drought as a component of climate change and for this reason these governments have imposed the following impacts:

- Increased the social tension of a never ending drought
- Increased any animosity towards the irrigation sector
- Divided rural and urban communities on their views towards financial assistance to the agricultural sector
- Decreased the ability for farm managers to make valuable decisions about long term sustainability of their farming enterprise
- Decreased the faith in the businesses ability to continue long term
- Increased the interest and need for financial drought support through the lack of income and lack of hope

For these reasons the state and federal governments need to differentiate this drought to climate change.

Irrigated Agriculture of the Macquarie Valley

The Macquarie Valley currently has 77,500ha of land used for irrigated cropping. 52,400ha (68%) of irrigated land is used for cotton. Reliability for extraction is approx 55% of entitlement in average years. High security licenses are utilized for permanent plantings such as citrus, olives & grapes. General Security licenses are held for cropping that includes cotton, corn, broccoli, lettuce, onions & herbs.

Cotton Growers have improved water use efficiency by 11% since 1999. Improved practices for cotton have been taken up by other cropping irrigators and this has seen improved infrastructure for irrigators in the Macquarie. Self mulching soils, high moisture retention practices and improved watering systems have assisted this water saving along with continual trials for further improved water efficiency practices.

Many of the irrigated properties of the Macquarie are generational farming enterprises, employing local staff and family workers.

Irrigated agriculture in the Macquarie takes up only 1% of the catchment area, however irrigated agriculture employs two-thirds of all those working in the agriculture sector. The irrigators of the Macquarie provide 1,100 jobs and contribute 6000 jobs to the national economy, contributing \$300 million in gross domestic product. In accordance with the Macquarie-Cudgegong Water Sharing Plan, irrigation in the Macquarie extracts 25% of average annual flows.

Agriculture in the Macquarie Valley and drought

Allocation for irrigation over the past 6 years is:

Year	High Security Allocation	General Security Allocation
2002/03	100%	0%
2003/04	100%	19%
2004/05	100%	9%
2005/06	100%	44%
2006/07	100%	0%
2007/08	70%	5%

In light of the above statistics the Macquarie valley has averaged 12.8% of its general allocation over the past 6 years. This has had devastating effects on not only the irrigation enterprises concerned, but also on the communities of the Macquarie. Evidence of this is the reduction in population of Warren Shire by 15% during this drought. To keep staff employed in these irrigation enterprises and to ensure a reasonable core skill base in our local communities, there is a need to reduce the overheads for these businesses.

There has been a requirement of the irrigators in the Macquarie to deliver 100% of their fixed water charges to the State Government at a time when these irrigators have received minimal allocation over the past 6 years. This has increased the financial burden of these irrigators and increased the financial and social pressures to their businesses and families.

"Australia's drought policy characterizes severe droughts as 'exceptional circumstances' (DAFF 2008a) where an event:

- *is rare, in the sense that it does not occur more than once on average over a 20 to 25 year period*
- *results in a rare and severe downturn in farm income over a prolonged period of time (12 months or more)*
- *cannot be planned for or managed as part of a farmers' normal risk management strategies."*

(Page 4 Productivity Commission Issues paper)

Irrigated agriculture in the Macquarie has certainly experienced this definition of exceptional circumstances. Irrigated businesses in the Macquarie have developed strategies to cope with normal droughts. These strategies include off farm assets to ensure that their collateral (farm investments) allow for increased borrowings after 'normal' droughts, so that a 'bounce back' can be achieved during wetter years. This drought strategy has let these irrigators down dramatically during this severe drought, as these off farm investments have disqualified irrigators from accessing drought assistance. This worst drought of record, has confirmed that both farm managers and government understand that this drought could not *be planned for or managed as part of a farmer's normal risk management strategies*. In the case of irrigators, if off farm investments are sold, the business becomes no longer self reliant against 'normal' droughts, pest plagues, unexpected crop disease or any other financial strain on the business.

This situation alone has excluded irrigators from accessing assistance and for Macquarie valley irrigators has proven the Drought Policy for drought support is *'poorly targeted and worked against farmers becoming self reliant.'* If these restrictions are maintained, this will severely hamper this agricultural sector, in adopting *self-reliant approaches for managing climatic variability*. As the irrigation sector is ineligible for support payments, the Productivity Commission may wish to consider if this is in fact a targeted group by the federal and state governments, and if so, if this is a discriminative approach during a time of financial and social stress to these business owners.

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?

The important rationales for severe drought need to include:

- Assessment of income achievable
- Assessment of household income possible
- Assessment of debt

Government intervention in severe drought will include financial support, with consideration for the long term strategies to ensure business profitability post drought.

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

Preparedness: The ability for business managers to access the risks facing their business and to develop clear strategies for overcoming these risks, that are possible to implement and effective when carried out.

Self Reliance: The ability for business managers to develop their business structure to ensure under reasonable circumstances, their business has mechanisms to ensure minimum disruption to the business. This is the ability to implement preparedness strategies and a good financial base for the operation.

Impediments to greater self reliance and preparedness

The greatest impediment to self reliance and preparedness for the irrigation sector is the lack of trust in governments, regulation, policy and support for this sector. This lack of trust has developed due to:

- the minimal financial assistance available to support these irrigation businesses through the drought
- the fixed charges required by state government through minimum to nil water delivery periods

- Federal water buy back
 - increasing uncertainty in the water market
 - increasing anxiety for irrigators at a time of low certainty for self reliance
 - minimum understanding of climate change impacts
 - minimum information on new policy and procedures from government
 - increased pressure to sell a major asset of the business.
- The continual changes made to water sharing arrangements and now the impacts of the unknown Murray Darling Basin Plan and Cap.

The development of infrastructure on farm and within the business to withstand unknown years of nil income or negative income due to drought impacts, cannot be developed when the level of uncertainty around financial commitments required and regulations impeding water reliability are changing so regularly. As the business manager develops the infrastructure and capability to develop the business based on the regulations present, these regulations change and the business' ability to be self reliant is compromised again.

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

The lessons learned from the last drought include:

- The increased need for farm management deposits and investment portfolios
- Further water saving techniques on farm
- Conserving water in higher water years to hold over for dryer years

The financial base developed and water strategies implemented can assist the farm business in normal droughts up to 3 years. Beyond this timeframe any reserves are exhausted. To recover from a normal drought the business required 3 years for bounce back, where this does not happen the ability to withstand the drought impacts is marginalized.

The current drought has not allowed for any new strategies to be developed for Macquarie Valley Irrigators as there are minimal funds or infrastructure opportunities available to explore these possibilities.

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

Individual Farmers: There has been a sense of pride attached to asking for financial assistance in the past and this attitude is changing based on the severity of this drought. In the situation of a severe drought these farmers suffer acute stress, due to their financial situation. Once this occurs there is difficulty for farmers to make sound business decisions. Basic financial assistance is essential to assist managers in making sound business decisions that will ensure their ability to bounce back from the drought.

Farm Businesses: The barrier of changing policy and regulations does not help these businesses become self reliant. As the business is developing the required infrastructure to carry the business during normal years there are often strategies developed to ensure financial security

during drier years. In the instance of this severe drought, these strategies were exhausted some time ago. The resources expected for recovery in many/most cases are also depleted. The ability for the farm business to recover or bounce back is very difficult. The recovery time frame in the best situations will be several years. If this is possible between 2008 and 2014, the irrigators of the Macquarie will be recovered in time to have the regulations for this industry changed and the reliability for water restricted further. This places increased business pressure on the infrastructure developed and minimizes the likelihood for this business to develop strategies to survive the next drought.

Farm dependant rural small businesses:

Rural small businesses rely on town residents as well as farmers and their employees to support their businesses. Where employees leave, or farmer's income is reduced these businesses suffer. Maintaining household incomes and rural workforce will support these local businesses during times of severe drought. The ability for these businesses to be self reliant during drought is very limited and often small businesses close due to the population and income decrease of the regional centre.

Rural Communities:

Rural communities have limitations based on the population and local economy. Apart from tourism, the local economy is limited by its population. The impediments for local communities to withstand drought is its ability to maintain its population and to keep locals spending their income locally. Where local employees move on or local farmers are not financially supported, rural communities cannot be sufficiently self reliant. Maintaining the regional workforce can assist in maintaining populations, local economies and services.

The federal government has placed the blame on the irrigation industry for the lack of water in the river systems. This creates a division between town communities and the irrigators of the rural community breaking down the community framework.

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 dependant 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?

The limiting factor of quarantined 'support to those farms assessed as likely to remain profitable in the long run' has not been effective. It is difficult to determine at a point of severe drought, which businesses are proving self reliant or

working towards resilience. All businesses in severe drought are suffering and hence determining those businesses capable of remaining profitable in the long run is difficult.

Individual Farmers: The current drought income support payments for families are based on restraining limitations. These have been difficult constraints for many farming families in need of support to access. A lifting of these limitations and the creation of a more equitable process across all agricultural groups and small businesses is to base all payments on a minimum taxable income and a claim in arrears for all farming households. As most/many farming and small businesses have experienced a nil or negative income, these businesses would qualify for support.

Farm Businesses: The current assets test for Exceptional Circumstances funding has a limit of \$236,500. Where farming enterprises have diversified their assets off farm, they cannot qualify for funding. One property valued at \$350,000 invested off farm, could also equate to machinery on farm valued at \$350,000. For self reliance irrigators spread the asset risk and develop an off farm investment required by financiers to ensure repayment of large cropping debts. However, currently there is a disincentive to increase off farm assets, when support is not available in difficult times. Off farm investments should be encouraged for long term security of businesses in the future and to ensure these businesses are profitable in the long term. The threat of Climate Change has also concerned managers about the business' ability to be self reliant and hence there is the belief that the business should have the capacity to draw funding should the climate not change from this current drought. Any disincentive therefore to invest off farm will increase this reliance for support.

The current Drought Force package is a good incentive to ensure staff remain on farming enterprises, however this package does not meet the current wages currently paid to farming employees. There needs to be an opportunity through this package that the farming business receives the drought force funding and is therefore offered a subsidy to support the wages paid to employees. This may assist many employees in retaining staff as wages remain constant for employees. In our Australian agricultural culture, there is the opportunity for a generational farmer to employ a generational employee. There is therefore an attachment and obligation by the producer to ensure that his employee is retained and if not, this increases the stress experienced by all parties. Also where skilled employees move on to other forms of employment, the skills base is lost and it takes a longer period for recovery after drought to develop that same skills base.

Farm dependant rural small businesses:

Currently a small business is eligible for funding where the business employs up to 100 staff and does not earn an income over \$37,500. If the government is serious about supporting small businesses in regional areas there needs to be a review of the financial services provided. If a business pays wages to 100 staff @ \$60,000 pa, this same business is required turnover in excess of \$6,000,000. The notion that the government is

supporting small businesses (of up to 100 employees and that earn less than \$37,500) is not feasible.

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?

There is no current proviso for support on seed, fertilizer, fuel or other input costs, where farmers are required to plant crops and prices have increased due to shortage of supply and fluctuations due to drought conditions. This problem is faced in severe drought and supply/demand factors control these without drought support having influence.

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?

Regardless of the effects of climate change the determination of EC declaration is effective. Exceptional Circumstances can only be determined in times of severe drought and should not be misconstrued with the other policies required to determine differing factors at that time. The EC declaration process should cover Exceptional Circumstances for a longer period as income to most farming enterprises is after harvest or when sales are complete. Therefore stopping funding at any time during the year could result in a major impact for the individual, family or business during the period awaiting farm income.

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 behavior, for example, does the potential for declaration delay the decision to adopt preparedness strategies?

Self reliant or preparedness strategies are continually developed regardless of the circumstances. For example, as an irrigator prepares his planting program, he has to decide if he will have enough water allocation to plant an irrigated crop, or will he need to include a dry crop. Seed availability, fertilizer costs and soil condition will all be factors in deciding the years cropping routine. In many cases these decisions are made well in advance. For example, if you can purchase fertilizer cheaper at a different time of the year, you will have your supply ready well before you are required to use it. The irrigator has many factors determining his preparedness for the next season. EC declaration will not determine how these business decisions are made. For irrigators the availability of water will be foremost in deciding to plant.

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

Unsure

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

Any expectations of ongoing funding will be developed from the fact that there has not been a reprieve in the current worst drought of record. It will not be based on what we have received in the past but what is needed in the future.

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 administration efficiency issues does this raise?

The guidelines for EC declaration give an accurate and immediate picture of the circumstances in the region. For the individual to be evaluated independently to determine their current situation for EC would be time consuming and would involve lengthy processes for farm managers along with government administration. Support to farm managers in delivering the required paperwork would also increase administration for all parties. Financial assistance is required in a timely manner when needed.

BUSINESS SUPPORT MEASURES

How effective have EC interest rate subsidies been in improving the survival of farm businesses and farm dependant 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?

Interest rate subsidy is crucial to small business survival as this assists in maintaining the business debt. The decisions made by farmers are only altered where there is limited available funds, and in this case the interest rate subsidy allows the debt to be managed while decisions are made to use any available funds to continue the business. There needs to be a real understanding of off farm incomes and how in some cases the off farm income not only supports the family but assists in maintaining available funds for the business. A disincentive to earn off farm income inhibits the recovery period after the drought, for example, if the off farm income is helping with business expenses as well as household support, the repayment of debt will be quicker and the business will recover quickly.

To what extent have farmers benefited 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?

Once again this is a subsidy that has not assisted irrigators.

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

Rural Financial Counsellors assist in informing irrigators of the subsidies and grants available during the drought. Accountants, financiers and other business advisors usually assist in the business decisions on a usual basis. As

rural financial counselors are up to date with funding available their role is essential during a drought period and could be maintained in the longer term to support a 'bounce back' recovery period.

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?

Due to the culture of Australian farming, there is a real possibility that the generational farmer chooses to lose the farm due to the drought, rather than make the conscious decision to leave. In small farming enterprises, it is usually the neighbor who purchases the small property, however if the property has been owned by the farmer's Grandfather or Great-Grandfather, there is an emotional attachment. To leave the farm, you not only need to make the choice, you need to leave behind a family legacy.

There is also an optimism in farming that next year will be better, so the gamble is to stay for another year, although the equity in the enterprise has been considerably diminished. Conversely a structural adjustment policy or increased exit program would increase the stress already experienced.

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?

The most transparent and effective ways to maintain rural communities, is to maintain a skilled workforce. Yes there is an opportunity for the local workforce to move on, however when this happens the skills are lost from the area, and the development of this skilled workforce is time consuming, the re-employment process is costly and downtime does not assist in the bounce back of the business after the drought. To maintain regional communities, the drought support must support farm businesses and regional small businesses to maintain their staffing levels.

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?

The income support payments for farming families DOES exclude many farming families. There is a concern that those farming families not prepared to earn income off farm and maintain a low income, may be developing a security net of dependency, rather than this being a safety net for those families, working hard to develop long term self reliant strategies. As previously noted, this support payment should be made to farming families at the end of the financial year, where they can claim based on their taxable income (as is the case with family payments) and those qualifying for payment receive a lump sum that can assist with household or farm debt, to assist in the recovery from the drought. The faster these families recover from the drought the less required, they will be for any support payments. The eligibility tests should once again not take into account off farm assets as this is a disincentive to develop long term self reliant strategies. If the payment is based on taxable income, any income from on farm or off farm activities will be taken into account and hence payment will only be available to those who have a minimum or nil income.

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 the problems yet to be addressed in this area?

MRFF cannot answer this question, as off farm assets have disqualified most of our irrigators from gaining EC payments. Where is the encouragement for these families who are asset rich and cash poor, to develop their businesses to a point where they need no assistance from the government?

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

Where off farm income is carried out to assist household support, the family as a whole (Father, Mother and Children) assist to maintain the business and the home. This is a business decision in relation to covering household expenses and covering essential payments for the business. This is another reason why claims should be made at the end of the financial year, where the joint taxable income is assessed and management of the funds available from EC support is the concern of the family business.

What is the role for the 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 dependant or instead based on individual circumstances? Should equity in assets be run down to some minimum level before households are eligible?

Once again the major concern for drought support is not that these businesses have large or small asset bases, but that they can pay for their basic living requirements for their family. If claims are placed at the end of the financial year and after tax returns are completed, there is an opportunity for any household requiring the basic standards to be met, to gain additional payments to cover education and health needs.

Equity and asset assessment can be explained by, a farm business has \$2 million in farm debt and \$1 million in off farm assets. If an interest payment subsidy is available for businesses with off farm assets, \$1 million of off farm assets could be offset against \$1 million farm debt, then an interest rate subsidy can be calculated on the \$1 million remaining. This business could maintain their off farm asset and receive interest rate subsidy to maintain debt before recovery.

The general equity in the farming enterprise should not credit/discredit a family from receiving household support.

ENVIRONMENTAL AND NATURAL RESOURCE MANAGEMENT CONSIDERATIONS

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

Normal agricultural practices ensure the longevity of pastures and the improved performance of land management. The drought policy should reflect support of these measures by farmers under normal/average periods of land management, while encouraging these same practices during a 'normal' or 'severe' drought.

To minimize environmental consequences and maximize drought recovery post drought, off farm income should be encouraged. This will have the following impacts:

- Increased household/farm income to maintain good quality land management practices
- To minimize unnecessary stress to farm enterprise, hence encouraging poor land management decisions (ie over stocking, incorrect water deliver systems)
- Minimize individual stress and the opportunity for poor decisions at a management level

Another additional course of action would be to increase on ground funding for infrastructure, enabling local Catchment Management Authorities to develop appropriate programs to support good drought management strategies.

The current disincentive to invest off farm or to increase off farm income at a time of severe drought, has increased the financial pressures required from individual farms and inappropriate decisions by their managers. Effectively, where irrigators have been absent in claims for EC funding, inappropriate decisions may be encouraged. By an inclusive approach to assistance, increase funding possibilities, and general on ground support, these irrigators would be supported in making sound rational decisions that would also assist in a swift recovery post drought, for the individual, business and environment.

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?

Severe droughts are not the only issues facing agriculture each year. Crops can fail in isolated regions due to many factors. Restocking after drought and recovering after a stock disease/reproduction failures are also times when recovery is imperative. Farm Management Deposits have a crucial role in the general year to year operations for many farming enterprises, to ensure there is secure funds when required. It is true that the FMDs offer tax advantages, and they offer an opportunity to draw down funds during severe drought. FMDs also offer farm managers the flexibility to utilize these funds at a time of recovery. This form of financial support should not be eliminated based on the requirement of use during drought. This is an opportunity for businesses to recover as drought funding will be removed once the drought is declared over, and businesses will still need support during their rehabilitation and recovery. The current drought policy should not only focus on the support required during the severe drought, but also how the agricultural sector will recover. If there is no financial support for irrigators and they are encouraged to use reserve funds that would be held in FMDs, what funds do these farm managers utilize when funding resources are removed and all reserves are exhausted.

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 organizations and do state differences add to compliance costs?

As previously mentioned, the support available to the irrigation sector has been minimal. Accessibility has been minimal and usefulness to the industry, individual business and community has been minimal. Where a disincentive to ensure security in business exists, the government has been not capable of ensuring they are supporting the profitable and effective farming enterprises to continue into the future, but in some cases supporting the farmer who is doomed to fail. The concept of creating self reliance should be at the forefront of decisions and any disincentives to develop self reliance removed.

Although the first round of EC funding had department staff overwhelmed, the arrangements have been carried out quite well. The process of assistance with paperwork has been acceptably carried out by Rural Financial Officers. A streamlining of forms, application processes should be reviewed and where time efficiency measures can be implemented, this will lower the individual stress associated with applications for individuals. An opportunity for Rural Financial Counsellors to be further promoted in the rural sector and utilized during normal periods will create a positive approach for individuals during times of high stress.

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

The time taken to prepare documentation, depends on the administration skills of the business manager/secretary. There is usually some information required by accountants and financiers once applications are completed. The time lag during high quantity work loads may take up to several weeks. Accountancy and administration costs will be relative to the task required and the amount of funding opportunities available to the individual. Once submitted payments can take up to six months during high work loads and several weeks during normal periods. As farm managers are not notified that they are successful, until payment or adversely a denial notification arrives, the stress during this period is heightened.

Should there be a uniform national approach to drought policy?

The drought policy should include the following uniform national approach:

- Increase incentive for individual farm businesses to become self reliant
- The deletion of disincentives to develop financially sound businesses with clear business management strategies to conduct effective and efficient land management practices and a good financial base to ensure longevity during difficult times.
- An understanding of the differences in business operations, to ensure large farming concerns can maintain off farm assets and increase these where possible during normal periods to ensure security
- A clear concept of skills/labour retention in farming enterprises and regional towns, to ensure swift recovery after drought.
- Irrigation businesses are recognized and supported
- Off farm assets are offset against farm debt, to access interest rate subsidy
- Federal government pays State Water supply agencies the fixed charges payable by irrigators during severe drought

7 What are the alternatives?

INCOME CONTINGENT LOANS

This form of assistance would be a recovery option. These forms of loans may be for replanting for example as an option during the recovery phase after a drought, to assist the business that has weathered the drought and is now recovering. This type of assistance would not replace the other measures needed to sustain businesses during drought periods, however assist in a rapid recovery period.

TAX REFORM

No business should be encouraged to close FMDs during severe drought, as this assists recovery period. These tax arrangements should encompass those businesses developing self reliant strategies and hence should become a further incentive to develop sound risk management strategies for all agriculture based businesses.

INSURANCE AND DERIVATIVES

The insurance for the agricultural sector during drought, should be the incentives to become self reliant and hence insurance measures should become unnecessary where positive self reliant practices are maintained.

CHOICE OF ASSISTANCE OPTIONS

The difficulty in determining viable and nonviable farming enterprises is that there are differences in how production takes place. The size, management skills, practices employed can be varied and this has influences on the ability for the enterprise to recover. Differentiated packages for drought assistance may be a good suggestion, however how government departments determine if they are supporting correctly, or if in case a compliance action is required, how can this be fairly and equitably achieved? The general assistance measures currently available, have proven as good assistance to many farming enterprises, however there is a large number of viable productive enterprises that have lacked any assistance and should be the businesses in the long term that ARE assisted.

OTHER OPTIONS

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?

If the government is to examine the future possibilities for agriculture in Australia, there are many issues to be challenged and overcome. There is a need for research and development, and if this was carried out over each catchment area, there is a possibility to achieve long term viable strategies. This type of funding is a mechanism for developing good management practices. In this way risk strategies and positive self reliant practices are and encouraged.

Research and development funding is separate to drought support and hence is a positive approach at all times. Drought support during times of severe drought is essential to maintain individual health and farming businesses in regional areas. The government cannot avoid its requirement to deliver basic funding for basic needs support, however there is an opportunity through the experience of this worst drought of record to develop some new

strategies for funding that offer farm business managers the opportunities to explore new options for the benefit of their businesses.

Conclusion

Macquarie River Food and Fibre has highlighted the key issues facing the irrigators in the Macquarie Valley. There are a number of key messages that the Productivity Commission need to explore in this inquiry into Government Drought Support:

- What level of assistance has been offered to irrigators and at what level across Australia has income support been utilized
- A definition of self reliance and resilience that takes into account that no business can withstand a greater period than 3 years of zero to minimal income. After this period of time there is little to no opportunity for self reliant risk strategies to be effective, as the financial resource base of the business has been diminished and government support is essential.
- Clarification of irrigation regions that have no allocation of water and yet have been required to fulfill payments of fixed water charges to state government.
- A review of income support payments and the possibility to comply with the same regulations established through Centrelink for Family Payments, whereby a retrospective claim at the end of the financial year will determine if you qualify for income support, based on a minimum taxable income threshold, for farming and small businesses in an EC declared area.
- That the federal government differentiate between this being the worst drought of record and the effects of climate change.
- Where farm businesses are developing self reliant strategies for long term business solutions to drought, there is not a disincentive to continue these practices

A comprehensive review of Government Drought Support will include the irrigation sector and the issues raised within this document. Macquarie River Food and Fibre would be pleased to speak with the Productivity Commission on any of the issues raised, should this be required.