

Riverland Drought Taskforce regional submission

Please find attached the Riverland Drought Taskforce regional submission to the Productivity Commission for National Drought Policy Review

The Riverland Drought Taskforce, has independently elected to submit the following, highlighting the very different nature of EC in an irrigated horticultural district. Members on the RDTF include;

- Natural Resource management representatives
- Local Government
- Regional development board
- Education
- Health
- Primary industries
- Commerce
- Industry representations

The process adopted by the RDTF also included extensive consultation with industry groups within the region

We appreciate the opportunity and offer the opportunity to answer any questions that may arise

Regards
barb

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SUBMISSION

**PRODUCTIVITY COMMISSION'S REVIEW
of
NATIONAL DROUGHT POLICY
and
EXCEPTIONAL CIRCUMSTANCE SUPPORT**

RIVERLAND DROUGHT TASK FORCE

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Regional Profile

The Riverland is Australia's major horticultural producing region. Centred on the River Murray, the Riverland is Australia's largest wine producing region, growing in excess of 50% of South Australian wine grapes.

The region is also well known for its production and processing of citrus, stone fruit, almonds and vegetables. Not as widely recognised is the fact the Riverland is also a major producer of apples, cherries and olives along with a majority percentage of dried fruit production.

Industry, tourism and a comprehensive service sector blend successfully to provide a wonderful place to live or visit and to give the region numerous investment and export opportunities.

Statistics indicate that the median wage within the Riverland region is generally lower than that of South Australia, with the majority of employment being seasonal labouring in horticulture, and the associated seasonal underemployment. This dynamic places specific pressures on this irrigation community and results in many property owners to have off farm incomes as a means of spreading the cash flow and risks of running their businesses.

Current predictions from the wine grape industry indicate that as many as 50 percent of growers would consider transitioning from the industry as a direct result of the current crisis.

Background to Regional Response

The Riverland Drought Taskforce is an advisory body established through the collaboration of key regional members to;

- Provide leadership, promote collaboration between regional organisations.
- Facilitate the development of improved organisational arrangements in the region that promote integrated and strategic decision making.
- Ensure that the regional community receives accurate and timely information about support services that are available.
- Provide strategic, integrated advice to Government about drought response, recovery and renewal.

The Riverland Drought Taskforce in conjunction with the Riverland Horticultural Reference Forum has combined to coordinate a Riverland response to the National Drought Policy Review. This process has included;

- Riverland Drought Taskforce, Riverland Horticultural Reference Forum and the Riverland Coordination Network combining for a facilitated session
- Industry input through local Horticultural industry representatives
- Reviewing within the region the proposed response.

Drought effects upon the Riverland region

The Riverland district is built around the opportunity to grow crops through an irrigated system from the River Murray system, through adverse climatic conditions and over allocations of this valuable water

resource the River Murray is showing severe signs of degradation. Concerns within the region for the fragile eco systems along the system and lower lakes along with fragile upstream systems, places the Riverland in a vulnerable position.

At a time when the community is feeling extreme pressure in dealing within their businesses and farming enterprises, there is a need to ensure that the process for accessing supports is not onerous or confusing, and at all times support is provided with dignity and understanding of the regional impacts.

The following contribution from the spread of stakeholders in the Riverland addresses the questions posed in discussion papers published by the Productivity Commission as part of this review of National Drought Policy.

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?***

Drought impacts for the River Murray irrigators are the result of severe drought / lack of rainfall in areas geographically removed from the region.

The drought in the catchment combined with over allocation of the river water resources will take many years after the “breaking” of this current drought to rectify. The basin needs a single basin wide approach to re-assess the (over) allocations and approaches to “drought proofing’ the system.

To a large extent the current drought for irrigators are due to circumstances out of their control. This is not in the same way as the weather is out of the control of dryland farmers, irrigators have had an reasonable expectation of water security and that is has now come unstuck, requires extraordinary measures on the part of Government, to address the structural arrangements and the social, environmental and economic impacts.

To that extent the situation faced by irrigators and the rationale for intervention is in itself quite different to that of the dryland areas that have been developing drought risk management strategies for a century, knowing that is the nature of the Australian climate.

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

Preparedness in relation to irrigated regions is ensuring best practice irrigation methods are implemented, crop types are reviewed through R&D to ensure the right crops for the right climate, along with personal preparedness, Growers and grower groups need to have divergent income streams, linking to self reliance management upon one’s self for sustainability through fluctuations in markets and weather

Preparedness in the Riverland has included;

- Widespread adaptation of best practice drip irrigation management
- Extensive use of farm deposits
- Crop– diversification (many growers have more than one crop type or more than one variety)

- Farm management bonds have been utilised as a diversification and utilised in times of need

The understanding has been that River Murray irrigators have been drought proofed through

- locks and weir systems (government) within the Murray corridor to manage water flow and availability, and prepare through storage systems of different key water systems
- Extensive implementation of monitored scheduling of irrigation ensuring cropping within water allocation guidelines.

The combination of public investments in securing water supplies and the efficient distribution systems in the Riverland and the private investments in on-farm efficient irrigation technology and management, particularly in the last two decades was believed to have prepared this region to be working toward levels of efficiency that were delivering real benefits to the water resources of the basin. That this drought in the upper catchment and the apparent over allocations has unpredictably occurred in the region has been nothing that would reasonably have been expected.

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?

Irrigated horticulture has not been part of a climatic drought such as this, with water restrictions so severe and inflows and storages at record lows. Therefore farmers have not had the “real life” opportunity to learn from past occurrences.

Irrigators will now be much more mindful of the potential for the basin to run out of water, pending changes under the new basin management and climate regimes and while this event will have major social and economic impact that the current Government support measures will provide relatively limited benefits, the lessons learnt and the region’s response will have a major impact in years to come should another event like this, or the effects of climate change come to pass.

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?

Irrigators in the region have had a reasonable expectation of on-going water security. To that extent, the impediments to self reliance has been that expectation. While producers have put in place a number of strategies to be efficient growers and users of water and to spread their business risks, till now, to factor in the current restrictions to water allocations has left many/most with no business model to withstand the drought. The main impediment for individual farmers is the inability to gauge water allocations, and manage permanent plantings.

There is however a need to better target the EC relief payments to not inhibit adjustment, there is evidence of payments being used to “prop-up” irrigated horticultural businesses that are marginally viable.

Are assistance measures effective and efficient in severe drought?

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There is a question in the case of Irrigated horticulture whether assistance measures unduly support potentially non viable farmers.

In determining effectiveness and efficiency of assistance, it seems that the assistance measures have failed to place a value on permanent plantings, the long periods (7-10 years) that will be required to redeem lost plantings and potential for the permanent loss of markets; markets that demand a supply tomorrow on an on-going basis.

The current measures were not developed to take account of a region that was apparently drought proofed. The current package cannot assist producers facing the prospects of the death of permanent plantings and the consequent long term effects.

Within irrigated horticultural regions there is a need to pack for market the produce, under current assistance measures guidelines eliminating these businesses for a variety of reasons;

- Length of time in business, many decisions have been made and implemented based upon water allocations and in the case of packing sheds, potential to “read” this event was limited
- Director assets exceeding the limits – in many cases the directors assets are linked to their primary production property and the actual business of packing fruit relies 100% on revenue dependent upon the success of irrigators
- Packers are not recognised as being affected.

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?

The more viable growers tend to make provisions to be as self reliant and adopt strategies that do provide preparedness for instances of severe drought, however in many cases the preparedness eliminates the better growers from support. Consideration could be given to:

- “low-end” financial limits for EC eligibility rather than “upper-end” to better target the viable/sustainable businesses, ie looking at preparedness in farm equity, and farm debt
- development of EC policy that accounts for the capacity to better use resources and thus, producer’s capabilities to manage risk and their business, and consequently more emphasis on skill development and recognition

Current drought support measures fail to meet the needs of rural non-farm businesses, in regional towns it is difficult to determine how a business will not be affected by drought impacts and in general small/medium business do not meet criteria, so the package misses a whole sector of the community?

Many farmers are self resilient and in pre-empting the current crisis had implemented strategies that in many cases eliminated them from support. Reassessment of the role of off farm incomes for

example, which to many horticulturist is an essential and valid component of the business have found themselves to be ineligible for any support: whether that be to exit or to stay. It has meant that many of the producers in greatest need can only receive limited help.

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 Drought Task Force makes no comment here, other than to acknowledge that drought support policies have had limited to no influence over the behaviour of irrigators, many of who now face exit and significant social and financial stress due to circumstances substantially out of their control.

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?

While this region was declared to be in EC, the declaration process largely relied a 'recent history' of adverse season, where as in this region where the drought has occurred remote from here, the process found it difficult to account for the near certainties of the impending impacts of low flows into the region and how the Government interventions would work. The anecdotal comments were that the process might be such that the producers might well have the full impact of the drought and limited capacity to respond, before the assistance measures were in place.

Not with standing that the declarations were made, there must be lessons in that for the future to ensure the process is clearer.

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 recent series of declarations, particularly of the River Murray Corridor where there was a relatively open approach to boundaries was appropriate and while it took a liberal approach, this has not resulted in any distortions or inequities, merely the opportunity for all producers to submit their individual applications on their own merits.

In the case of irrigators on the River Murray the geographical boundaries was somewhat problematic. It would have been clear if the declaration was for all those with a River Murray water allocation.

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

There is not evidence that this had any impact on River Murray irrigators. The approach to managing risk and adopting preparedness is all about efficient irrigation. That process has gone on in South Australia regardless of drought and EC declarations.

The current situation has introduced whole new challenges that were not foreseen by drought policy and the response requires a rethink at the regional and Basin-wide scale regarding the future approach to allocations. Individual irrigators will now have to consider new water efficiencies, new crops, new levels of risk management financial planning to lease or manage water allocations in potentially similar situations.

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

Not appropriate for the Task Force to comment on this

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

No – the region being discussed in this paper is new to EC declaration and did not go into this declaration with the idea of ongoing assistance being created, however there is a local expectation that management of the MDB would look at minimising this occurrence 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 administrative efficiency issues does this raise?

The stakeholders in the Drought Task Force had no comment on this.

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?

EC interest rate subsidies have provided a valuable support for many growers. However they have also created some potential in-efficiencies in the way growers are perceived and therefore create inequality in the community.

Small business support in the River region is limited and it seems that in cases where a whole community is supported by primary production, some thought around the support of small business may be required. This support should include a rethink of the support measures and how they related to the subsidiary business such as packers and the value adding businesses, along with global market protection (ie the major market for citrus being export). It is apparent in the Riverland that significant, otherwise well managed and sustainable businesses in the market chain may collapse, with no intervention through the drought package.

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Current EC policy eliminates packers/value added sector that have investor/corporate setup, due to the combined investments of partners, even when partners may be under extreme on farm pressure.

Other current efficiencies around EC subsidies include:

- Family Trusts issues
- re-assessment of the off-farm assets test for Interest Rate Subsidies, where these are integral to drought preparedness and risk management where
 - off-farm income currently limits some EC support, where this has enabled many growers to develop best practice principles through risk minimisation and income security, currently an impediment to EC support
- re-thinking the model that supports heavy borrowers and debt holders vs the more fiscally conservative but still progressive producers,
- ensure that the EC process is less convoluted and accessible and supporting the 'right sector', which in the case of Riverland irrigators differs dependent upon crop types and efficient businesses management practices, economies of scale differ with cropping varieties.
- improved connections in the market chain (packers) with regard to managing the risk of low water allocations
- Question whether viability is all about "size" and being cognisant that some smaller producers can run relatively robust businesses.

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?

In general the SA Government and the drought support package in SA has avoided any intervention in transaction based activities.

Many have called for low interest loans, specifically to lease water, given the extreme circumstances and long term effects on perennial plantings, producer survival and maintenance of markets. Cognisant of the arguments regarding market distortions and the unrealistic claims for subsidies by many, the Task Force urges further consideration and economic modelling of the costs and benefits of such an approach. The future of this region and its industries are under threat without more tangible sources of assistance such as this.

However the Drought Task Force raises concerns regarding the Irrigation Management Grants:

- farmer A gets \$20,000 for irrigation on his 3 Ha while farmer B gets a similar amount on his 30 Ha property, the idea was good but the procedures flawed.
- Irrigation practices on many "viable" properties were excluded also as they had pre-empted the issue and the preparedness was completed, excluding them from financial support, however they being the most efficient of irrigators.
- Many installed drip irrigation without realising that a completely different irrigation methodology is involved – (need for education linked to change)
- Not being able to utilise this resource to secure additional water for permanent plantings, if property was one of best practice.

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 Rural Financial Counsellors are acknowledged as pivotal to the drought response and the longer term structural adjustment process. While this service does NOT provide advice in the generally understood way, the steerage and referral service provided is highly valued and should continue. That the Counsellors encourage farmers to look at their financial situation from a number of prospective, through cash flow budgets, gross margin analysis, record keeping and support them in a problem solving where the farmer and counsellor explore options and the farmer makes the decision about which path to take is invaluable.

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?

Structural adjustment policies need to be strategic reducing the risk of losing better/productive growers while delivering opportunities for potentially non viable growers

Need to be able to answer some fundamental questions around why exiting the industry in irrigated horticulture districts may not be as viable or appealing. As they pertain to the irrigators in the Riverland the Exit Package is not being taken up because of problems with the;

1. 5 year tenure requirement Some irrigation properties were purchased as viable concerns with 100% allocations prior to information regarding low inflows filtering through.
2. Taxation of exit grant – why call it a grant?
3. definitions of what constitutes farming in this setting?
4. definitions of what constitutes giving farming away?
 - a. Sale of water from an irrigation property – does this mean exiting the industry?
 - b. Why does the smaller irrigation property have to be sold with its home, when the removals of water will constitute removal from farming? These properties cannot produce income without water
5. many irrigators face losing their family home – while a state planning issue this also impacts on exiting industry

Properties are extremely difficult to sell because of the water situation and the low prices being offered for produce

Equity within irrigated properties has in many cases been reduced, through a number of factors including re-evaluations, making the decision to sell difficult when looking at equity vs sale price, linked to ability to sell properties. In most cases the grant money would not be sufficient to replace their home which would have been lost because of the sale of the property. Because of Council bylaws, subdivisions are not allowed, compounded by some issues around the understanding of water sale and land ownership meaning an industry exit.

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Regarding the tax issue; would be seekers of the Exit Grant have been told that the Grant is taxable. It was assumed that the grant was to be taxed at normal Income Tax rates. Apparently a recent ATO ruling has been deemed that the grant will be taxable, but as capital gains. There are several concessions associated with Capital Gains Tax. The advice from the Taxation Office is that people found to be eligible for the Exit Grant should seek an Individual Tax Ruling. Application Forms are available on the ATO website. This needs to be clarified and communicated more clearly.

The discussion around exit strategies in preparedness for similar circumstances should be available in times of non severe climatic conditions, when people can make informed discussions without emotion, possibly providing "exit with dignity".

Where the requirement is for applicants must have spent a significant time working the property, those who have sought off-farm income to support their enterprise to spread their risk and be better prepared for the impacts of drought, this renders them ineligible and in the case of this community and socio-economic setting, this seems inappropriate and requires examination.

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?

Understanding and recognising regions "point of difference" and the overall value offered through that region – current EC policy has not been able to accommodate the particular and unpredicted circumstance of the low water availability to irrigation communities and the historically unprepared situation they have found themselves to be in.

Drought support policy needs to recognise the investment in efficient irrigation that has occurred in the Riverland and this be factored into Government programs and policies, given that SA irrigators have been prepared , that these systems and practices need to be maintained and enhanced and yet many will be in severe trouble without any significant government support.

Need for responsive social supports, additional services not less...ie policy that supports regional development and infrastructure/ human and physical

There is a need for EC to have clear lines of connection to small/medium business. Support is limited and offered in a reactive manner and there is a need to have in place on-going business development programs to lift the level of informed decision making, Market protection during drought to maintain markets, leading to recovery and the protection of hard fought for markets ensuring that there can be recovery within the regions, without "substantial" "out of drought" restructure – prolonging recovery and preparedness for next occurrence.

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?

Is Centrelink the appropriate body to be making decisions about farming and the impacts of drought?

- Many people have been found ineligible because they have sought off – farm work to save their farming enterprise.
- adjustment to income support that eliminates the tendency to inhibit adjustment of non-viable producers from the industry
- consider lower financial limits for EC eligibility rather than upper limits to better target the viable/sustainable businesses
- Fast tracking for other government programs such as Job network services.

There are many enterprises which are too small to sustain the farmer and family without income support. This was a factor before the drought. In effect these farmers are using a scarce resource to provide negative income and are using Centrelink payments to support their lifestyle.

This is the opportune time to act and get these people to exit the industry with dignity. – their transition from farming will possibly improve their financial positions and free up a resource to be returned to the river or provide additional income profitable farmers who wish to increase the size and efficiencies of their enterprise. This strategy may also assist in the next dilemma in rural communities of experience and skills shortages in these agriculture/horticultural enterprises.

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?

Centrelink relief payments do not meet the financial needs of farmers if there is no other payment supports, especially in the case of private health cover, and additional costs associated with education and sport. This is a very important issue for many regional people as they rely on private cover to access health services, education costs incurred through children previously being in the private sector, increasing costs of non funded school buses etc. sport is traditionally known as the backbone to rural communities and many families are being forced to limit activities due to costs of fees along with increased cost in rural regions of attending.

There is a need consider as a part of EC to exempt students transitioning from High School to University, have a reprieve from asset testing for independent student status along with gap year earning status ie ability to earn required amount is limited due to decreases in employment, potentially leading to youth not attending university, and potentially losing pockets of skills bases later

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

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It seems that through anecdotal information support payments tend to be placed into working accounts and money is diverted quite regularly to the most important “block” need if there is one, this information is supported by the over subscription of CWA support to families for food, and household bill payments