Government Drought Support Inquiry
Productivity Commission
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Dear Commissioners,

Attached, please find a copy of our submission in response to the Expert Social Panel's Issues Paper on the Social Impacts of the Drought. This submission covers the general issues Horticulture wishes to raise in relation to the Productivity Commission's Inquiry into Drought Support.

However, there are some specific issues we wish to raise in greater detail.

In the past one/two seasons, significant numbers of growers have been struggling - for the first time ever - with insufficient water to produce a crop. More critically, those with permanent plantings (fruit and nuts) are struggling with issues of long-term viability as they strive to keep their orchards/vineyards/groves/plantations alive.

The current situation for many in Horticulture during the current drought (particularly in, but not limited to, the deepening crisis in the lower MDB) has resulted in an unprecedented process of unplanned structural adjustment on a massive scale. Consequences of drought directly impact on growers, farming families, local businesses and regional communities. Unfortunately, there has not to date been a strategic or systemic response to the crisis from governments - particularly in regard to assisting non-viable growers to exit the industry, rewarding those growers who invest in long-term sustainability, or in building community resilience and social infrastructure.

With the risk of climate viability continuing to change and perhaps increase, there is a need for a more strategic approach to Government investment and intervention to satisfy the needs of the whole economy and community.

To generate a good policy outcome - i.e. that Government, businesses and the community are better prepared for future droughts/disasters - HAC recommends the reform of many of the current programs. These reforms should be concurrent with the implementation of a new platform of programs and risk management tools, incentives and strategies; simultaneously promoting and rewarding a preparedness culture as the first line of defense against drought (and other extreme weather events). In the longer-term, growers are looking for support for those who have made the adjustments, taken the risks, and moved towards sustainability.

In the longer-term, HAC is looking for a move away from EC, towards a more strategic view of Drought/Disaster Preparedness and Drought/Disaster Relief, incorporating:

- **implementation of a new platform of programs and risk management tools, incentives and strategies;**
- **while promoting and rewarding a preparedness culture as the first line of defense against drought (and other extreme weather events);**
- **support for those who have made the adjustments, taken the risks, and moved towards sustainability.**

HAC is strongly of the view that, whatever changes are made to the Drought Support Policy settings, some transitional arrangements are a critical step. It is our industry's view, for example, that many growers in the Lower MDB would be willing to exit the industry with some dignity (rather than be forced onto welfare), but do not currently meet the criteria (eg cannot leave their land/home) – we should be aiming to achieve a sustainable regional industry, employment and community model once the quantum of those wishing to leave have access to the Exit Package, and the situation is clearer.

Unfortunately, there are discontinuities and inconsistencies in current policy settings which are impeding the desired outcome. For example, there is a lack of synergy in implementation of the Government's water buy-back program and it's interaction with the Exceptional Circumstances criteria – specifically, the Exit Package.

Horticulture is looking for a more strategic approach to the structural adjustment which is currently occurring. This will happen in one of two ways – swiftly and relatively painlessly (a systematic process implemented with compassion and Government assistance), or 'slow and lingering death' (under the current *ad. hoc.* approach, where growers gradually succumb to bankruptcy, are forced onto welfare, and the regional communities they support face imposed decline). Clearly, the Government's policy intent, and Horticulture's expectation, is to achieve the former.

Briefly, the issue of the encouraging the widest possible pool of willing sellers under water buy-back, and the eligibility of growers to access the Exit Grant under the existing criteria, are not compatible. There is some concern regarding potential conflict between the policy aims of the water buy-back program (to return water to the environment) administered by Minister Wong's portfolio, and facilitating the exit of non-viable growers/willing sellers (the ability of growers to access the Exit Grant) administered by Minister Burke's department.

This inconsistency is currently being played out in the MDB in particular; though the same principles apply to all intensive irrigated industries (such as Horticultural industries) struggling with viability in circumstances of drastically reduced/below-survival water availability.

In order to be eligible for the Exit Grant, growers are expected not only to cease farming, but also to sell their properties/farms/family homes to satisfy the condition that they have "left farming". Growers wishing to exit the industry have been finding it difficult to locate buyers for their properties, as there are many other properties in the lower part of the MDB also for sale; and state government regulations are making it difficult for Local Councils to allow re-zoning for sub-divisions (eg 'lifestyle' or hobby farm blocks; or excision of the family home from the farm).

Should they elect to sell off their water right and bulldoze/turn off the water to their orchard/vineyard (and effectively exit the industry), they would not be eligible for an Exit Grant, as they had not sold the land asset even though this asset had been significantly reduced by way of sale of their water entitlement and removal of the trees/vines which produced their income.

Soldier settlement blocks in the order of 10 acres or 10 hectares where the growers have sold their water entitlements and bulldozed the productive orchard/vineyard (and effectively exited the industry), would not be eligible for an Exit Grant, as they had not sold the land asset even though this asset had been significantly reduced by way of sale of their water entitlement and removal of the trees/vines which produced their income.

The $150,000 (taxed) currently offered as the Exit Grant is not sufficient to allow these growers to purchase a new home, even in regional areas – i.e. it is not a significant enough incentive for growers to exit the industry. We are concerned that, short of real incentive to exit, many growers are finding themselves in a 'Catch-22' situation: willing to exit, but unable to afford to. We (and state agencies/local councils in the worst affected areas) are concerned that many (especially older) growers will effectively be forced to "slowly bleed to death" until they go bankrupt, in which case they will become a drain on the welfare system and their local services.

If growers were able to sign documentation stating that they had exited the industry and agreed not to return as a farming business, it would allow them to retain their family home and remain within the local community - which will be negatively impacted should local families be required to move away from their local area/region in search of income. This is especially significant for those growers who have reached or are near retirement age and have no great desire to relocate for ongoing employment opportunities. Most of these have no superannuation (except for their now non-viable orchard/vineyard, the now unsaleable land and home, and their water entitlement).

For those growers who wish to exit the industry, this will ensure that the simultaneous process of structural adjustment, and reduction of excess water entitlements in the system, is achieved sooner rather than later. Our view is that it is preferable all round for a clean break, and exit with dignity. This would also provide greater certainty for those growers who remained.

This would also open the possibility of many of these growers being in a position to offer environmental services (such as planting of saltbush or other salinity mitigation activities, re-establishment of native vegetation, re-forestation, etc – all of which require significantly less water than production horticulture), and act in an environmental stewardship role (doing what they know and love, and retaining some self-esteem and respect in their community). However, under existing legislation underpinning carbon sink forests (currently under review by the Senate Standing Committee on Rural and Regional Affairs and Transport), the incentives are based on tax deductions up-front on capital expenditure (similar to existing MIS schemes), which appear in their current form to favour large corporate investors (and are not appropriate for growers struggling financially).

Beyond the Exit Package, other issues with current EC arrangements we are keen to see discussed in greater detail as part of any transitional arrangements include:

1. For many, current business structures (particularly for multi-family enterprises in horticulture) cut off eligibility to many EC provisions because the 'assets' are counted for the single enterprise, not how many families are being supported by that business. Unlike many farmers involved in broadacre farming, who have been eligible for many years for EC assistance, Horticulture growers (who have never before been in the position of being eligible to apply for assistance) have not structured their business to optimise their opportunity to meet the eligibility criteria.

2. Amending or altering other eligibility criteria which can reduce the grower's entitlement under the exit package as it currently stands (i.e. the grower's net asset position of $350,000 net or less post-sale, to qualify for the full Exit Grant, with every $3.00 in asset above this level reducing the grant by $2.00 up until a $575,000 net asset limit – this is likely to make growers ineligible for the Exit Grant once they sell their water entitlement).

3. The asset threshold currently includes the family home/additional house, but excludes superannuation. For many smaller family farm operations, this 'asset' is in fact the superannuation for the older generation. If the enterprise has no other superannuation assets, our contention is that the family home and other superannuation 'substitutes' should be removed from the asset threshold.

4. Delayed succession planning. Like other areas of agriculture, and Australia at large, Horticulture has an ageing population. Granting pension entitlements (i.e. waiver of the 5 year rule) to older generations would alleviate significant financial burdens on the younger generations who are left running the farm during periods of drought.

5. Larger enterprises are not looking for income support for themselves. However, they are looking for income support for their key personnel to enable them to retain their skilled workers until they can recommence harvest (i.e. to receive income support payments on behalf of their key personnel from Centrelink, and 'top up' - to as close as they can to "normal" salaries - where they can, without the individual worker concerned losing the income and other benefits). This is similar to the arrangements for Cyclone Larry (which assisted in reducing the drift of skilled workers to the mining industry in Queensland).

Yours Sincerely,

Kris Newton

Kris Newton
CEO