

RESPONSES TO NATIONAL DROUGHT POLICY REVIEW: PRODUCTIVITY COMMISSION

Author.....**South Australia Advisory Board of Agriculture** - a compilation of Board member's responses

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 only requires government intervention when it has been severe and extended.. One year of drought, even if it is out of the norm, does not require government intervention, and such a response does not encourage agricultural businesses to take on their own risk management related to weather. But extended severe drought causes trauma - mental distress, financial distress, insecurity in the long term viability of agriculture as people leave the industry, and younger ones are not attracted in, and a collapse in the social fabric of rural communities reliant on agriculture.

So the rationale for government intervention is to prevent the collapse of viable agricultural businesses, not just to support those individual farmers affected and their communities, but from a national perspective, to ensure the long term viability of agriculture and food security, and land care management.

Unlike fire, there is no insurance for individuals to access that covers severe, extended drought.

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

Being able to "insure" ourselves to cope with drought, ie make use of Farm Management Deposits to have funds in poorer years; harvesting and storing as much water as possible from rainfall (not by diverting from and storing from rivers); building up supply of hay/stock feed; using surplus income from good years to diversify (have properties in differing climate locations, diversify farm enterprises/crops/stock/value add; or off farm investments). However these drought proofing measures are not sufficient when drought is severe and extended.

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?

Lessons Learned

- *For those who were well drought proofed, the extended severe drought very rapidly consumed Farm Management Deposits, other term deposits, hay and grain stocks, so even the most prudent of agriculturalists are unable to drought proof for extended severe events.*
- *The push for "forward" marketing grain by banks (for cash flows and business plans), agri-business (offering and actively promoting training) has cost many well trained farmers tens of thousands of dollars in losses with wash outs of contracts. This has*

clearly shown farmers in more marginal areas that in extended droughts production risk is far greater than price risk. But how do farmers predict the severity and the other side is the financial drought of 2005 for grain growers with very low commodity prices causing a "financial" drought and prevented some areas from recovering from 3 poorer years previously to be fully drought proofed to face '06 and '07. Unfortunately the lesson may burn farmers during low price years, when the increasing input costs demand that capturing reasonable prices is the only way to retain viable businesses.

- *Making decisions early as to what approaches to take, eg sell off excess stock, or go into confinement feeding, buy in extra feed (which can save in the long run as the price often rises when you leave it too long).*

Strategies being adopted

- *Selling off farm investments (questionable how smart this is in the long term to lose this 'superannuation', which were not intended as drought proofing strategies, but are essential to keep farming if eligibility for EC support is not met.*
- *Not cropping poorer producing paddocks or areas of paddocks (but what is the long term effect re weeds etc?)*
- *Many are already No Tilling or Minimum tilling to conserve moisture, reduce soil erosion, but more are adopting these techniques*
- *Variable rate (Precision Agriculture) to reduce fertiliser rates on low production areas of paddocks to cut input costs*
- *Sowing earlier and dry sowing to make full use of any rainfall / allow for shorter growing seasons / warm dry springs*
- *Delay machinery replacement*
- *Repairing/servicing own machinery and equipment*
- *Only maintaining farm fencing etc with materials already on farm - not purchasing to maintain or upgrade*
- *Reducing fertiliser rates (only appropriate for very short time frame)*
- *Reducing high risk crops (lentils, pulses, canola etc) and planting more cereals*
- *Being very wary of forward selling despite high price opportunities –so that production risk does not cost big dollars again in contract washouts. But this may be to farmer's detriment if the combination of a large crop and the newly deregulated market leaves traders with insufficient funds to purchase whole crop (A MAJOR CONCERN), and may well cause impediments to people undertaking debt reduction even if season turns out well*
- *Selling off parts of the farm (not necessarily helpful to sustainability of business in long term)*

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?

- *FMD levels set too low, with the rapid increase of cost of production, even FMDs fully topped up can disappear rapidly when costs have risen so much. For large broad acre*

farms it could easily cost ½ to 1 million dollars to plant a crop. Estimation for one broad acre farm to purchase fertilizer for best practice rate at current prices would cost \$250,000 for 2009.

- *Lack of access to FMDs by Family Trusts (often set up to manage succession planning for the business)*
- *Lack of access to FMDs by other agriculturally related businesses*
- *Insufficient "encouragement" to collect own water via costs of water and taxation incentives (farmers in low rainfall areas can be self sufficient for water needs of stock, other farm uses, as well as personal so those in wetter areas should also be able - including city dwellers with compulsory rain water tanks to maintain gardens, toilet, laundry etc)*
- *The expectation that there will always be programs such as EC, and so the safety net is seen as the government rather than self. (Although in cases of severe extended drought business safety nets will never be sufficient)*
- *High taxation, eg stamp duty, fuel excise, registrations on plant, cost of meeting compliance – compulsory training and updating of qualifications such as ChemCert, these costs add to the input costs of farming, reducing funds available for drought proofing.*
- *Farmers being price takers not price setters, and always being the last in line to wear costs eg pay freight on inputs and outputs.*
- *For rural communities the difficulty in attracting other industry such as tourism – the cost of installing tourism infrastructure, upgrading attractions etc and not often being able to access grant funds to assist with costs. Many grants appear to be awarded on quality of submission rather than quality of project and where small communities only have volunteers to access and apply for grants then success tends to be far less frequent than those communities who have paid professionals to track funding.*
- *The reduction in Research & Development in extended drought periods when there are less levies collected and therefore less funds to keep programs running – Some of the EC funding being allocated in this direction would assist long term sustainability of agriculture*
- *Ongoing cuts by Federal & State Governments (CSIRO & PIRSA) when , in the face of predicted drier, hotter climates we need more funding into water efficient varieties, saline & frost tolerant, perennial grasses etc.*
- *Businesses (Food, drapery, hardware etc) that rely on the agricultural community around them for business, but are unable to meet EC criteria and prove that 70% of income is derived from agricultural sector. Aware of a "local" drapery which took only \$27 for a full day's trading (suspect this is a frequent occurrence) , how can this business hold on until better times return. Perhaps they need access to drought proofing tools such as FMDs. Some other rural businesses still getting income from fertilizer, chemicals, fuel etc are eligible for EC, while those with little income from their rural community are not.*
- *Casual staff have hours reduced with the down turn in business, many are forced to leave their rural community to find employment. This has a spiral downwards effect on income for business, availability of volunteers.*

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?

EC does not provide incentive for self reliance, but severe drought ultimately demands some sort of support to ensure the long term survival of agriculture.

Low rainfall areas are well accustomed to drought, and farm to manage risk of drought as part of their business. The current criteria for EC for any event to have not occurred more than once in 20 – 25 years seems inappropriate to these areas, and the definition of event needs to be tightened. – if these areas were to only have one severe drought event in 20 – 25 years then we would be well able to manage without Government support, unless it was very severe and extended for longer than a couple years. If the “event” is only one year then all farmers should be able to ‘carry’ themselves for that time without support.

EC should be a safety net for those affected by severe long term drought, or those who have not been in the industry long enough to build up drought proofing, but it is possible that the criteria is too generous and so farmers may see EC as their drought proofing rather than actively adding it to their own risk management planning.

Inequities in EC eligibility can be very divisive in rural communities when available to some and not others – some have worked hard to drought proof themselves and invest in FMDs and similar, while others have spent well on new machinery, vehicles and so have debts to attract EC interest rate subsidy. Also rural businesses which rely on reasonable seasons are not eligible for any support. Those who access Planning for Recovery have financial help to increase their viability.

The Planning For Recovery Package would benefit all farmers in EC declared areas so that even those considered too viable for EC have the option of accessing the opportunity to draw up a business plan with the help of someone who can look at the enterprise objectively. Even those farmers not eligible for EC are under stress, suffer depression, have difficulty making decisions and so a business plan prepared professionally would give them a clearer understanding of options open to them and how to remain/increase viability.

Need to increase FMD maximum limit from \$400,000 to at least \$500,000, but higher would be preferable. This program should be broadened to encompass other agriculturally related businesses so they too can “drought proof” themselves for times when farmers stop spending. These businesses may then be able to retain staff during a tough period so they are still around when better seasons return. We have many machinery dealers on Eyre Peninsula who have been unable to financially keep staff, including apprentices – these may be lost to agriculture forever. And individually these people have faced unemployment, or relocation to find employment, also flowing onto affect the economic and social structure of rural communities.

However with the threat of climate change and the urgent need to adapt coming right on top of an unprecedented (in recent times) period of drought, even those farmers too viable for EC will have depleted their financial reserves extensively and may no longer be in a position to adopt changes needed. The newly promoted "Climate Change Adjustment Program Advice and Training Grant" is means tested, and to gain the \$5500 (GST inclusive) for Climate Change training farmers need

- less than \$1.5 million total net farm assets,*
- estimated farm income plus net non farm income less than \$39,000*
- market value of non farm assets less not farm debt less than \$243,500*

We suspect not many farmers will qualify. !

EC declaration process

Declaration for drought areas should be uniform across Australia. This should be a national approach and not a state by state decision.

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?

Many have complained of the process being difficult, and very complex. EC declaration process could include closer scrutiny of over capitalization of plant and machinery within farm businesses applying.

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?

Possibly. By eliminating geographical boundaries and allowing any Primary Producers with Farm Mortgages to apply and using the current eligibility process, funding allocations could still be appropriately made.

The drought, this year in particular, has been so patchy that having a boundary would exclude some who need help eg with the rain being in downpours ,huge differences over a short distant.

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

Effective preparedness or drought proofing must begin in better times when a build up of FMDs, water harvesting, stock feed surplus etc can be accumulated. But the expectation that Government will provide EC can encourage some to avoid drought proofing.

However, in some areas the increased use of Farm Business Planning consultants advocating an economic cost of production approach to farming, farmers have been influenced to move away from more traditional forms of self sufficiency which have been practiced extensively and effectively in the past. eg. Selling stock versus hand feeding: Running lower base flock and trading stock when feed available versus Running maximum rate through year.

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

Yes – resulting in free workshops being held in competition with existing private enterprise advisers/consultants/counsellors sometimes with conflicting advice and @ unrealistic cost to government funding.

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

Yes, but drought for several years would require support, because no amount of drought proofing can cover an extended, severe drought.

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?

EC could be administered on individual applications rather than areas EC declared. An EC declared region often covers areas that do not necessarily warrant any EC support. There is administrative costs to declaring areas, so individual applications may be more cost effective. Criteria could be publicized in rural media, those who believe they are eligible could apply (with support from their accountant/ consultant). It may also dilute the expectation of government support if areas are not declared EC.

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?

In some cases the interest rate subsidy has helped avoid overdrafts spiraling out of control. In other cases some farmers are tempted to make purchases to access the interest rate subsidy – purchases they may not have otherwise made at that time. This possibly allows the business to adopt new technologies that allow uptake of methods that handle dry conditions more successfully (eg no till equipment) despite the Application information and process scrutinizing such actions

It may be that eligibility requirements are a disincentive to seeking off farm income, but generally during drought in rural communities, the job availability shrinks considerably (and some areas have virtually zero unemployment even in good times, job availability is extremely limited). We are aware of farmers who have acquired off farm income, definitely a hurdle to receiving EC, and often at the detriment of the farm enterprise due to lack of attention, and also a major strain on families with people having to live away from home frequently..

Under the present policy many farmers find themselves in a real bind.

To keep up private health cover, education for their children and in some cases, food on the table, off-farm work is often required. Most times it is the farmers' wives who go out to work, bring in a wage and lift the family income.

When these families apply for EC funding, they can't get any help because they made a profit, however meager.

The current drought support programs provide no incentives for farmers to be responsible in their borrowings. Having no debt means no assistance in providing carry-on finance for the following year after drought. The more people owe, the more they can claim in IR Subsidy. This is an impediment to encouraging greater self reliance and preparedness by producers.

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?

Freight subsidies can simply result in increased freight rates, with no subsidy staying with the farmer.

Fodder support may cause farmers to retain more stock than otherwise, but it could be valuable to assist with maintaining basic numbers of breeding stock for quicker recovery when the drought ends.

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

As these are provided to help what other sources would you choose? But yes very important and vital role - good to have someone de-stress the whole process.

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?

Most farmers want to continue farming once good times return, so only exit if forced. Exit package is not attractive – if you have continue planting crops during drought and dramatically increased your debt levels, then to sell in low demand times for low prices, cover the debt etc, that leaves very little of the great asset you have poured your entire life's work into.

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?

- *Don't remove services. This is increasing stress levels, and reducing the attractiveness of communities to those more able to move elsewhere to live, work or retire. Just compounds the depopulation affects of droughts!!*
- *Stop the increasing demands on emergency services volunteers – more and more training and red tape for those who volunteer to help others in need. When stress levels are already high due to drought, we don't need another layer of bureaucracy demanding more of our time and energy.*
- *Be more supportive financially of councils in drought stricken communities – so they may be able to offer part time work to farmers/farm hands/shearers etc to supplement income and keep them in the area; so they can support other initiatives that boost community morale etc.*

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?

Drought Relief payments are effective in providing essential living requirements in the short term and eligibility tests for farm family assistance are suitable.

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?

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

Being means tested EC Relief payments should be adequate cover when managed well. Any funds being diverted to the farming business would demonstrate poor management and should not be a matter for policy concern.

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?

Government should provide social security-type payments for a reasonable period to farmer, contractors and businesses that can prove to be a longer term viable business. Payments should be drought (both seasonal and commodity price) dependent with equity in assets being benchmark for eligibility.

Environmental and natural resource considerations

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

Increase Research & Development and also Extension services (getting research findings out into the field and into practice), so that farming methods adapted to drier season have higher uptake rates. Industry does this, but during really tough times extra help is needed.

End the ability of Managed Investment Schemes chasing tax incentive to divert dryland farming areas to intensive irrigated crops and deplete our meager water supplies. Charge producers and households irrigated/reticulated water at prices that reflect its true value and importance. Cheap water is wasted.

Interaction between programs

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

FMDs are the most effective tool we have for drought proofing – we have personally used them many times and know of many other farmers who have done the same. Unfortunately even though we had them pretty much topped up when drought began, it didn't take long to drain them away. The upper limits need to be much higher to account for the very high cost of production on larger properties. FMDs should be very strongly encouraged and promoted by government to encourage drought proofing, but we do need time to reduce debt levels upon returns to good seasons before being in the financial position to do so. Perhaps the use of and subsequent draw down of FMD funds could be used as EC criteria in the future so that EC applicants must prove they have attempted financial drought proofing. Allowances would have

to be made for those people just entering farming to build up profits to the point of being able to place funds into FMDs.

FMDs also act as a tax deferral which also assist farmers build up funds for drought proofing.

Program Implementation

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?

Complexity, time taken and cost incurred would vary hugely between businesses with some being able to prepare the documentation themselves and others needing to employ their accountant. However it is a thorough process.

Time for processing has varied with individual Applications but ideally should be processed within 6- 8 weeks

Should there be a uniform national approach to drought policy?

YES. Increasingly, Primary Producers are extending their holdings, sometimes owning properties in different States in Australia attempting to diversify and spread their geographical and production risk as part of their risk management strategies.

A uniform national approach to drought policy would simplify any application and assessment process.

What are the alternatives?

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

We insure our buildings, stock, vehicles, workers and equipment, but the one cost that cripples most farmers is input costs. If these could be insured, in the year following a drought production could then go on with inputs being maintained at usual rates and without debt rising to unmanageable levels.

Currently, following prolonged droughts in many farming areas, particularly cropping ones, rates of fertilizer application have decreased. This leaves crops unable to reach their potential yields, thus leaving producers worse off.

Under present arrangements, when debt loads climb due to failed crops and low paddock feed, more stress is inflicted on the environment. The risk of wind and water erosion increases, due to more crop being planted and the same number of stock being run on a smaller area to try to make up for the loss of income in the previous year.

An insurance policy on costs would help to iron out these problems and rural businesses would benefit. This in turn would help maintain local communities.