

# **AGFORCE RESPONSE TO PRODUCTIVITY COMMISSION REVIEW INTO ECONOMIC IMPACTS OF DROUGHT:**

## **Introduction**

AgForce is the peak rural lobby group in Queensland who looks after the interests of cattle, sheep and wool and grains producers. The last seven years have been some of the most difficult in the history of broad-acre production in Queensland due to the extensiveness and depth of the drought.

AgForce became leaders in development of Exceptional Circumstances (EC) applications in 2002 when it developed a comprehensive research and data collection process and template for applying for EC. These submissions were then forwarded to the Queensland Department of Primary Industries who added substantial scientific data to the application and lodged this with the Federal Government. As the drought spread rapidly across Queensland this partnership resulted in over 65% of the state becoming EC declared. AgForce also organized the bulk of NRAC tours which proved to be heart wrenching as producers explained their stories.

These drought related activities continued for AgForce with the implementation of Rural Financial Counselors working for the organization. Currently AgForce has a full time drought co-ordinator whose role is to assist producers cope with financial impacts of drought, prepare drought strategies and applying for EC assistance. All of these activities along with extensive branch and regional meetings and phone contact with producers have given AgForce a comprehensive understanding of the impacts of the drought on producers.

## **General observations in relation to drought policy**

In preparation for this submission AgForce undertook a comprehensive survey of its members to gauge their views on existing drought policies and to gather suggestions for new directions given the climate change issues and lessons learnt over the last few years. This survey and general discussions with AgForce members and Boards did not provide a clear cut way forward. There appeared to be a roughly even split camps in terms of those who found current policies effective and those who didn't.

This research showed that many producers believed existing drought policies were suitable and had been of great assistance over the last few years. Many cited the Exceptional Circumstances assistance in particular was extremely beneficial and had enabled them to continue their business operations. However just as many believed it is time for an overhaul. Some reasons were inability to access current assistance (eg off farm assets test ruling out accessing of interest rate subsidies) while others had philosophical opposition to the types of assistance currently in place citing that it distorted markets and/or kept unviable producers in the system. Many of these wanted to see more proactive policies being put forward to enable producers to prepare better for more climate uncertainty.

One thing is for sure – while producers expect to encounter droughts, the length and severity of this particular drought period was unprecedented. This combined with the recent Garnaut report and general discussion on climate change means producers are more than ever aware of an increasing likelihood of further dry periods and therefore acknowledge the need to prepare for these cycles the best they can.

### **Advantages and disadvantages of current drought assistance at State and Federal level**

#### **(a) Exceptional Circumstances Interest Rate subsidies:**

Advantages:

- This assistance proved to be very popular amongst those able to access it. It provided significant relief to producers by providing bulk cash injection to enable them to continue business operations and stay on top of debt during times of extreme cash flow restrictions due to lack of crops and normal stock turnover. Many stated it enabled them to continue with farms plans which in the long term will help them to be better prepared.
- It worked well for those producers with little or no off farm assets where their whole business was focused at farm level. It provided some security in terms of retaining their core business as a whole.
- Many producers noted that although they could not access assistance due to off farm assets or income the fact that the areas was “EC declared” provided them with some comfort that the Government and community recognized the difficulty they were in. In short the declaring of an area provided validation that they were in extremely difficult circumstances.

#### Disadvantages:

- Those without debt but still reeling from the impacts of the drought on their business were unable to access this lump sum. Many felt this was an inequitable way of supporting primary producers as it differentiated businesses on the basis of one criteria only (debt).
- Many producers had tried to protect their business by diversifying off farm. Their inability to access the interest rate subsidy due to off farm assets again was seen as inequitable. The treatment of superannuation in particular was seen inequitable to those who had invested in other off farm assets (eg real estate or shares) as a “pseudo” superannuation fund and found themselves disadvantaged.
- Potential reliance on this assistance. AgForce has worked closely with the Queensland Rural Adjustment Authority during the drought in relation to this issue and was able to peruse information (provided confidentially and not to be distributed) in relation to the take up of this assistance across Queensland. A slightly disturbing trend has arisen where some areas with a large number of smaller producers have been accessing this assistance for up to five years. This provides extreme cause for concern in these areas when EC is revoked. It raises the question as to whether these businesses have become extremely dependant on this lump sum to maintain their businesses in the long term. The Burnett and Darling Downs areas in particular seemed high and long term users of EC and this utilisation raises questions about potential structural adjustments in these areas in the face of further climate variability in the future.
- The resource burn for bodies such as AgForce who contributed significant time and money in developing extensive applications is an issue. The depth of information required to make successful EC applications, the organization of NRAC tours and the general level of inquiries from members has been a significant drain on the organization over the last few years.
- The process of declaring an area for EC means that “lines on maps” becomes a source of contention where a producer may fall just outside a declared area. Basically it is one of the downfalls of the system as it seemed impossible to get the shape of the affected area exactly right.

(b) Exceptional Circumstances Income Support Payments:

Advantages:

- Feedback from producers who have accessed this assistance suggests it was a great source of comfort during the drought. It took significant pressure off budgets injecting cash flow to assist with necessities such as normal weekly household expenses.
- For rural towns who rely on primary producers for their business these support payments meant cash was still being spent locally on necessities. Anecdotal evidence suggests that up to 70% of this payment gets spent locally which has a flow on effect of assisting other business in rural communities
- All Australians need to have a safety net in terms of feeding their families when times become difficult. The provision of these payments ensures rural producers can be comforted at the same level as their urban counterparts.

Disadvantages:

- Producers noted frustrations with off farm asset and income restrictions. Some felt that the restrictions on accessing this support discouraged producers from getting off farm work to supplement their cash flow
- Reliance on support may become an issue in those areas which have been in EC areas for a number of years as noted earlier. The withdrawal of this support due to an expiry of an EC area may have some social implications for areas where the support is very heavily utilized.

(c) State Drought Assistance measures:

In Queensland the State Government provided a number of assistance measures including rebates for fodder and freight, local rates relief, irrigation charge relief and some transport charge relief.

While some of these are fairly popular (eg freight rebates on bringing stock back from agistment), others have had very minimal take up (eg rates rebates). Producers often state that the paperwork can be an issue but overall it seems the larger producers don't feel inclined on the whole to take up such assistance and many seem to be unaware of the assistance despite advertising by the State and bodies such as AgForce. In summary while many producers find these payments useful there are other State assistance measures which seem more popular amongst producers who wish to be more proactive in their approach to preparing for drought.

One of the main assistance measures which receives a very high level of support has been the FARMBIS program. This program provides a significant level of subsidy for training and education programs. Producers who wish to invest in business planning, learning, industry knowledge and broadening their skill base have clearly expressed that the provision of such assistance is an overwhelming incentive to invest significant time and money in these activities. This program needs to be reinvigorated and supported at both levels of Government.

Similarly the provision of professional grant advice assistance has enabled producers in difficult times to access expertise to help them reconfigure their business operations and re-examine their plans. Assistance from professional advisers is now part of the Federal Transitional Arrangements for drought but needs to be looked at in its own right as a specific program.

(d) Other important measures:

Due to the huge impact drought has on cash flows and incomes a number of measures remain vital to keep in place and all have a high level of support from producers:

- (1) Tax averaging – highly valuable tool in evening out the erratic nature of primary producers income.
- (2) Forced sales provisions of livestock – valuable tool in dealing with large fluctuations in livestock sales as a result of destocking due to drought
- (3) Farm Management Deposits – vital tool to assist again in smoothing the large fluctuations in incomes. The scheme needs further refinement in terms of ceiling limitations and also restrictions on those with Trust and Company structures instead of simple partnerships. This precludes some from accessing FMD provisions just because of the nature of their financial structure.

## Future Directions

AgForce is supportive of the Federal Governments review into drought assistance. It is timely and the issues surrounding climate variability are of grave importance to the industry. In terms of looking forward with drought policy it maybe timely to comment on one issue that has limited drought policy development - the inability to “insure” for drought events. No commercial insurer has been able to provide a product that would enable producers to hedge their businesses against climate. This is a tool that could be useful but is unable to be provided as an option. While many professional/trades people can insure for income protection it does not seem likely that a specific product could be make available commercially to enable producers to “insure” against loss of crops or stock. Therefore it is within this context that we need to look at a variety of other tools which need to be provided to help hedge against these impacts – most will need to be physical (infrastructure etc), financial, planning and education tools.

In terms of future policy it is also important to note that while AgForce strongly supports the concept of preparedness and mutual obligation as core pillars of future drought policy we need a note of caution given that in some of the more arid broadacre areas of Queensland the physical ability to prepare for drought maybe limited due to scale, land types and lack of water availability.

Thirdly need to take into account industry demographics. The huge number of farmers in the 55 – 70 year age group means a focus on succession and retirement issues must be part of any new framework. Given the huge property prices currently facing the market it is difficult for young people to get a hold in the business so some forms of assistance may encourage this. Similarly many older farmers maybe ready to retire but face issues of having substantial assets but being cash poor – some ways to assist transition out of industry with dignity maybe warranted here.

*Below are some broad ideas for areas of future policy development. These are grouped into categories as mentioned above. They provide a starting point for discussion and AgForce would welcome and opportunity to develop the ideas further in consultation with industry and Government:*

(a) Infrastructure measures:

- Many of the deterrents for destocking in a bad drought are linked to producers not wishing to sell off their herds which have been developed to particularly suit their circumstances and markets. This is even more critical in the case of breeding herds. Therefore we need to investigate further ways that the **genetics of core herds can be saved** during drought times while not actually keeping the physical animals on property. Science and technology investment in development of cost

effective and efficient further storage of genetics, embryos and semen may help in this regard.

- Often drought provides the best opportunity to **restructure dams/resilt dams/change watering points**. However this is likely to be the worst time for cash flow to undertake these activities. Some grant type schemes that result in better drought proofing of water infrastructure could provide real incentives to undertake this work. Water efficiency grant schemes in the irrigation industry have proved useful in the past in Queensland so similar schemes aimed at the broad-acre water infrastructure sector (including extension of current bore capping and piping schemes) would be very useful. These grants would include telemetry technology to assist in remote area watering. Given the investment in Exceptional Circumstances over the years if the Government were to provide these grants (perhaps on a percentage of cost basis with a ceiling like EC interest rate subsidies) it would be investing in physical drought proofing of the broadacre areas.
- In broadacre grain production a similar scheme for **utilization of minimum/zero till technology** maybe warranted. This technology has ensured that crops can be successfully grown where this technology is taken up.
- **Macropod management** is a major issue in the western areas of the State. Many producers have tried to “lock up” country to rest it in dry times only to have it decimated by kangaroos. This was a very common occurrence in many areas leading to widespread frustration of producers. A better system of incentives for careful management and harvesting of macropods which provides some returns to producers for their efforts would assist in further caring for the land and managing ground cover.

(b) Financial policy measures:

(Note: Many producers financial resources are depleted due to the existing drought which provides challenges for currently trying to drought proof their properties. Given this it is important that good policies be put in place for the future to provide as much incentive as possible)

- An increase in **depreciation incentives** for fodder storages, on farm water solutions, improved drought tolerant pastures and crops, minimum/no till machinery, biofuel production and others. Increased accelerated depreciation (up to 100%) assists producers as investment in these is slightly offset by less tax. Producers feedback suggest accelerated depreciation and high levels of capital write offs are very popular and encourage self sufficiency.

- One of the key problems in drought times is **retaining workers**. As places are destocked or finances dwindle many workers often leave properties to find work elsewhere. Perhaps some model where a fund can be established and provide some sort of insurance/income protection for workers that could be triggered in difficult times. There is a role here for the large superannuation companies who represent these workers to work in conjunction with industry to look outside the square to address this problem. A system whereby the employee and employer contribute in good times could provide this pay off in difficult times. This issue also has social ramifications as country areas need to maintain their population to ensure communities remain vibrant.
- Given industry demographics (large farmer population over 55) industry needs to find some options for allowing **farmers to retire/exit the industry** with dignity. A number of issues arise here. Firstly many older producers have significant equity in their property but poor cash flow due to drought and increasing costs. However they wish to remain on their farms as for many this has been their whole life. Some way of unlocking equity while providing a cash flow could provide some support. In urban areas many retirees are utilizing “**reverse mortgages**”. A similar scheme established for farmers or via commercial operators (with appropriate controls) could assist many in allowing them to stay in their home but with better access to cash flows. Where this is not possible the existing **exit packages** need significant reworking. As they exist at the moment very few are eligible. Further work on these packages may result in encouraging appropriate producers to exit the industry. (more information on these sorts of packages in paper sent to Commission by Rod Saal – Drought Co-ordinator AgForce).
- The reverse situation also occurs where it is very difficult for young people to enter the industry because of huge property prices and spiraling costs. A system based on **HECS style loans** would provide some incentive. That is repayments are quarantined until certain levels of income are reached. Some form of incentive is required to assist young people onto the land and this is one possibility. Others have suggested very low interest loans as another.
- Many producers who maybe in a position to assist their offspring into the farming business are finding the limitations of the **Gifting provisions in relation to the pension** a huge deterrent. These restrictive policies often make older farmers ineligible for the pension if they pass their property onto their offspring. Some restructures in this area would provide a double bonus and would assist older producers with a cash flow while allowing younger producers the chance to take over the family farm.

(c) Planning and education measures:

- Strong need for support in development of **climate variability farm plans**. Evidence suggests those producers who undertake these planning activities and associated implementation of the plans are better off in the long run. Funding for these activities via groups such as AgForward (a very successful model for training managed by AgForce) provides an avenue for promoting these activities. A plan would be a pre-requisite to attaining some of the incentives mentioned above.
- The National Agricultural Monitoring System (**NAMS**) has provided a good one stop shop for information in relation to climate. However due to the sparsity of information collection sites in Queensland broad-acre regions the model becomes limited. Further investment in these monitoring areas and further fine-tuning of the site and the information it provides would be welcomed as would any system which provides useful information to producers and the industry.
- As this information becomes increasingly available in the future (hopefully) a key frustration for many producers is limitations due to **high speed access** to internet facilities. Many areas are still limited in their download speeds – further investment by Government in ensuring ALL Queenslanders have high speed access would be welcomed.
- In drought times a key strategy for producers is the utilization of agistment in areas not affected by the drought. A significant investment in time in finding/negotiating agistment when things are difficult adds to stress. The development of a **national Agistment register** via an appropriately housed website (industry organizations/MLA) may provide a one stop shop for producers to access this important service. The register would provide full details of available agistment land, photos, base contracts and contact details.
- Continuation of **Rural financial counselors** is imperative. These counselors provide significant services to clients and can in the future place further emphasis on climate variability planning to help producers become more proactive in this area.

(d) Other industry led initiatives where Government could provide support:

- AgForce has flagged its concern about areas which have been long term recipients of Exceptional Circumstances assistance. The revocation of these areas will result in significant pain for those communities. Some well targeted, informed and well publicized education/information days could be appropriate in the near future to start addressing the problem. Utilisation of mental health professionals, rural financial counselors, Government and industry representatives, QRAA and banks maybe able to link together to look at how to assist in these areas. This would need to be activated within the next six months.
- Health issues are a priority in all areas. Mental health also requires further investment and some inventive, non intrusive ways of dealing with the issues found. These issues and others have been discussed in detail in AgForce submission to the Social Impacts of Drought Inquiry.
- One of the most frightening challenges for producers apart from the drought has been the massive spike in fuel, fertilizer and chemical costs. Given the huge part these inputs play in broad-acre primary production the inflationary impacts provide a major concern for industry. Governments immediate focus on providing some solutions or alternatives in relation to these inputs is critical.

(e) Final comments:

In the development of any new policy in this area a few key principles must be adhered to:

- Whether individuals agree with the EC assistance (both subsidies and income support) or not, one thing is un-debatable. It has provided SIGNIFICANT assistance to many producers in the face of the worst drought on record. While this model may not suit all or provide the best incentives we need to consider the benefits it has provided and in this sense try to replicate that flow of assistance to producers in the most proactive way possible
- We must be extremely careful that any massive shifts in policy do not result in huge market distortions. Any large shifts in property values would be disastrous.
- We need to encourage industry spending on proactive measures as soon as possible bearing in mind limitations to cash flow as a result of the last drought
- Industry and Government need to remain closely engaged in the development of further policies in this area to ensure they result in the best possible outcomes for producers and provide good results for the Governments investment. In an increasingly volatile climate the production of food and fibre must remain a high priority for Government.

**Summary:**

The issues surrounding drought and climate variability are extremely complex. The last seven years have been some of the worst climatic conditions producers have ever faced in Queensland. AgForce applauds the Government's initiative in arranging the review of these policies and sees it as timely and crucial to the future of broad-acre production in Queensland.

This paper has provided some core ideas for future policies and outlined the pros and cons of existing policies. The Government has been generous in the assistance it has provided to date. AgForce is keen to work with the Government on finding new ways of providing solutions to the issues – this will result in different spending patterns. The Government must however continue to commit equivalent funds to assisting the industry where appropriate in securing food and fibre production.

AgForce is happy to work on behalf of its constituents to continue to further develop these ideas and others that will be provided to the Productivity Commission. Full engagement between industry and Government is essential to ensure any future policies provide security and confidence for producers to continue investing in their businesses in spite of continuing climatic challenges.

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