

Submission to
The Productivity Commission

~ Inquiry into Government Drought Support ~

August 2008

**NSW Farmers' Association
Bourke District Council**

1 Introduction

The Bourke District Council of the NSW Farmers' Association represents the interests of farmers in the western NSW region of Bourke. The area has traditionally involved extensive wool enterprises however more recently with the development of irrigation areas cotton, citrus and other irrigated crops have become more prevalent.

The Bourke area has been affected by drought for most of the last 6 years. These exceptional circumstances have placed enormous pressure on landholders and the operations of their businesses. Without the support provided by government drought assistance many landholders would have struggled to remain in operation and utilise the developments that they had implemented.

The continuing dry times create a very difficult environment in which to discuss future drought policies. Farmers are currently relying on support measures which they see as vital. As such conceptualising more promising times and what measures could be put in place is extremely difficult.

The Bourke District Council has provided the following comments in response to the Productivity Commission's Issues Paper for the Inquiry into Government Drought Support.

2 Rationales for government drought support

Government drought support is seen as being critical for ensuring the continuity of agricultural production. Agriculture supports the whole country with the provision of food and fibre. By providing the support it ensures the safety net that will encourage people to stay in agriculture and support those entering agriculture. It also provides the base from which employment and production bases can increase following a drought. Supporting agriculture retains the employer base and following a drought, agricultural operations can rapidly recover. Removing the support would lose this base and result in the rebuilding phase being drawn out over a much more extended period.

Drought support provides the safety net for circumstances that are very difficult or impossible to prepare for. Farmers take steps that minimise their exposure to dry periods. The sustained extent of the current drought is a major contributing factor to the need for support. With the back to back dry periods even the most prepared farmers have found it difficult.

Agriculture is the lifeblood of many rural communities without its ongoing production and income generation rural communities would suffer or collapse. Support for Agriculture needs to be brought into perspective. Comparatively with other industries (film, motor vehicles) agriculture has low support levels for the number of jobs and contribution to the economy. It is understood that EC assistance costs \$25 million per week. Compared to the cost of the pension this is small and furthermore it generates further income through the supply chain. In addition the support received is circulated within rural community.

Farmers are stewards of the land they run. Intertwined with the productivity and income generation from the land is the environmental benefit they provide to the community. Controlling weeds and feral animals to ensure natural biodiversity is part of the ongoing agricultural

operations for which farmers do not receive any support. Maintaining drought support allows farmers to continue these operations and provide for sustainable environments

3 Impediments to greater self reliance and preparedness

It is important to provide a degree of assistance to allow people to upgrade and upskill to become self sufficient. Farmers in the Bourke district have been putting in poly pipe and other measures as continued efforts to provide protection from dry periods however the duration and area of the drought have gone beyond these preparedness factors

As outlined above it is difficult to discuss and assess self reliance and preparedness in times of drought. There needs to be a period of good times to allow people to become drought prepared. The legacy of previous droughts will restrict the ability to take up preparedness. Drought preparedness and self reliance are not mechanisms that can be utilised in times of drought. If any preparedness or self reliance strategies are developed they need to be in conjunction with drought support measures for periods of drought.

4 Are assistance measures effective and efficient in severe drought?

4.1 EC declaration process

There are perceptions held by those within the Bourke District that the decisions on EC area roll over are due to the strength of the lobbying efforts by local members. This flowed from the recent decision where the Bourke area had its EC declaration rolled over and the Brewarrina area was not rolled over.

Furthermore the assessment and declaration process appear to be constantly changing and it is difficult to make assessments when the goal posts appear to keep shifting.

4.2 Business support measures

Business support measures are vital to ensure the ongoing continuity of agricultural businesses during times of exceptional droughts. Farmers are continually improving their business and reducing their exposure to risk. Part of this includes capital investments to ameliorate the effects of drought such as installing poly pipes for stock and domestic water supply, investing in silos for grain storage, etc. These capital investments may require accessing debt finance. Providing business support through exceptional dry periods when income levels struggle to meet the interest repayments ensures that debt repayments are made and investments are retained. Interest rate subsidies (IRS) allows farmers who have invested and sourced capital to improve productivity and become more efficient to not go back to square one and allow them to maintain debts through periods when incomes are reduced. IRS also provides for the incentive to invest knowing that improvements funded by debt improvements will not be in vain if debts cannot be met.

IRS has prevented the mass sale of properties and therefore sustained the property values which in turn supports the equity of farmers. In the federation drought 80% of the western division was owned by the banks

While the interest rate subsidy itself does not flow directly to the community as it is paid to the banks, it does allow the remaining farm income to be circulated through the community on living expenses. Information from the rural financial councillor suggest that the average interest rate subsidy is \$30,000 per farmer applicant

The Bourke District Council is aware that there had been low levels of awareness of small business assistance. With an estimated 90-100 farmer applications in the area there have been only 10 small business applications. The Bourke District Council believes there should be improved communication to ensure all those entitled to the assistance are aware.

4.3 Income support

Income support provisions are vitally important for the maintenance of everyday expenses and it helps relieve the stress of ongoing pressures and the consequential health aspects.

4.4 Environmental and natural resource management considerations

Farmers are continuing to provide environmental services through this drought. Drought support is keeping people on the land and managing environmental issues of weeds, feral animals. Removing such support will potentially mean that farmers are not in a position to provide such a level of care to the environment whether that be through maintenance of appropriate stocking rates or control of invasive species.

The farmers of the Bourke District are cognisant that through stricter clearing restrictions Australia was able to meet its environmental greenhouse gas emission targets. This has cost the agricultural community with no compensation provided. Provision of drought support is seen as some degree of acknowledgement.

4.5 Interaction between programs

FMDs are a very useful tool for providing financial consistency to fluctuating agricultural incomes. The farmers of the Bourke District believe that the limit on the maximum funds that can be invested in FMDs should be lifted so there is no limit. The current limit of \$400,000 is restrictive in times where there is extended drought. Similarly when rebuilding livestock numbers after a drought, traditionally a period of high stock prices, \$400,000 would limit a farmers capacity to rebuild. Furthermore the Bourke District believes that FMDs should be made available to all entities. Currently companies are not permitted to hold FMDs, yet there are a number of agricultural operations that operate as companies.

Interaction between agencies and bodies with regards to drought support appears to be disjointed. Transitional Income support is administered through Centrelink and the client. It involves a very detailed assessment however the rural financial councillors are not encouraged to be involved in the application. In developing a total drought support package there is a need to ensure that different programs are involved and incorporated to support each other.

The NSW fodder and transport subsidies have been an incredible help especially with cost of diesel. The subsidies also serve as a management tool to support decisions. A farmer faced with holding or selling stock may see the subsidy as encouragement to offload earlier. The fat score requirements introduced part way through the drought however act as a disincentive to make decisions earlier rather than later.

5 What are the alternatives?

In assessing the different alternatives the Bourke District acknowledged:

- That farmers are considered to a large extent by the tax act which allows for seasonal and market variations.
- The suggestions to make IRS repayable would just add to the debt burden and farmers would be forced to borrow from the bank that has just received the IRS payment
- There needs to be a distinction between younger and older farmers. There needs to be encouragement to get into and grow the businesses for young farmers and the incentive to stay for the older farmers.
- Income contingent loans are just seen as increasing the debt burden
- The ideas of insurance were seen as being unaffordable to cover the extent of the problem as has been seen in the current drought. Furthermore there are questions over the equity of such a scheme.