



RBDC
SUBMISSION TO THE
PRODUCTIVITY COMMISSION
REVIEW OF GOVERNMENT DROUGHT ASSISTANCE MEASURES

22 AUGUST 2008

TERMS OF REFERENCE

The Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, Chris Bowen, has commissioned the Productivity Commission to conduct an Inquiry into Government Drought Support. The Minister has specified that the Commission is to investigate and report to Government on the following matters:

1. The appropriateness, effectiveness and efficiency of the Commonwealth, State and territory governments' business support and income support measures provided to help farmers, farm businesses and farm dependent rural small businesses manage drought. Support measures assessed will include, but not be limited to, EC Relief Payments, EC Interest Rate Subsidies, Exit Assistance, Farm Management Deposits, Professional Advice and Planning Grants, Irrigation Management Grants and rate rebate schemes.
2. The impact that the provision of support to farmers, farm businesses and farm dependent rural small businesses has on performance and productivity at the individual, business, industry, regional and state level;
3. Identify impediments to farmers, farm businesses and farm dependent rural small businesses improving self-reliance and preparedness for periods of financial difficulty.
4. Identify the most appropriate, effective and efficient Commonwealth, state and territory government response to build farmers, farm businesses and farm dependent rural small businesses self-reliance and preparedness to manage drought.

Government support measures are to be consistent with the NDP objectives and the Commonwealth Government's Expenditure Review Principles.

EXECUTIVE SUMMARY

The ways that government can best partner with farmers and farm businesses to see that preparedness and self reliance is developed and enhanced, is by investing in agriculture - in applied research, development, extension, capacity building, solid business planning and targeted training to build Australia's farm businesses and therefore international competitiveness

Modern farming is a complex task. "Today, the ability to assimilate an overload of data into decision making information is difficult. The decision framework is also becoming more complex. The complexity of management challenges includes customer relations, price risk management, environmental regulatory compliance, zoning regulations and nutrient management." (Prosch & Jose p.1.(2003)

Understanding and mastering this increasing managerial complexity within the environment of coupled with variable, drying seasons, presents a considerable, and for some farmers, an overwhelming challenge.

The crucial criteria for Exceptional Circumstances Interest Rate Subsidy (ECIRS) is that because of the severe impact of the drought, a farm business will not be viable unless it receives the ECIRS, notwithstanding its long term profitability prospects.

The Bureau of Meteorology (BOM)/CSIRO reports find that in the future, drought in South-Western Australia will be more prevalent. This is a quantum change to the meagre, but reliable Mediterranean climate on which the Western Australian broadacre farming systems were built. Recovery years will occur less often.

Western Australian broadacre farmers differ from the eastern states enterprises, with larger sized farms located in a Mediterranean climatic zone being much more common, requiring large investments for input costs and being highly export focused. Western Australian farmers farm in unusual and difficult conditions with very tight margins.

There are also pastoral properties on fragile rangelands, which currently rarely meet the current criteria for an EC drought declaration.

There is a marked difference between how farmers manage different droughts, borne out by the Rural Business Development Corporation (RBDC) client data. In the main, farmers clearly find it more difficult to manage drought when there is a late dry start to the season (2005-2007). This results in a drastic decline in equity.

A drought where there is a reasonable start but a dry finish seems to be better managed by the farmer and the farm business. That is, farm equity is managed at a more stable rate, and recovery to pre-drought levels can begin. It is important that if in the future liquidity assistance through ECIRS is to be provided by Government, then the later start droughts are targeted as a priority for assistance.

Since 2000, through ECIRS, the Federal and state Government's have provided \$50 million to approximately 746 farm businesses in Western Australia.

ECIRS is usually set against the most expensive borrowings, which are overdrafts. The overdrafts are generally used for immediate farm inputs operating costs - fuels, fertiliser and chemical purchases, family and social costs.

In Western Australia, the RBDC has administered the implementation of the ECIRS Scheme. In assessing the criteria for establishing need, it has focused on equity decline (measured at constant values) as this is where the effect of drought is greatest, and loss of production due to drought conditions.

The RBDC focus has been on assessing how well the farm business manages the drought event. Since 2000, the equity position of farm businesses receiving ECIRS has declined from an average of 74.09% through to 62.47% in 2008. The significant decline appears to have accelerated since the onset of the most recent drought in the northern agriculture region since 2006. This assessment has been calculated with farmland at constant values and off- farm assets at market value.

This demonstrates that the ability of farm businesses in this region to manage the challenge of severe drought has been greatly reduced in the last three years.

Arguably, the provision of ECIRS is working by maintaining these farm businesses in the business of farming. However, given the rapid erosion in equity, the wisdom of providing this kind of support to around less than a third of farmers is questionable. Significant liquidity injections (some are up to \$100,000 per annum) into vulnerable farm businesses facing drought may be a contributory factor to them continuing in farming, when the best business decision may be to realise their assets, and reinvest elsewhere.

Indeed, this approach is also supported by the central criteria of the scheme itself. Significantly, 44% of Western Australian ECIRS recipients surveyed indicated that they would have to sell the farm if they did not receive ECIRS. Keeping farm businesses in the business of farming may be an appropriate aim if the farm business can be analysed and assessed as adequately managing the impact of the drought and having a long term viable outlook. However, according to RBDC evidence, the cost for Western Australian broadacre farmers, in particular those on the low rainfall areas is a considerable erosion of their net wealth position, far greater than the assistance provided through ECIRS.

Another consequence of “hanging in” and waiting for the recovery year, is that there is a lack of continuity and fluidity in the rural property market. For 2007 and 2008 property sales have been very low. This could be because the prospect of good seasons remains, so land sale prices have not decreased. Purchasers however have held off due to their view of future prospects verses input cost increases and climate change forecasts for more drought years. This has the effect of raising the cost of expansion or entry to agriculture.

The most profitable strategy in Western Australian farms is to continue to increase in size for economies of scale (Kingwell, Pannell 2008). Many farmers in the medium and high rainfall regions of Western Australia have enjoyed a number of good seasons with exceptional grain prices (2007, 2008). Should they be looking to expand their options beyond their own high priced regions, the lack of market in low rainfall areas may maintain higher land prices, which results in a lower return on capital for those farmers seeking to expand. The development of smaller land titles, based on paddock, rather than traditional location sizes, encouraging greater land transfers through changes to

stamp duty, is another measure to increase the fluidity of agriculture land in Western Australia.

There is also an opportunity cost for government in providing ECIRS, in that it is unable to provide more robust and equitable investment to agriculture that may assist a greater number of farmers, and improve international competitiveness.

For example, since 2000, during the extreme droughts there were four years that ECIRS payments to 300 farmers exceeded the Research and Development (R & D) levies collected from all Western Australian broadacre farmers. These levies are matched by Australian Government funds. During drought years, there are less levy collections, therefore fewer funds available for good applied research, development and extension, and many good research programs may not recover from these funding cuts or fluctuations in funds provided.

Protection of the funding for good long term research projects makes good economic sense, however, the answer may not lie in giving the R & D Corporations a non-targeted drought top up. Increasingly, these R & D corporations, along with the emerging commercial grain breeding companies and State departments of agriculture, have Research, Development and Extension (RD & E) programs, which focus on high yield, high production varieties and systems. There is a valid place for other lower yield, more robust grains or pasture varieties in an emerging environment of lower rainfall and more highly variable seasons.

Undoubtedly, there is still an important role for both levels of government to fund public good R, D and E, trials, systems and tools to develop the agricultural industry to its potential. An example of prospective projects, which could be carried out by a state department of agriculture, includes the development of short season wheat varieties for drought conditions.

Other ways governments can be supportive is by entering into regional partnerships within which farmer groups and communities have developed their vision for developing the productive capacity of their region. Despite the challenges of climate change and drought, initiatives such as the Department of Agriculture and Food Western Australia (DAFWA) North East Agricultural Region (NEAR) Strategy (attached) provide illustrations of how governments could respond to drought through including the affected parties in the preparation and implementation process.

Use of the National Agricultural Monitoring System (NAMS) as a trigger for social welfare assistance, as well as providing a host for benchmarking of farm performance indicators is recommended. Farmers can access/use this themselves, privately, as an opportunity of 'preparedness'.

Clearly, declining equity based on constant land values highlights the struggles that farm businesses are having managing their business through the challenges thrown up by severe droughts. It is possible that current equity positions are worse in reality because very few people (including financial situations) sell in a drought, so the land value is from the last high and not a true reflection of the current values (only most recent sales).

The current cost inflation that is feeding into general cost and wage inflation is reducing the real prices of agricultural commodities. Hence, the cost-price squeeze that has typified decades of agricultural activity may return (Kingwell and Pannell, 2008).

The RBDC is of the view that an alternative policy package to ECIRS should have three elements; capacity building and solid business planning, injection of some liquidity, and the funding of development of public good tools and systems aimed specifically at drought and climate change management.

These three elements should be available to all farmers as part of a commitment by government to partnering farm businesses and regions to develop their preparedness and self-reliance to deal with challenges thrown up by drought and foreshadowed changes to climate, marketing arrangements, financial sector, government policy to deal with climate change potential bio-security events and technological developments. This sort of approach will have the additional benefit of a positive social impact.

SUMMARY OF RBDC RECOMMENDATIONS

1. Farm Business Preparedness Package

- This will provide an initial grant of up to \$4,000 for expert support in preparing a comprehensive farm business plan.
- Extra payments available up to \$6,000 for additional planning over 5 years dependent on commencement and implementation of the plan.
- To be eligible, primary producers must have attended an initial scenario planning workshop, as well as the consultants.
- Benchmarks to be developed, then assessed by the farm business and farm consultants as well as measured across the region and Australia. This benchmarking information will provide a rich source of data on what measures farmers are actually adopting to change practices, or if they are not changing, the reasons for their status.
- This individual farm level information could be linked via the NAMS data base to develop a model similar to that developed by the Canadian Government (see attachments).
- This approach requires a highly professional and motivated farm consultancy sector (such as the one in Western Australia), a commitment to unlock some of the ECIRS dollars and redirect some portion of the funds to the independent farm advisors.
- This approach should be open and available to all farmers who wish to access it, subject to reasonable equity limits.
- Implementation of this program should be with each state government department of agriculture or rural adjustment authority (that have the necessary relationship with the farm consulting sector to develop the benchmarks), should to carry it out. There will be an ongoing role in running workshops, monitoring the quality of the work being undertaken by consultants, and collecting the data and analysing it for use by state and federal policy makers, research and development corporations, universities etc.
- One condition of any future assistance package is to consider is this benchmarking process as a pre-requisite for additional government funding (state or federal).

2. Farm Business Preparedness Grant

- The RBDC recognises that access to additional liquidity is an important support during droughts or other severe events.
- Rather than delivering this liquidity through ECIRS it is suggested that implementation grants be available subject to the following conditions:
 - Cap \$150,000 over 5 years. Once this total has been reached, there is no further assistance for that farm business.
 - Completion of the comprehensive business preparedness planning process in conjunction with an approved consultant.
 - Completion of an operational plan to identify where the extra money going to be spent.

- Funds are available (but not limited) to the following:
 - Further planning of critical business issues for example, i.e. intensive soil mapping for precision farming enterprise changes.
 - Introduction of different business structures.
 - Interest rate subsidies.
 - Business succession and progression planning.
 - Marketing measures for example, on farm storage, to provide opportunities for grain trading.
 - Climate mitigation measures for example, water storage.
 - This will be monitored and if the money is not spent on the agreed operational plan, the return of the money will be requested.
 - The plan is to be approved by the administrators (state government rural adjustment authority).
 - These implementation funds should be matched 1:1 by the farm business and payable on supplier's invoices. Implementation should occur within 2 years of approval.
 - Eligibility requirements will be required to show production loss, equity decline and cap on total equity.
3. Drought and Climate Change - Orientated Public Good Research, Development and Extension.

There is still an important role for both levels of government to fund public good R,D & E varieties, trials, systems and tools. An example of a prospective project includes the development of short season wheat varieties for drought conditions. It may provide some liquidity by providing a low input, low yield grain crop and to provide necessary cover soils, which are able to allow for better natural resource management, and potentially feed for stock, proving an alternative to grain through the summer months (also a herbicide resistance management tool).

4. The development of regional partnership programs for farmers, farmer groups and rural communities, such as the NEAR, implemented by each region, driven by each region and the people involved in farm businesses, and supported by DAFWA, Department of Agriculture, Fisheries and Forestry (DAFF), other relevant government agencies and private sector advisors.
5. Investment in the preparation of solid business plans, training in financial and business management, mentoring, guidance including R & D of practices and varieties for drought management responding to seasonal conditions.
6. Opportunity for investment by government, farm businesses and agri- business in:
- Providing information for informed decisions on risk management.
 - On going capacity building and business planning for preparedness and self reliance.
 - Wide use of indicators for example, equities, e.g. equity decline to trigger examination and investment in alternative practices and behaviours.

- Support (access to business planning, training, Recognised Core of Competencies (RCC), implementation grants) is given in return for input into indicators.
7. Indicator monitoring allows triggers for an array of programs including whole business planning, training in business and financial management. This could be delivered through an enhanced and integrated NAMS system delivering downscaled information for farmers, policy makers, research and development corporations and agribusiness in conjunction with commercially available farm business benchmarks, and indicators collected as part of the assessment of eligibility.
 8. Droughts should not need to be declared for the farmer to access the proposed business preparedness package.
 9. In relation to triggering Centrelink social welfare assistance, there should be a declaration process which is run entirely through NAMS, with proper support from the weather, crop, property, etc, information systems provided by state departments of agriculture.
 10. Whilst national principles of severe drought should be adhered to, a definition and set criteria of drought within the context of each region's climate change scenarios should be agreed between each state and the Australian Government.
 11. Centrelink social assistance to be automatically triggered when the agreed indicators are met within a region.
 12. Improvement of Farm Management Deposits (FMD') by:
 - Making the interest earned on FMDs Primary Production Income.
 - Allowing FMDs to be held by entities other than Individuals.
 - Retaining the individual cap but to make the FMD limit for a trading entity a multiple of five years.
 - Taxable Income Average - to allow the early drawdown of FMDs without penalty if the farm business can prove > 50% drop in taxable income (this should apply to all farm businesses not just businesses covered by an EC declaration).
 - Allowing FMDs to be transferred from one approved financial institution to another.
 - Removing the non-primary production income limit. Farm businesses that are trying to diversify their risk are being penalised.
 - Setting up a form of co-contribution:
 - The Government applies part of the current ECIRS funding of interest costs to provide a co-contribution to "Drought Proofing FMDs" instead.
 - In principle, this would be similar to storing/saving water in a dam in preparation for a drought.
 - A co-contribution would also change the incentive for investing in FMDs from a largely tax driven incentive, to a risk management and tax driven incentive.
 - Unlike current ECIRS payments, the incentive would be available to farmers regardless of their debt level. A tapered co-contribution scheme,

along the lines similar to that used to encourage investment in superannuation, could be adopted to reflect a farm business's ability to provide for itself.

- However, the aim of a co-contribution FMD scheme should be the wide adoption of Drought or Financial Risk Proofing FMDs by the rural sector. The concept could be further developed to include both farms and rural town businesses."

13. Development of effective down- scaled seasonal forecasting tools, and training for farmers, research and farm consultants in using them effectively within a season.
14. Climate change information should be disaggregated to a regional and sub-regional basis, and further research and development needs be undertaken on predictive models on climate change.
15. Disaggregated climate change predictions should be coordinated with existing data on soil, landscape and vegetation;

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OBJECTIVES

The Rural Business Development Corporation has prepared a report prepared that covers matters related to the scope of the inquiry. The objectives of the project are to:

- Detail the key drought assistance measures provided by the Federal and Western Australian Governments, the NDP objectives and the Federal Government's Expenditure Review Principles;
- Identify the utility of drought assistance measures in assisting farmers and farm businesses in Western Australia;
- Identify the impediments of current drought assistance measures in achieving the program objectives;
- Detail drought assistance measures provided in the USA, Canada and New Zealand and the performance indicators used to assess their efficiency and effectiveness;
- Provide information and data on which to propose a set of drought assistance measures that are appropriate for Western Australia and which meet the Expenditure Review and National Drought Policy Principles.

CONTEXT

The Bureau of Meteorology and CSIRO released their report, *Drought: Exceptional Circumstances*, in July 2008 (BOM, 2008). The Bureau of Meteorology and CSIRO have concluded that the areal extent and frequency of exceptionally hot years have been increasing rapidly in recent decades and that this trend is likely to continue. The prediction is that over the period 2010-2040, exceptionally hot years will occur, on average, every 1.5-2 years.

While the trends in exceptionally low rainfall is variable across the decades, the prediction is that if EC declarations are triggered solely by rainfall for the years 2010-2040, more drought declarations are likely, and over larger areas, in the Southwest, Southwest WA, Victoria and Tasmania regions. Based on rainfall, EC declarations would be likely to be triggered about twice as often and over twice the area in all regions and with greater frequency in Southwest WA.

In relation to soil moisture, if this was the sole criterion for EC declarations, then the mean projections indicate that more declarations would be likely by 2030 particularly in the Southwest, Southwest WA, Victoria and Tasmania regions.

The greatest impact of drought in Western Australia is likely to be experienced in the Southwest and Southwest WA regions. The mean projections for the Southwest region indicate that:

- By 2010-2040, exceptionally hot years are likely to affect about 70% of the region and occur every 1.5 years on average.
- By 2010-2040, exceptionally low rainfall years are likely to affect about 8% of the region and occur about once every 14 years on average.
- By 2030, exceptionally low soil moisture years are likely to affect about 9% of the region and occur about once every 12 years on average (BOM, 2008:27).

The mean projections for the Southwest WA region indicate that:

- By 2010-2040, exceptionally hot years are likely to affect about 80% of the region and occur every 1.2 years on average.
- By 2010-2040, exceptionally low rainfall years are likely to affect about 18% of the region and occur about once every seven years on average.
- By 2030, exceptionally low soil moisture years are likely to affect about 16% of the region and occur about once every six years on average (BOM, 2008:28).

A region is assessed as being affected by exceptional circumstances (EC) if:

- An event is rare and severe, occurring on average one in 20-25 years, and on a significant scale in terms of the area and proportion of farm businesses affected;
- An event has resulted in a rare and severe downturn in farm income over a prolonged period;
- An event was not predictable or part of a process of structural adjustment (BOM, 2008:4).

The current EC trigger has resulted in many areas being drought declared in more than 5% of years with some regions having been continuously drought-declared for 13 of the past 16 years. As the prediction is for the frequency and severity of droughts to increase, the Bureau of Meteorology and CSIRO have concluded, “the existing trigger is not appropriate” (BOM/CSIRO, 1988:1).

Drought can be defined based on a meteorological drought (rainfall), agricultural drought (soil moisture during the growing season), hydrological drought (subsurface water supply) or socio-economic drought (supply and demand of economic goods). An alternate trigger proposed by the BOM and CSIRO is to use a moving window rather than the total historical record. The moving window trigger is problematic. The criteria for drought would be subject to change as weather projections require updating every few years (BOM, 2008:19). The moving window would hinder farmers from planning into the medium term if there is uncertainty over the criteria for drought.

If farmers and farm businesses are to manage drought effectively, they need user-friendly, reliable and up to date information specific to their location regarding climatic conditions and future climate variability (BOM, 2008:20). BOM and CSIRO recommend that further research should be undertaken in relation to:

- Participatory studies to more accurately identify the climate change information needs of the different rural sectors;
- Further improvement of drought monitoring capability and maintenance of networks for rainfall and other key climate observations; and
- More detailed analyses of projected changes in exceptional climatic events in smaller regions and beyond for the next 20-30 years (BOM, 2008:1).

The Rural Business Development Corporation (RBDC) supports the position of BOM and CSIRO on the need for region specific climate change data. In its *Submission to the Senate Standing Committee on Rural and Regional Affairs and Transport*, the RBDC proposed that:

- Climate change information should be disaggregated to a regional and sub-regional basis;
- Disaggregated climate change predictions should be coordinated with existing data on soil, landscape and vegetation;
- Education and training should be provided for farmers in the use of the scientific data as a practical on-farm decision making tool; and
- Further research and development be undertaken on predictive models on climate change (RBDC, unpublished paper).

Towards 2020, what emerging or on-going drivers will affect the nature and profitability of broadacre farming in Western Australia? According to Kingwell and Pannell (2008), the ten key drivers are likely to include:

1. International policy changes in trade and emissions control.

Will there be little or substantial progress in reducing agricultural protection in Europe, the US and Japan? Will increased national concerns about food security lead to protectionist national agricultural policies that inhibit rather than encourage agricultural trade? Will international markets for carbon emissions and offsets be established; and what might be their impact on agricultural production and land use?

2. National policies regarding water, climate change, environmental protection and agriculture.

For example, an emissions trading scheme for Australia currently is scheduled to commence in 2012 and agriculture, although initially likely to be outside the scheme, will nonetheless be affected by it firstly through higher prices of fuel, transport, chemicals and transport and energy-related services and secondly, by increased competition for use of agricultural land as emission offsets. When agriculture is eventually covered by the scheme the extent of agriculture's emission reduction challenge could further transform land use and the relative profitability of various farm enterprises. To reduce or offset agricultural emissions is a major technical and economic challenge.

3. Climate change impacts; locally, nationally and internationally.

The rate, spatial extent and severity of climate change are very difficult to predict, but it is possible that it will test the adaptive capacity of agricultural systems and their supply chains. Suffice to note at this stage that the south-west of Western Australia is identified in most climate modelling projections to experience an increasingly less favourable environment for the production of most traditional agricultural commodities. Hence, there is a major scientific and economic challenge to identify resilient, profitable farming systems and create supportive supply chains.

4. The rate of development of agriculture in developed and developing countries.

If there is an acceleration of productivity growth prompted by current high commodity prices, there will be production outcomes that ease the current upward pressure on prices. Such progress could generate large social benefits. Based on the performance of world agriculture up until the late 1990s, Coates et al (1998) predicted that by 2025, of every 20 people living, 5 would struggle to get enough food and would suffer recurring famine, 12 would get enough food but would not be very prosperous, and 3 would have a wide variety of food types available and most easily afforded.

5. Changes in energy prices and energy-related inputs.

Dunlop et al. (2004) noted that, "Evidence suggests that in the coming decade's oil consumption will overtake global oil supply capacity." Will comparable energy sources become available at comparable cost within the next decade or will energy users pay more for increasingly scarce current sources of energy? Will the current shift in agriculture toward bioenergy production continue? As the cost of energy and energy-related inputs rises

then high-input farming systems may not be economically sustainable. The cost of transporting farm inputs and outputs will unleash changes in spatial comparative advantage, benefiting some farmers whilst harming others.

6. Downside risk management.

Although continued investment in productivity improvement is essential to underpin the viability of various farm industries, the management of weeds, pests and diseases and incursion threats is also required. These problems represent downside risks to farm and industry profitability. Reducing the economic costs of these biological threats is an on-going activity for farm businesses and their beneficiaries.

7. Funding levels for R&D.

There has been a questioning over taxpayer support for some agricultural R&D (Productivity Commission 2007). It is conceivable that there could be reductions in the level of funds offered through the existing rural R&D corporations, perhaps with changes in the number and operation of those corporations. Conversely, given recent hikes in food prices, governments may see a need to increase investment in R&D to underpin agriculture's role as a reliable source of low-cost, healthy and ethically produced food and fibre; as well as a source of foreign exchange earnings based on use of renewable resources.

8. Biotechnology.

Notwithstanding its relatively modest impact so far, there may be dramatic breakthroughs in the application and adoption of biotechnology. Moreover, there are signs of favourable shifts in voter attitudes regarding gene modification technologies (Cormick, 2008), so increased use of these technologies in agriculture appears more likely than it did even three years ago.

9. Social challenges.

Shields and Wooden (2003) note that many people in rural areas express greater satisfaction with their lives than do city people. Nevertheless, a number of factors have contributed to an exodus of families (both farming and non-farming) from rural areas. In inland rural regions, countering the social, economic and government policy pressures that encourage depopulation is extremely difficult. Often attempts to reverse a local decline are at the expense of an adjacent region. Making the farming lifestyle attractive to the next generation of farmers and their potential spouses will be a major challenge.

10. Human infrastructure provision and capacity-building.

Farmers are diminishing in numbers and as a proportion of the State population; and farming has become a less and less familiar activity to metropolitan populations. Accordingly the pool of local people with

agricultural knowledge and affinity with farming is shrinking. This poses problems for attracting future workers into servicing the farm sector; as researchers, advisers, field staff and students.

ASSESSMENT CRITERIA

There is a requirement for Federal Government policies to be consistent with the Expenditure Review Principles. The Principles are:

- Appropriateness;
- Effectiveness;
- Efficiency;
- Integration;
- Performance assessment; and
- Strategic policy alignment.

These values are reflected in the corporate priorities of the Department of Agriculture, Fisheries and Forestry (DAFF). The mission statement for the Department is to “increase[e] the profitability, competitiveness and sustainability of Australian agricultural ... industries and enhance the natural resource base to achieve greater national wealth and stronger rural and regional communities” (DAFF, 2007).

In a similar vein, the Departmental outcome is to achieve “Australian agricultural ... industries that are based on the sustainable management of and access to natural resources that are more competitive, self-reliant and innovative, have increased access to markets, are protected from diseases and are underpinned by scientific advice and academic research” (DAFF, 2007).

The Department is responsible for the management of Drought Assistance measures.

The objectives of the National Drought Policy are to:

- Achieve self-reliance by farmers in managing the risks stemming from normal climatic variability by providing the focus on drought preparedness;
- Provide appropriate assistance to farmers experiencing “exceptional circumstances”;
- Ensure that the provision of this assistance is equitable, efficient and timely using [the] best science and information;
- Facilitate the maintenance and protection of Australia’s agricultural and environmental resource base during periods of increasing climatic stress; and
- Facilitate the early recovery of agricultural and rural industries consistent with long-term sustainable levels. (PC, 2007, Trade and Assistance Review 2006-07).

RATIONALE FOR GOVERNMENT SUPPORT

Which are the more important rationales for government intervention during severe drought? Are these the same rationales for intervention in other severe events?

Government can support the agriculture sector for reasons of strategic industry development and/or social goals. At this point in time, these rationales are exemplified in the ECIRS and Exceptional Circumstances (EC) Relief Payments (ECRP) scheme.

If government wishes to support agriculture through severe drought or other events (natural disasters, commodity process collapse, biosecurity outbreaks, etc), the RBDC believes it should do so in order to ensure that a profitable and sustainable agriculture sector emerges through the events. Sometimes, the best way to ensure that a strong industry sector emerges is not to inhibit exit and entry of farm businesses.

However, if the government has a policy objective of maintaining current farming communities for as long as possible, then a completely different set of policy solutions are provided, to enhance and support the social fabric of the regional communities.

The RBDC will argue through the course of this paper that the combination of the ECIRS and the ECRP are supporting this maintenance of the regional communities. The RBDC believes that community objectives should be supported through other programs, and policies are needed to develop the agricultural industries' preparedness and adaptiveness to changing climatic conditions so that communities and industries remain sustainable, profitable and internationally competitive.

To best meet the challenges of adaptation to drought, climate change, marketing change, et al, the RBDC favours the support of financially strong, well managed businesses (defined by the operating return to total average assets) versus strong technical farmers (productivity per hectare). The key benchmark is maintenance or better of farm equity.

The emergence of the separate social welfare support available through Centrelink, especially income support, has been a widely accepted move. It meets the desire of the farming community to have a social support policy, which is similar to that provided to other Australians. It has acknowledged part of the success in achieving this policy response, is in fact making the rules more accommodating to the particular profile, and needs of farming families. Other types of support provided by Centrelink such as capacity building, exit programs, business advice are not well supported, especially in Western Australia.

ECIRS has emphasised the immediate, high cost, liquidity needs of the few, rather than the long term interests of the industry within the region. The 23 EC

shires normally (in non-drought years) make up around 30% of the state's broadacre GVAP.

ECIRS AND GVAP

| | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 |
|---|---------|---------|---------|---------|---------|---------|
| EC shires GVAP (\$M) | \$1055M | \$1397M | \$1089M | \$1594M | \$1258M | \$1450M |
| EC Business Support expended | \$4.18M | \$8.39M | \$5.88M | \$6.01M | \$5.16M | \$6.43M |
| EC Business Support as % of EC shires following year's GVAP | 0.30% | 0.77% | 0.37% | 0.48% | 0.36% | 0.55% |

FARMBIS AND GVAP

| | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|-------------|
| Broadacre GVAP (\$M) | \$3933M | \$3518M | \$4657M | \$3630M | \$5314M | \$4193M | \$4833M | \$3896M | \$3996M (f) |
| FarmBis expended | \$3.52M | \$3.44M | \$3.41M | \$2.18M | \$2.88M | \$1.75M | \$1.39M | \$1.88M | \$3.41M |
| FarmBis as % of broadacre GVAP | 0.09% | 0.10% | 0.07% | 0.06% | 0.05% | 0.04% | 0.03% | 0.05% | 0.09% |

* (f) = forecast

* Broadacre agriculture and values of production – i.e. omitted horticulture and dairying.

* Total FarmBis expenditures allocated to broadacre purposes (an overestimate because some of the FarmBis funds would have been used in horticulture and dairying)

* GVAP = Gross Value of Agricultural Production (as per ABS census')

RBDC RECOMMENDATIONS

The development of regional partnership programs for farmers, farmer groups and rural communities, such as the NEAR (NEAR strategy attached), implemented by each region, driven by each region and supported by DAFWA, DAFF, other relevant government agencies, private sector advisors and other suitable support entities.

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

Policy context

Preparedness of the farm business sector should be the primary Government outcome in delivery support for whatever climatic or other testing conditions that the sector faces. Drought preparedness is the concept that is most familiar, but this can be usefully extended to encompass preparedness for:

- Climate change.
- Natural disaster.
- Marketing changes.
- Bio-security events.
- Financial sector changes.
- Technological changes.
- Social change.

Climate Change:

- Improvements to climate and weather forecasting models
- Education in the interpretation and use of such models
- Greater awareness of the future predictions of climate change

Natural Disaster:

- Continuing improvement to biosecurity and resource management

Marketing Changes:

- Responding positively to deregulation of marketing arrangements
- Developed responses to existing and future animal welfare issues
- Access to new product/finance/resource markets-including a strategic review of Managed Investment Schemes (MIS)
- Support for innovation in business structures
- Shared access to models to enable farmers to compare against best practice (benchmarking)

Biosecurity events:

- Application of cost-benefit analysis on any biosecurity intervention by government
- Access to education and skilling support for the management of biosecurity issues

Financial sector

- Enhancement of existing financial risk management tools
- Development of additional tools – enhancement of MIS to include other agricultural dependent business (to encourage integration in the supply chain)

Technological change:

- Improved access to market intelligence – particularly in relation to technological change – linked to information and education to assist in the early adoption of technological opportunities.
- Review of the current investment in technological change in accord with a longer term strategic approach on any potential Australian competitive edge.

Social change:

- Research and response to the issue of labour supply for primary production.

- Recognition of the need to develop better governance processes and understanding in communities so they continue to self-manage through any changing conditions. The Western Australian experience in delivering funding to assist communities through change is a relevant example.

Infrastructure:

- The impact on agricultural infrastructure (physical, legal, tax) by any of the above occurrences will be significant. State and Commonwealth policy needs to work in partnership with infrastructure providers and supply chain participants to enhance their preparedness.

Farm Business Preparedness

This is defined by the ability of the farm business to have in place risk management strategies for both on and off the farm. In addition, the ability to make rational and timely decisions to strengthen their business so that they can maximise their opportunities and absorb negative external factors to meet their long term family farm business objectives.

Having a clear understanding of these long term objectives and aspirations of the farm business and its owners is critical in subsequently making the right set of preparedness and self-reliance decisions. This clearly articulated vision and mission should be able to be clarified and adapted as new information, ideas or conditions emerge.

This process requires timely and confident decision-making skills, as opposed to casting the net too widely and/or procrastinating. Destocking early in a drought is a mark of confident decision-making. Ideally, participants in the farm business must support each other; otherwise, the objectives of the farm business elicit a different set of strategies and approaches.

Compare the farm business whose owners main goal is to stay in the farm business and pass on the farm to future generations, with another farm business and its owners whose purpose is to provide a retirement for the current owners in a medium timeframe with enough capital to purchase an off farm business. Quite separately from seasonal and market conditions, different farm businesses and their owners have differing aspirations and goals depending on their age, stage of life, education and training, family objectives, personal beliefs.

Being open to external information advice and influences is a characteristic of successful business, which can adapt to external negative and positive drivers with a sense of control. This makes their success at meeting their mission more likely, because they take into account the need to change, within a context. The greater the clarity around this, the better the farm business and its owners are able to adopt the best preparedness and self reliance strategies that suit their goals.

Preparedness has regard to the processes and systems of understanding that negative events (droughts, commodity prices collapse, biosecurity events, other

weather driven scenarios – flood, fire etc) will inevitably occur, and that the farm business has in place measures and systems, which will best allow it to accommodate and manage through them.

A self reliant farmer and farm business will reflect the following characteristics:

- Operate the business according to well developed business and financial business management principles ,with plans and systems, probably developed in conjunction with capable and credible external advisors;
- Have undertaken sufficient training and development in financial, business and risk management to implement the above;
- Have in place risk management strategies both on and off farm.
 - On farm strategies may comprise:
 - Having appropriate insurance, on-farm storage of feed and water, engaging in marketing/financial risk management strategies; utilisation of FMDs, different forms of farms tenure, decoupling ownership, succession/progression planning;
 - Year in/year out budget surplus, adequate cash flow to reach this position;
 - Increasing equity when land and stock prices are held constant;
 - Access to and utilisation of professional advice;
 - Targeted capacity building to increase business management ability that supports the goals of the farm business;
 - Ownership or leasing of geographically diverse farm land;
 - Benchmarking for efficiency and effectiveness gains.
 - Off Farm Strategies could include:
 - Active participation in growers and regional groups (i.e. Liebe Group, Evergreen Mingenew Irwin (Ploughman);
 - Accumulation of non farm assets i.e. house in regional or metropolitan locations;
 - Ownership or part ownership of other businesses (agriculture and non agriculture);
 - Off farm employment – links with the resources sector;
 - Being part of a cooperative for marketing, for input costs management, risk management strategies, etc;

Superannuation;

- o 's.

The best government support (matched by farmer funding) has gone into farms having comprehensive and financial business plans, which address risk management. This has supported many farmers to manage through, without calling on ECIRS or other assistance.

Up to 64% of respondents indicated that FarmBis assistance had materially helped them achieve their goals and to clarify their plans on paper. Over 73% found it had improved in the financial management of their property. (Source: Patterson Survey of WA FarmBis Western Australia Farmbis and EC recipients, June 2008).

The importance of targeted training, high quality information, and planning is also supported by many farm consultants in Western Australia (RBDC Survey of Western Australian farm consultants). They agreed that business self reliance could be better assisted by:

Improving

- improving tools like FMDs;
- more education and training to develop better business and risk managers so that farmers are able to undertake higher level risk analysis, and develop plans that take into account long term viability and productivity improvements;
- Being able to judge the appropriateness of this strategy for their farm;
- Improving information transfer within industry.

In relation to what can be done to aid drought preparedness, the suggestions from Western Australian farm consultants include:

- Better business and risk management skills;
- Training;
- Investigating flexible business models that can be scaled up and down in a short time frame to minimise drought impacts;
- A series of scenario planning workshops for growers, which would be a good way of promoting a planning approach before the events.

RBDC research examining EC clients and FarmBis training relationships, has indicated that capacity building and training, such as financial and general business management training, has improved the preparedness of businesses and reduced farmers' reliance on EC support. Declined EC clients have undertaken financial and general business management training, than approved EC clients. The reason these clients were judged not in need, was that their financial positions were too strong to comply with EC guidelines. (Source: RBDC Mining the Exceptional Circumstances and FarmBis Database, March 2008, Internal Paper).

Declined EC clients had a higher proportion of general business (58.3%) and financial management (12.2%) training. Approved EC clients had a lower proportion of general business management (47.7%) and financial management (10.53%).

Whilst this research has only occurred over 4 shires, it supports the above contention of the Western Australian farm consultants as to the steps to be taken to improve preparedness and self reliance.

The following table also demonstrates that with the support of the previous FarmBis programs, relatively high numbers of farmers, even in drought affected shires, have

been engaged in some kind of capacity building and training. Given this program relied on co-contribution from farmers, it demonstrates a strong recognition and appetite by farmers for appropriate capacity building and training.

| Shire | % training participation |
|-----------------------|---------------------------------|
| Morawa | 45.8 |
| Perenjori | 42.8 |
| Mullewa | 36.8 |
| Chapman Valley | 87.5 |

RBDC RECOMMENDATIONS

Investment in the preparation of solid business plans, training in financial and business management, mentoring, guidance, including R&D of practices and varieties, for drought management responding to seasonal conditions.

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?

In Western Australia, most farmers will adopt best practice advice and practices. For example, in 2006-2007 a combined approach of farmer production groups and DAFWA staff worked in the Northern Agricultural Regional to manage destocking, changing production plans and techniques. In 2008, the development of AGTactics and tactical communications has lessened the call for traditional financial government assistance. A more timely and collaborative response of government, working in partnership with farmer groups and farmers has been a powerful front line response.

Summarised, the lessons learned are the importance of:

- Capacity building across a range of areas from farm and business management through to improving seasonal forecasting and decision making. (Attached Grenfell Study 2008 FarmBis and EC);
- Geographic and soil diversity;
- Timely on-farm decision making, informed by the best advice from government and agri-business consultants;
- Destocking decisions taken firmly and early;
- Opportunistic farming approaches which requires good decision support tools;
- Initiation of low input farming systems to match droughts;
- The danger of high input costs combining with drought;
- Precision farming approaches
- Cash is king. A business can survive long periods of adversity with liquidity. The net result of a drought is reduced cash. Therefore, liquidity, introduced to a business experiencing severe drought will aid its survival. Currently this liquidity is delivered by the ECIRS. However, there are other alternatives such as improving the FMD system and implementation grants, which should be further, explored in this paper.

The Western Australian experience is that around 20%-35% of farmers apply for ECIRS. There has been a great deal of self-resilience, as well as strong support through FMDs and a competent supporting farm business consultant sector. There is also testimony to the government investment from 1999 to 2001 in business planning and risk management strategies, which gave many farm businesses the basis of preparing and adapting to the droughts of the last eight years (Source: RBDC Survey of leading farm consultants, August 2008).

According to Kingwell and Pannell (2008) Larger farms like those in Western Australia are often characterised by a diversity of soil types, landscapes, locations and enterprise array. This places high demands on the time and skill of the farm manager. Large farms can be more complex to run, requiring management that is more sophisticated or at least greater reliance on advisory services.

Whilst farmers have coped with the droughts, analysis of balance sheets of two data sources - Western Australian EC clients August 2008, and PlanFarm Clients (Source

DAFWA Productivity Commission Report August 2008) reveals declining equity positions. The drought recovery years are not delivering full financial recovery.

RBDC RECOMMENDATIONS

Indicator monitoring allows triggers for an array of programs including whole business planning and training in business and financial management. This could be delivered through an enhanced and integrated NAMS system delivering downscaled information for farmers and policy makers, in conjunction with commercially available farm business benchmarks and indicators, collected as part of assessment of eligibility.

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?

As support mechanisms are triggered over 2 years after the drought event, there is no evidence that ECIRS is utilised as part of the immediate requirements of, or relevant drought management strategies.

The present ECIRS framework is regarded as rewarding risk taking behaviour that is, indebtedness, and positive strategies such as FMDs and targeted capacity building.

Internal impediments:

- Being cash poor and asset rich - lack of liquidity
- Land tenure - smaller land sized titles to allow easier conversion of tenure;
- The impost of stamp duty and capital gains tax when businesses need to trade parcels of land to get a better outcome for their business. Raising the limit for capital gains roll over relief from \$6.million to \$10.million is needed. Stamp Duty should be rebated on the traded amount where land parcels are sold to purchase another parcel to make the farm business more profitable and sustainable;
- Not having a clearly articulated business plan;
- Magnitude of the risk being undervalued – 'this is the way we have always farmed'.

External impediments

- Lack of sufficient levels of high level business and financial management;
- Insufficient take up of expert advice;
- Tax driven approach to businesses decisions making i.e. machinery purchases;
- Lack of innovation in farm business structures and ownership i.e. reliance on owning land rather than having access to it.

Positive ways in which the Western Australian Government has been providing a partnering approach to farm business and farmer groups is through the FarmTraining WA program. DAFWA, through the RBDC, administers the program. It provides a continued emphasis on capacity building, Recognition of Current Competencies (RCC and targeted training to continue with the build up of demand for this service built up under FarmBis. This program also includes capacity building for Aboriginal landowners. Industries, including dairy, broadacre, vegetables and women in agriculture, through the Kondinin Group, have been engaged in the RCC project. New training courses registered under this program will be targeted at capacity building on

the areas of business and risk management, managing fluctuating markets and climate risk management. This state funded program will conclude on 30 June 2009.

ARE ASSISTANCE MEASURES EFFECTIVE AND EFFICIENT IN SEVERE DROUGHT?

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?

Currently, ECIRS is provided to those who have a measure of debt, when it is arguable that all farmers and farm business in a drought affected region have been equally affected by a drought. Anecdotal evidence provided to the RBDC and the state's Dry Seasonal Advisory Committee (DSAC) is that this is seen as divisive and "rewarding" people who perhaps have not undertaken the necessary steps thorough self preparedness and self reliance strategies.

There is no evidence to suggest that this behaviour is positively encouraged in Western Australia by the existence of ECIRS. Traditionally, getting an EC declaration has been a more difficult exercise in Western Australia. Therefore, "automatic" access to the ECIRS has been sufficiently difficult so as not to be available as an ongoing subsidy.

However, it is clear from survey results that 44% of recipients of ECIRS believe that it has made a significant positive contribution to their business, without which they would have to have sold their farm business (source : Patterson Survey June 2008). Indeed, this is the central criterion of the ECIRS scheme, but for the provision of ECIRS, the farm would not survive the severe drought.

In relation to whether ECIRS had assisted with the capacity to handle drought, amongst Western Australian farm consultants there were split views. Even those in the affirmative indicated that this assistance did not apply to all clients, and that in some cases, it had assisted only the financial capacity and not the business capacity.

The Canadian Department of Agriculture has developed a set of performance indicators. The objectives of the drought assistance program in Canada are similar to the National Drought Policy objectives in Australia. These indicators may be suitable to adapt as an assessment tool in Australia.

Canadian Departmental Priority

To enhance producers' capacity to manage risk **and financial management. This should be delivered through an enhanced** to increase the sector's viability **and** profitability.

Outcomes

Increased producers' capacity to manage business risks.
Increased sector viability and profitability.

Performance Indicators

- Reduced downside variability of farm income and operating margin (after adjusting for lags in payments) over time
Comparing farm income with and without program payments

Comparing operating margin of **farmers** who do, and do not, participate in programs

Comparing variability between program options and with other instruments including supply management systems

- Increased sector farm income and operating margin (after adjusting for lags in payments) over time
 - With and without program payments
- Increased value of farm capital investments over time
- Immediate/Intermediate Outcomes
- Increased utilisation of risk management tools
- Increase in farmers' investments
- Increased participation in programs that help mitigate risks faced by the sector
 - Targeted producers participate in PSRMP to mitigate risks of business interruption and to have access to new private risk management tools
 - Targeted producers participate in Production Insurance programs to mitigate production loss risks
 - Targeted producers participate in CAIS program to mitigate income loss risks
 - Targeted producers participate in lending program to ease cash-flow issues
 - Targeted producers participate in programs that address emergencies
- Stakeholders understand and accept the importance of being proactive in managing their business risk
- Producers are aware of risk management programming and how the elements work together
- Performance Indicators (National and by Province)
- Number of overall producers using public and private risk management tools
- Overall, by farm type and revenue class
- Producers satisfaction (participating and non-participating)
 - Program options
 - Level of benefits
 - Timing of payments
 - Program conditions (eligibility, premiums or contributions)
 - Application process
- Value of farm capital investments
- Participation rate (number of participants, % of targeted producers or % targeted acreage/production)
 - By program
 - Participation in two or more BRM programs
 - By coverage level (CAIS and Production Insurance)
- Value of cash flow advances
- Number and % of producers aware of programs under BRM priority and how these programs work together.

<http://www4.agr.gc.ca/AAFC->

[AAC/displayafficher.do?id=1175191583864&lang=e](http://www4.agr.gc.ca/AAFC-AAC/displayafficher.do?id=1175191583864&lang=e)

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?

Land values and sales numbers for 25 Drought declared Shires (2007 Dry Season Assistance Scheme), (attachment RVW), show that the general trend is that land values have remained constant since 2004. After a reasonable season in 2005, sales in the 2006 calendar year were above average compared to the previous 5 years (using the shire of Perenjori as an example). (Comment: most recent sale compared to 'real' land value).

For 2007 and 6 months of 2008 property sales have been very low. This could be because the prospect of good seasons remains, so sales pricing has not reduced (no-one sells in a drought). Purchasers however have held off due to their view of future prospects verses input cost increases and climate change forecasts for more drought years.

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?

The Western Australian experience is that the federal bureaucratic process of 'ground truthing' of an EC submission is very time consuming and costly. This is especially so, when a prima facie case has already been established and the Federal and State Governments are in agreement.

The prolonged length of time taken to acknowledge the severity of the drought and deliver financial assistance is very stressful for the farmers and rural communities involved. This is a considerable disconnect between the event and the assistance and given this is the only form of government recognition of the difficulties being experienced, this disconnect is a very unsatisfactory and unsavoury experience. If after months of "ground truthing" preparation and BRS and NRAC Review, it has a negative impact to a community if their case is not supported. This reinforces an attitude that the government "doesn't care." This can , with an outcome of an 'untimely' decision to other communities.

RBDC RECOMMENDATION

- **Droughts should not need to be declared for the farmer to access the proposed business preparedness package.**
- **For triggering Centrelink Social welfare assistance, there should be a declaration processes which is run entirely through NAMS, with proper support from the weather, crop, property etc information systems provided by state departments of agriculture.**

Does the process need to be refined in the context of a changing climate to remain targeted towards such severe droughts?

Shifting to a NAMS based approach was a step in the right direction. However, it has not gone far enough. Investment in NAMS needs to be greater to provide downscaled information (5kms) integrated with soil moisture, rainfall levels, temperature with static elements such soil type.

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 introduction of the buffer zone improved the significant practical and subsequent political problems with boundaries. However, putting to one side the access to ECIRS, the requirements for this boundary for access to ECRPs through Centrelink and the drawn out process discussed above does place additional significant pressures on farm families and others in regular communities who are immediately negatively impacted by the drought to the extent that the basics of life are threatened.

The September 2007 an EC declaration placed a very large part of the agricultural region into EC. However, this has not opened the floodgates of people applying successfully for EC relief. The ECRP. Indeed, the Centrelink procedures and criteria provided sufficient inhibitors to obviate the need for tightly drawn boundaries. In Western Australia, there are only 278 current Centrelink farmer customers. Of concern is that those under 50years of age,50 years comprise a larger group than those older than 50.

Suggestions for the criteria for declaring a drought for the purposes of accessing Centrelink assistance is that they should adopt an Indicator approach. These indicators should be weighted as follows:

- Production loss (40points)
- Soil moisture indicator (20 points)
- Rain deciles (20 points)
- Pasture Production (20points)

The NAMS system should have an ongoing monthly monitoring role of these four indicators. This system needs to be downscaled to a 5 kilometre square basis.

The suggested timing for these criteria is as follows, based on a Western Australian broadacre severe drought. There would be a similar but different set of steps for a process with the Southern Pastoral area, or indeed, total livestock or horticultural areas. If half way through a season where parts of a region or state have demonstrated all of these criteria for the previous season, and the predictions are that the second season will going to meet these criteria, the NAMS system should inform the State and Federal Governments that a prima facie case has been made. This should then trigger the EC Social relief package, which should then be available from 1 January of the third year. By this point, the second season's crop should be almost completed and actual production figures and therefore impacts on household income should be clear, and therefore assessable.

RBDC RECOMMENDATION

Whilst national principles of severe drought should be adhered to, a definition and set criteria of drought within the context of each region's climate change scenarios should be agreed between each state and the Australian Government.

Centrelink social assistance should be automatically triggered when the agreed indicators are met within a region.

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

There is no evidence in Western Australia that this occurs. However, potential for declaration and the time taken, does put some in the community either a limbo state while they wait for the outcomes, or distracts individual and community efforts into advocacy for the declaration (i.e. hosting NRAC visits, providing data etc), when these human resources could be better applied to focusing on their farm business or rural community in undertaking positive, forward looking activities.

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

Given the EC program is available, it would be remiss of a State Government in all instances not to put considerable efforts into accessing the EC declaration. Where the conditions for an EC declaration can be met, not to make an application would disadvantage some Western Australian farmers, relative to their counterparts in other states.

The prescriptive nature of the program that is, availability only for ECIRS, and the financial arrangements i.e. acquittal has ensured that the assistance is targeted at the people that it is intended for – Western Australian farm businesses, rather than costs shifting between State and Federal Governments.

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

Where there are continued dry seasons, the possibility of EC declarations being rolled over after reassessment is acknowledged, but not taken for granted in Western Australia.

Is a trigger approach, such as an EC declaration, a necessary first step to determine individual eligibility for drought relief? Could assistance be delivered based on individual circumstances without an EC declaration?

As per the discussion and recommendations above, for Centrelink Social Welfare Relief, RBDC believes that a state – orientated trigger mechanism would be necessary.

For Business Preparedness Support – whether capacity building, business planning, or grants, they should be available on a continuous basis subject to criteria such as equity limitations to limit free riders.

Expert assessment of applicant's process by both Centrelink for EC Social Relief and by State drought adjustment authorities for Business Preparedness Support can minimise the need for declarations of the style that we currently have.

What administrative efficiency issues does this raise?

For support for business, whether ECIRS, or other measures, within the administrative process that we utilise in Western Australia, the impact of a drought are discernable from expert examination of papers presented. The DAFWA staff assessing EC applications have long, managerial level banking or financial sector experience, dealing with the rural sector. They are able to identify key problems, especially from balance sheets over a given period.

The application processes itself, with its testing requirements and the quality of information required, is an indicator of how the farm business is travelling. The use of the agri-business advisory sector is important to provide support to farmers in putting together applications. This can assist farmers understand what the minimum requirements are for a well run small business, not just what makes for good agronomic practice.

Business support measures

How effective have EC interest rate subsidies been in improving the survival of farm businesses and farm dependent rural small businesses?

EC approval comes at a minimum of 18 months following the first year sowing and in general, farm businesses would have set their budget for the year ahead without consideration of EC subsidies (except in subsequent years).

Off-farm incomes are very important and fortunately, since 2000, the mining and resources sector has provided alternative short term employment opportunities.

How are farm business decisions altered by EC interest rate subsidies?

In Western Australia, ECIRS has been applied against the overdraft, as it is the most expensive debt that farm business will usually carry. This will then be used for additional farm inputs (operating costs); which has a flow on effect to farm- related businesses, spray, fertiliser, chemicals and personal costs.

Do the current eligibility requirements create adverse outcomes, for example, by creating a disincentive for farming households to seek off-farm income?

During drought, other things influence off farm decisions i.e. education, natural resource management and availability of localised work, working off- farm to supplement income on a continuous basis can make farmer lose contact with farm business.

In a recovery year, being off- farm is a bad decision. Therefore, ECIRS or a liquidity grant can be a useful tool if it keeps people on the farm in the recovery year.

Would support based on business attributes other than debt be more effective?

ECIRS rewards higher risk behaviour, and may put equity at risk. The RBDC in assessing EC clients defines equity as follows - Total Equity = sum of individual equities for all farm businesses which have received EC support in each year.

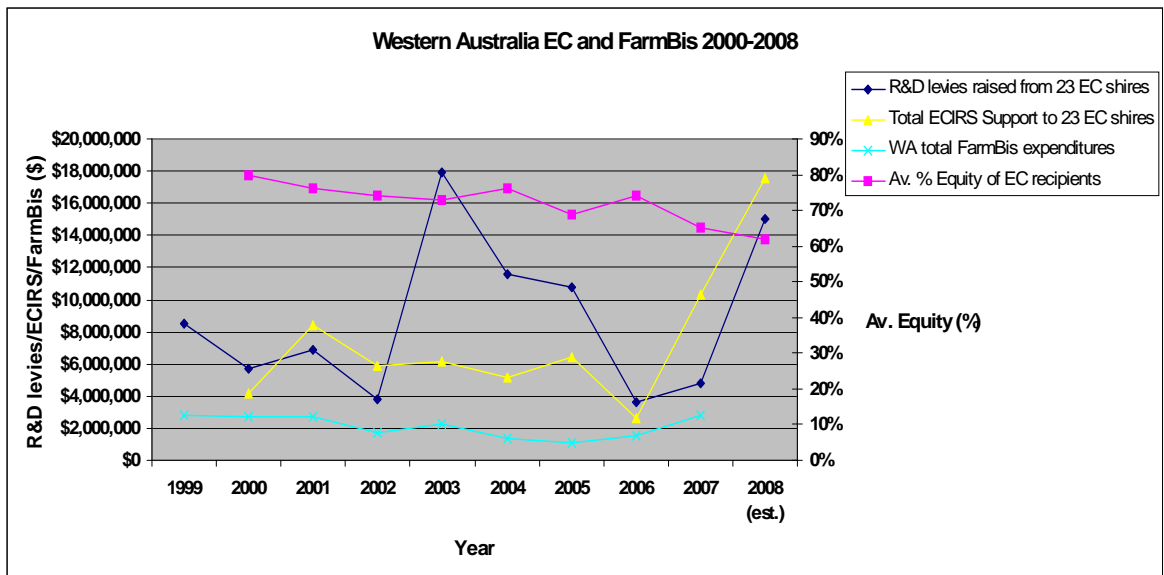
The following table shows the declines in farm business equity based on constant land values:

| Year | Total Equity | No of businesses | Av. Equity % | Ave equity per business | ECIRS Support | FarmBis Total for state | 80% of FarmBis (Broadacre) |
|-------------|------------------|------------------|--------------|-------------------------|---------------|-------------------------|----------------------------|
| 1999 | | | | | | \$3.5M | \$2.8M |
| 2000d | 1,015,381,148.49 | 604 | 74.09 | \$1,681,095 | \$4.2M | \$3.4M | \$2.8M |
| 2001d | 1,017,523,347.29 | 673 | 68.78 | \$1,511,922 | \$8.4M | \$3.4M | \$2.7M |
| 2002d | 746,896,330.50 | 489 | 68.77 | \$1,527,395 | \$5.9M | \$2.2M | \$1.7M |
| 2003d | 533,123,180.00 | 389 | 63.76 | \$1,370,497 | \$6.2M | \$2.9M | \$2.3M |
| 2004r | 286,183,930.00 | 212 | 64.17 | \$1,349,924 | \$5.2M | \$1.7M | \$1.4M |
| 2005r | 183,705,809.00 | 140 | 60.17 | \$1,312,184 | \$6.4M | \$1.4M | \$1.1M |
| 2006 | 579,798,338.00 | 219 | 70.5 | \$2,647,481 | \$2.6M | \$1.9M | \$1.5M |
| 2007 | 521,012,394.00 | 214 | 63.62 | \$2,434,637 | \$10.3M | \$3.5M | \$2.8M |
| 2008 (est). | 436,668,177.06 | 161 | 62.47 | \$2,712,225 | \$17.6M | | |

Notes: d - Drought r = recovery year

There are already alternative approaches. For example, a clear focus on the business as well as the capacity of the farmer(s), within the farm business is encapsulated in the South Australian Planning for Recovery Program, which provides grants to primary producers who are eligible for ECIRS for intensive training and whole business planning.

There is also an opportunity cost for government in providing ECIRS, in that it limits the investment funds available for types of partnering support to agriculture that may assistance a greater number of farmers. For example, since 2000, during the extreme droughts, there were four years that ECIRS payments to 300 farmers exceeded the R & D levies collected from all Western Australian broadacre farmers. These levies are matched by Australian Government funds. It seems curious that during drought years, there are less levy collections, therefore less funds available for research, which may be the optimal time to test models in drought conditions.



The answer, however, may not lie in giving the R & D corporations drought top up. Increasingly, these R & D corporations along with the emerging commercial grain breeding companies, and state department agriculture have a focus on RD and E which focusing on high yielding, high production varieties and systems.

There needs to be shift of government investment to emphasise policy and schemes which are going to add to Australia's agricultural productivity and profitability, to ensure that that the industry is more internationally competitive.

However, these measures should incorporate R,D and E, which can help deliver productivity and profitability in drought, as well as in optimal seasonal conditions. If all our R,D and E activity is targeted at the high yield end, but ignores the low yield, but drought ready farming options and systems, then agriculture may be missing on opportunities to deliver returns in increasingly harsh conditions.

RBDC RECOMMENDATIONS

1. Farm Business Preparedness Package.

This will provide an initial grant of up to \$4000 for expert support in preparing a comprehensive farm business plan.

Extra payments available up to \$6000 for additional planning over 5 years dependent on commencement and implementation of the plan.

To be eligible, primary producers must have attended an initial scenario planning workshop, as well as the consultants.

Benchmarks to be developed then assessed by the farm business and farm consultants as well as measured across the region and Australia. This benchmarking information will provide a rich source of data on what measures farmers are actually adopting to change practices, or if they are not changing, the reasons for their status.

This individual farm level information could be linked via the NAMS data base to develop a model similar to that developed by the Canadian Government (see attachments).

This approach requires a high professional and motivated farm consultancy sector (such as the one in Western Australian), a commitment to unlock some of the ECIRS dollars and redirect some portion of the funds.

This approach should be open to available to all farmers who wish to access it, subject to reasonable equity limits.

Implementation of this program should be with each state government department of agriculture or rural adjustment authority that have the necessary relationship with the farm consulting sector to develop the benchmarks to carry it out. There will be an ongoing role in running workshops monitoring the quality of the work being undertaken by consultants, and collecting the data and analysing it for use by state and federal policy makers, research and development corporations, universities etc.

One condition of future assistance package is to consider that this benchmarking process as a pre- requisite for additional government funding (state or federal).

2. Farm Business Preparedness Grants.

The RBDC recognises that access to additional liquidity is an important support during droughts or other severe events.

Rather than delivering this liquidity through ECIRS it is suggested that implementation grants be available subject to the following conditions:

Cap \$150,000 over 5 years. Once this total has been reached, there is no further assistance for that farm business.

Completion of the comprehensive business preparedness planning process in conjunction with an approved consultant. Completion of an operational plan to identify where the extra money going to be spent.

Funds are available (but not limited) to the following:

Further planning of critical business issues i.e. intensive soil mapping for precision Farming enterprise changes. Introduction of different business structures. Interest rate subsidies. Business succession and progression planning. Marketing measures i.e. on farm storage to increase options for grain trading. Climate mitigation measures i.e. water storage. This will be monitored and if the money is not spent on agreed operational plan the return of the money will be requested. The plan to be approved by the administrators (state government rural adjustment authority). These implementation funds should be matched 1:1 by the farm business, and payable on invoices. Implementation should occur within 2 years of approval. Eligibility requirements will require show of production loss, equity decline, and cap on total equity.

3. Drought and Climate Change - Orientated Public Good Research, Development and Extension.

There is still an important role for both levels of government to fund public good R, D and E varieties, trials, systems and tools.

An example of a prospective project, includes the development of short season wheat varieties for drought conditions. It may provide some liquidity by providing a low input, low yielding grain crop, provide necessary cover soils, which are able to allow for better natural resource management, and potentially feed for stock, proving an alternative to grain through the summer months. (also a herbicide resistance management tool).

Development of effective down- scaled seasonal forecasting tools, and training for farmers, research and farm consultants in using them effectively within a seasons.

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?

Clearly, these subsidies proved for the farmers as well as the person providing the service i.e. transport this is the way that the dollars can be distributed through the local community in a time when cash flow is short.

ECIRS firstly goes to financial institutions, so can be seen as a subsidy to that sector. However, the provision of IRS to the farm business means that that amount is then “freed’ up within the farm business to undertake other activities, which may flow onto the local community. There is no evaluation of its effect. ECIRS is usually applied to the most expensive Overdraft debt, which is used to provide seasonal inputs – fertiliser, chemicals, and fuel. These are all inputs, which can be purchased locally of regionally, so there must be some local stimulation.

Do such subsidies encourage poor farm management practices, such as maintaining excessive stocking levels?

In Western Australia, as part of the most recent Dry Season Scheme response, these issues were monitored carefully by DAFWA. Ensuring the maintenance of animal welfare and proper management of the natural resource base were at the basis of these monitoring and evaluation efforts that occurred in tandem with the revision of the scheme (water carting, stock carting fodder, feed lotting, etc). Assistance was provided through DSAS to farmers when they needed to kill stock that could not be transported, or adjusted, DAFWA officers undertook inspections of proposed feedlots to assess their suitability.

**2007 Western Australian Government Dry Season Assistance Scheme
Assistance provided by type,**

| Type of assistance supported | Average \$ | Total | Sum |
|------------------------------|------------|----------------|--------------|
| FreightOnFodderGrantAmt | \$389.21 | \$170,863.79 | |
| FreightAgistmentGrantAmt | \$298.79 | \$131,169.00 | \$302,032.79 |
| WaterTransportAmt | \$115.57 | \$50,733.06 | |
| WaterEnhancementAmt | \$856.46 | \$375,986.29 | \$375,986.29 |
| FeedlotInfrastructureAmt | \$61.39 | \$26,949.00 | \$26,949.00 |
| DestockingGrantAmt | \$270.75 | \$118,857.12 | |
| ProfAdviceAmt | \$300.96 | \$132,123.57 | |
| OtherGrantAmt | \$5,535.90 | \$2,430,269.46 | |
| CounsellingGrantAmt | \$0.68 | \$300.00 | |
| CommunityGrantAmt | \$0.00 | \$0.00 | |
| TotalProjectCost | \$0.00 | \$0.00 | |
| ApprovedAmount | \$7,939.00 | \$3,485,230.38 | |

Total of 439 applications approved \$3,485,230 in support.

As the 2006 DSAS focused on transport / freight, water enhancement programs and feedlot construction, these areas were less evident in the 2007 DSAS plus it was easier for farmers to provide evidence of \$8,000 spent as “Other” (only included in the 2007 DSAS) being any on farm tax deductible expense including Shire rates.

The cumulative funds provided in the form of drought assistance is listed below.

Dry Seasons Funding to 30 June 2008

| Financial Yr | Program | State | Cth | TOTAL |
|---------------------|--|---------------------|---------------------|---------------------|
| 2000/01 | <i>Business Support</i> | | | |
| | EC Grants | 821,563 | 3,204,303 | 4,025,866 |
| | EC Administration | 77,840 | 77,840 | 155,680 |
| | Farm Family Business Review | 112,766 | | 112,766 |
| | Business diagnostic & planning workshops | 5,515 | | 5,515 |
| | Family Counsellors | 100,000 | | 100,000 |
| | ASCAS (1) grants | 2,777,398 | | 2,777,398 |
| | ASCAS (1) administration | 278,819 | | 278,819 |
| | Grain Freight | 8,735,287 | | 8,735,287 |
| | <i>Sub Total - Business Support</i> | 12,909,188 | 3,282,143 | 16,191,331 |
| | <i>Family Support</i> | | | |
| | EC Relief Payments (Centrelink) | 0 | 1,700,000 | 1,700,000 |
| | TOTAL SUPPORT 2000/01 | \$12,909,188 | \$4,982,143 | \$17,891,331 |
| 2001/02 | <i>Business Support</i> | | | |
| | EC Grants | 1,479,198 | 6,360,218 | 7,839,416 |
| | EC Administration | 273,095 | 273,095 | 546,190 |
| | Farm Family Business Review | 10,500 | | 10,500 |
| | Rural Counselling admin support | 63,000 | | 63,000 |
| | ASCAS (1) grants | 2,381,779 | | 2,381,779 |
| | ASCAS (1) administration | 71,695 | | 71,695 |
| | ASCAS (2) grants | 1,194,174 | | 1,194,174 |
| | ASCAS (2) donation WAFF fund | 50,000 | | 50,000 |
| | ASCAS (2) administration | 133,253 | | 133,253 |
| | <i>Sub Total - Business Support</i> | 5,656,694 | 6,633,313 | 12,290,007 |
| | <i>Family Support</i> | | | |
| | EC Relief Payments & Income Support (Centrelink) | 0 | 6,200,000 | 6,200,000 |
| | TOTAL SUPPORT 2001/02 | \$5,656,694 | \$12,833,313 | \$18,490,007 |
| 2002/03 | <i>Business Support</i> | | | |
| | EC Grants | 553,551 | 4,981,949 | 5,535,500 |
| | EC Administration | 172,392 | 172,392 | 344,784 |
| | ASCAS (2) grants | 12,767 | | 12,767 |
| | Dry Season 2002 grants | 1,651,698 | | 1,651,698 |
| | Dry Season 2002 administration | 127,878 | | 127,878 |
| | Farm Water Grant Scheme | 1,500,000 | | 1,500,000 |
| | <i>Sub Total - Business Support</i> | 4,018,286 | 5,154,341 | 9,172,627 |
| | <i>Family Support</i> | | | |
| | EC Relief Payments & Income Support (Centrelink) | 0 | 4,649,000 | 4,649,000 |
| | EC Interim Income Support (Centrelink) | 0 | 1,947,000 | 1,947,000 |
| | TOTAL SUPPORT 2002/03 | \$4,018,286 | \$11,750,341 | \$15,768,627 |
| 2003/04 | <i>Business Support</i> | | | |
| | EC Grants | 583,763 | 5,253,860 | 5,837,623 |
| | EC Administration | 174,240 | 174,239 | 348,479 |

| | | | |
|---|--------------------|---------------------|---------------------|
| Dry Season 2002 grants | 617,255 | | 617,255 |
| Dry Season 2002 administration | 58,352 | | 58,352 |
| 2004 Pastoral Dry Season Scheme | 26,536 | | 26,536 |
| Sub Total - Business Support | 1,460,146 | 5,428,099 | 6,888,245 |
| Family Support | | | |
| EC Relief Payments & Income Support (Centrelink) | 0 | 3,830,000 | 3,830,000 |
| EC Interim Income Support (Centrelink) | 0 | 840,000 | 840,000 |
| TOTAL SUPPORT 2003/04 | \$1,460,146 | \$10,098,099 | \$11,558,245 |
| 2004/05 Business Support | | | |
| EC Grants | 486,271 | 4,376,432 | 4,862,703 |
| EC Administration | 147,242 | 147,242 | 294,484 |
| 2004 Pastoral Dry Season Scheme | 185,115 | | 185,115 |
| Dry Season 2004 Scheme | 142,011 | | 142,011 |
| Dry Season 2004 administration | 0 | | 0 |
| 2005 Pastoral Dry Season Scheme | 23,130 | | 23,130 |
| 2005 Pastoral Dry Season Scheme Administration | 0 | | 0 |
| Pastoral lease payment waived | 206,927 | | 206,927 |
| Sub Total - Business Support | 1,190,696 | 4,523,674 | 5,714,370 |
| Family Support | | | |
| Centrelink to EC Relief Payments & Income Support (Centrelink) 30/06/05 | 0 | 2,200,000 | 2,200,000 |
| Centrelink to EC Interim Income Support (Centrelink) 30/06/05 | 0 | 40,000 | 40,000 |
| TOTAL SUPPORT 2004/05 | \$1,190,696 | \$6,763,674 | \$7,954,370 |
| 2005/06 Business Support | | | |
| EC Grants | \$615,618 | \$5,540,563 | 6,156,181 |
| EC Administration | \$136,037 | \$136,037 | 272,074 |
| Dry Season 2004 Scheme | \$88,672 | | 88,672 |
| Dry Season 2004 administration | \$0 | | 0 |
| 2005 Pastoral Dry Season Scheme | \$52,061 | | 52,061 |
| 2005 Pastoral Dry Season Scheme Administration | \$0 | | 0 |
| Pastoral lease payment waived | \$0 | | 0 |
| Sub Total - Business Support | 892,388 | 5,676,600 | 6,568,988 |
| Family Support | | | |
| Centrelink to EC Relief Payments & Income Support (Centrelink) 30/06/06 | | \$970,000 | 970,000 |
| Centrelink to EC Interim Income Support (Centrelink) 30/06/06 | | \$0 | 0 |
| TOTAL SUPPORT 2005/06 | \$892,388 | \$6,646,600 | \$7,538,988 |
| 2006/07 Business Support | | | |

| | | | |
|---|---------------------|---------------------|----------------------|
| EC Grants | \$233,585 | \$2,102,264 | 2,335,849 |
| EC Administration | \$136,886 | \$136,886 | 273,772 |
| 2006 Dry Season Grants | \$1,583,671 | | 1,583,671 |
| 2006 Dry Season Shire and Community | \$214,603 | | 214,603 |
| 2006 Dry Season Counselling | \$160,794 | | 160,794 |
| 2006 Dry Season Administration | \$69,519 | | 69,519 |
| Nullarbor Dry Season 2006 Grants | \$51,136 | | 51,136 |
| Nullarbor Dry Season 2006 Administration | \$0 | | 0 |
| Farm Water Grant Scheme | \$2,000,000 | | 2,000,000 |
| Sub Total - Business Support | 4,450,194 | 2,239,150 | 6,689,344 |
| Family Support | | | |
| Centrelink to EC Relief Payments & Income Support (Centrelink) 30/06/07 | | \$860,000 | 860,000 |
| Centrelink to EC Interim Income Support (Centrelink) 30/06/07 | | \$0 | 0 |
| TOTAL SUPPORT 2006/07 | \$4,450,194 | \$3,099,150 | \$7,549,344 |
| 2007/08 Business Support | | | |
| EC Grants | \$932,322 | \$8,390,893 | 9,323,215 |
| EC Administration | \$182,786 | \$182,786 | 365,572 |
| 2006 Dry Season Grants | \$170,460 | | 170,460 |
| 2006 Dry Season Shire and Community | \$1,500 | | 1,500 |
| 2006 Dry Season Counselling | \$27,273 | | 27,273 |
| 2006 Dry Season Administration | \$0 | | 0 |
| 2007 Dry Season Grants | \$3,328,315 | | 3,328,315 |
| 2007 Dry Season Shire and Community | \$279,722 | | 279,722 |
| 2007 Dry Season Counselling | \$258,195 | | 258,195 |
| 2007 Dry Season Administration | \$186,994 | | 186,994 |
| Small Bus. Dev Corporation - Small Business advice | \$32,389 | | 32,389 |
| Sub Total - Business Support | 5,399,956 | 8,573,679 | 13,973,635 |
| Family Support | | | |
| Centrelink to EC Relief Payments & Income Support (Centrelink) 29/02/07 | | \$1,645,000 | 1,645,000 |
| Centrelink to EC Interim Income Support (Centrelink) 29/02/07 | | \$139,000 | 139,000 |
| TOTAL SUPPORT 2007/08 | \$5,399,956 | \$10,357,679 | \$15,757,635 |
| GRAND TOTAL | | | |
| | \$35,977,548 | \$66,530,999 | \$102,508,547 |
| SUMMARY 1 July 2000 to 30 | | | |

| June 2008 | | | |
|--|--------------------------|--------------------------|--------------------------|
| <i>Business Support</i> | | | |
| Total EC grants | 5,705,871 | 40,210,482 | 45,916,353 |
| Total EC Administration | 1,300,518 | 1,300,517 | 2,601,035 |
| Total Farm Family Business Review | 123,266 | 0 | 123,266 |
| Total Business diagnostic & workshops | 5,515 | 0 | 5,515 |
| Total ASCAS (1) grants | 5,159,177 | 0 | 5,159,177 |
| Total ASCAS (2) grants | 1,256,941 | 0 | 1,256,941 |
| Total Dry Season 2002 grants | 2,268,953 | 0 | 2,268,953 |
| Total Dry Season 2004 grants | 230,683 | 0 | 230,683 |
| Total 2004 Pastoral Dry Season Scheme | 211,651 | 0 | 211,651 |
| Total 2005 Pastoral Dry Season Scheme | 75,191 | 0 | 75,191 |
| Total 2006 Dry Season Scheme | 2,158,301 | 0 | 2,158,301 |
| Total 2007 Dry Season Scheme | 3,866,232 | 0 | 3,866,232 |
| Total Nullarbor 2006 Dry Season Scheme | 51,136 | 0 | 51,136 |
| Total Pastoral lease payments waived | 206,927 | 0 | 206,927 |
| Total Farm Water Grant Scheme | 3,500,000 | 0 | 3,500,000 |
| Total Small Bus Dev Corp - Small Business advice | 32,389 | 0 | 32,389 |
| Total Rural and Family Counselling Support | 163,000 | 0 | 163,000 |
| Total ASCAS and Dry Season Schemes Administration | 926,510 | 0 | 926,510 |
| Total Grain Freight | 8,735,287 | 0 | 8,735,287 |
| <i>Sub Total - Business Support</i> | <i>35,977,548</i> | <i>41,510,999</i> | <i>77,488,547</i> |
| | <i>46%</i> | <i>54%</i> | <i>100%</i> |
| <i>Family Support</i> | | | |
| Total EC Relief Payments & Income Support (Centrelink) | 0 | 22,054,000 | 22,054,000 |
| Total EC Interim Income Support (Centrelink) | 0 | 2,966,000 | 2,966,000 |
| <i>Sub Total - Family Support</i> | <i>0</i> | <i>25,020,000</i> | <i>25,020,000</i> |
| | <i>0%</i> | <i>100%</i> | <i>100%</i> |
| TOTAL SINCE 1 JULY 2000 | 35,977,548 | 66,530,999 | 102,508,547 |
| | 35% | 65% | 100% |

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?

In Western Australia, the agricultural or farm consultant sector has been very strong since the early 1980's. Combined with other advisors they provide a range of farm business advice, focussed on best practice.

Examination of the RBDC database indicates that for all Perenjori EC applications (total of 86) 28 or 32.5 % used consultants.

Should governments have structural adjustment policies, which are triggered by severe drought?

A more sophisticated approach is required taking in account the following elements:

- Climate change down-scaled scenarios and predictions for the region used an enhanced NAMS system and others.
- Future opportunities for Land use – might be non agricultural, low carbon.
- Natural resource management =objectives
- Soil types;
- Community appetite for disinvestment in agricultural land?

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?

There are five elements the RBDC have considered in relation to the reasons why there is a difficulty in fostering greater exits out of farming:

1. Socio-cultural: It is perceived to be an admission of failure, and causes loss of perceived face amongst, family and community.
2. Loss of home and community: One of the unique feature of farms as a business compared to other small and medium businesses is that the family home is intricately connected with the business. Leaving the farm means leaving the home, and community as well.
3. Concerns about lack of transferable skills and competencies outside agriculture.
4. Financial impediments such as possibility of selling at the bottom of the market. Also tax imposts like stamp duty do not encourage the purchase of parcels of land.
5. Farm Exit Scheme runs through Centrelink with too little, too late, leaving no dignity. To qualify, farms are left to run down, making it difficult for the next farmer to re-build. The potential is to lose industry land resources, which could be better managed. This type of exiting policy has a negative spiralling affect for the farmer, farm and industry.

The full \$150k is payable to farmers with a net asset position of \$350k or less, with a graduated scale down to \$0 where net asset position is > \$575k. This exit strategy is definitely not geared towards Western Australian farmers who in the main have a net asset position well above the limits indicated above. Data analysis of 1305 EC

applications since 2005 shows an average farm asset position (total asset less off farm assets) of \$3.093m.

This average farm asset position needs to be understood within the context of the declined equity in these assets because of high debt. The current average equity per business is \$2.7million, or equity running at 62% (est.). The usual minimum benchmark for financial institution to encourage keeping their farms above 75%. This benchmark rate has not been met by RBDC ECIRS clients since 2004.

In Western Australia, only one farmer has accessed the Exit assistance available through Centrelink. It is difficult to capture reasons for exit as no exit interviews are carried out and the people do not necessarily end up in the Centrelink system where this can be assessed.

People do not leave in the droughts, exodus occurs in the 'good' year following the drought- lost the drive; banks do not want selling in the bottom of a drought. It does cause an exodus from the industry, but it is a delayed exodus.

According to Kingwell and Pannell, although broadacre farming in Western Australia has been profitable for most businesses, there has been a slow but steady decline in the number of farm businesses. There are now around 7913 farm businesses in the broadacre (wheatbelt) region (ABARE, 2007). The bottom quartile of farm businesses remain under sustained financial pressure and many of them will eventually leave the industry. BankWest (2007) data, for example, show that the bottom quartile of broadacre farm businesses in Western Australia generated a rate of return to capital of -10.1% per annum in 2006/7. Average equity for this group was 73%, so even if they are forced to sell up, many will have sufficient equity to ease their family's transition.

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?

At this point, there is one major program of ECIRS and ECRP that provides assistance to farm businesses and individuals impacted by drought. This is also meant to assist rural communities by extensions i.e. keep farm business intact and then rural communities can survive.

The interconnection and interrelation is undeniable, but a more targeted policy approach is required if government has a policy objective of wanting to maintain rural communities as an end in itself.

This is a different policy objective to maintaining farm businesses and elicits a different set of policy prescriptions. These might include such approaches as the regional partnership approach combined NRM, future land use, economic and value addition opportunities, creation of infrastructure, non farm businesses, and creative way for rural and regional communities to address their future objectives.

Sometimes this can be linked with agricultural objectives i.e. the proposed NEAR strategy, or previously the Gascoyne Murchison Scheme. Since the 1920's, in Western Australia, farms progressively have grown bigger, and communities have correspondingly become smaller.

Government policy should discriminate between those who are farming for tradition and lifestyle and those who are farming for their own economic benefit, and that of the region and the nation's international competitiveness.

The RBDC believes that policy and schemes should not be directed at maintaining all farm businesses. As suggested above there are other equally powerful positive and negative forces at play that influence the shape and makeup of farm businesses. Negative include fluctuating commodity prices, increasing farm inputs. Positive include increasing land values due to the ripple effect of new investors into agriculture i.e. tree plantations, mining companies, life stylers seeking "tree changes",

In some locales, there are strong motivations for keeping people who farm for traditional and lifestyles reasons in place so that further infrastructure and jobs etc is not required for these people in more urban environments.

This is largely not the story of Western Australian agriculture. Its export focus across the board from horticulture, pastoral cattle, through to grain growing has meant that there has always been a sharp focus on the need for the farm business to stand alone as an enterprise and not be dependant on Government support..

However, the opportunities for alternative labour or enterprise, particularly in the broadacre agriculture regions in Western Australia have traditionally been limited. The resources boom has for the first time made inroads into providing a lucrative alternative risk management strategy for some involved in the agriculture sector. This is seen as a short term response to the drought, not a long term solution. Regional alliances are being developed between the agricultural sector and the mining industry. The formation of the Mid West Labour alliance is an example of this initiative in action, with the State Government and local government authorities providing a facilitatory role.

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?

A rate of take-up of this assistance in Western Australian has been low. However, advice back from grassroots welfare organisations is that this Centrelink assistance has provided help in the right measures.

For ECRP for Income Support, the off farm asset test is currently set at \$171,750 (for a single) and \$243,500 (for 1 + partner). This criteria would also seem to exclude most Western Australian farmers in need. Data analysis of 1305 EC applications since 2005 shows an average farm asset position (total asset less off farm assets) of \$3.093m, albeit very high geared to support large farming operations..

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?

Health and education are perennial issues in regional and rural Western Australian regardless of drought. The dominance of Perth as the mega population and services centre, means relatively small services available in regional centre's (the next four - Bunbury, Geraldton, Kalgoorlie, Albany are not over 30,000 people, and then the relatively smaller size of the next layer of towns poses unique challenges for the

delivery of health and education services in normal times, let alone when communities are under stress.

Health – DAFWA and the RBDC support regional and local mental and physical health initiatives aimed specifically at farming families developed and supported by the communities themselves (Wheatbelt Men's Health, Lighthouse etc), to supplement existing services provided through the Western Australian Health Department. These are mobile, fast response services and they will now operate in liaison with the new Western Australian Rural Financial Counselling service.

This funding however needs to be set on a firmer basis and be allowed to develop in other areas where the community perceives a need. I.e. the South Coast, pastoral areas etc. It is recommended that the Federal Government redirect some of the funds currently provided under EC to setting up a contestable pool of funds for local groups to provide services for the mental and physical (public health) needs of the communities.

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

Not aware of EC Relief payments being used for farming or pastoral operations in Western Australia

What is the role for government in providing social security-type payments to self-employed farmers and rural contractors/businesses during times of drought?

The alternatives of farmers and to lesser extent contractors if they are unable to access employment in their region are limited in Western Australia. The current mining boom provides a unique window of employment but is not sustainable beyond the next 5 years as projects move out of construction phase into a much less labour intensive operational phase. Accessing these employment opportunities also means shifting to a fly in fly out arrangement.

For those farmers and contractors who are able, for personal or family reasons, to access the other employment opportunities, then access to social security type payments, in line with those provided to other Australians. The assets test is a difficult hurdle to cross, but not if it is defined in these terms 1) as a home; and then allowing for the policy objective of maintaining the basis of agriculture 2) an additional assets allowance for agriculture.

Who should be eligible and in what form should payments be made?

Farmers, rural contractors, rural small business who can demonstrate that their cash income has markedly declined over 2 seasons.

Should payments be drought dependent or instead based on individual circumstances?

Assistance should be decoupled from drought, but it should be made clear that it is available to deal with drought, but still on qualifying under preset guidelines.

Should equity in assets be run down to some minimum level before households are eligible?

No, not if government has a policy objective of ensuring that Australian needs to have a productive and effective and profitable agriculture sector to provide fresh food supplies to domestic consumers and to access premium international export markets in the current situation and into the future .

Environmental and natural resource management considerations need to be included in the mix so that the land is not a permanent casualty of drought.

How can the environmental consequences of severe drought be minimised while providing assistance to farmers?

Bringing forward government programs into areas that are in drought that are aimed at NRM.

Provide crop varieties i.e. short season wheat varieties and pastures that provided better dry season solutions for alternatives for land management. There is an array of public good Research, Development and Extensions that can occur in this investment areas which is one neglected by the commercial breeders and R & D Corporations.

In relation to broadacre farmers and pastoral properties, the alternative land use other than agriculture is not apparent. This is due to is location, size, access to local community's lack of regional infrastructure and alterative industries. Therefore, in a drought such as the one currently experienced in the Northern Wheatbelt and the Southern Rangelands, simply selling all or part of the enterprise is a less available option than in parts of the South Coast or south west where other industries, tourism, land sub-division, other more intensive agriculture use i.e. wine production and tree farming can be undertaken.

Do current government support measures change these consequences in either a positive or negative way?

Provision of any ECIRS assistance or the Western Australian Dry Seasons Assistance Scheme, requires that these funds be put into activities etc, which support towards the long term sustainability of the farm. Currently, there is no effective monitoring or benchmarking whether this occurring.

Top ten shires by ECIRS application numbers (RBDC internal paper)

| Shire | No | Value of Grant |
|--------------------|-----|----------------|
| Lake Grace (S) | 193 | 7 065 057 |
| Mullewa (S) | 114 | 4 383 746 |
| Jerramungup (S) | 102 | 4 281 019 |
| Morawa (S) | 97 | 3 359 195 |
| Perenjori (S) | 66 | 2 212 720 |
| Dumbleyung (S) | 52 | 1 639 472 |
| Gnowangerup (S) | 49 | 1 390 686 |
| Mount Marshall (S) | 44 | 1 286 450 |
| Kent (S) | 40 | 1 469 014 |
| Dalwallinu (S) | 40 | 1 481 263 |

Top ten shires by ECIRS application grants (RBDC internal paper)

| Shire | No | Value of grant |
|----------------|-----|----------------|
| Lake Grace (S) | 193 | 7 065 057 |

| | | |
|--------------------|-----|-----------|
| Mullewa (S) | 114 | 4 383 746 |
| Jerramungup (S) | 102 | 4 281 019 |
| Morawa (S) | 97 | 3 359 195 |
| Perenjori (S) | 66 | 2 212 720 |
| Chapman Valley (S) | 37 | 2 024 712 |
| Carnarvon (S) | 38 | 1 965 596 |
| Ravensthorpe (S) | 37 | 1 652 485 |
| Dumbleyung (S) | 52 | 1 639 472 |
| Northampton (S) | 31 | 1 623 912 |
| Dalwallinu (S) | 40 | 1 481 263 |

Interaction between programs

Interactions between assistance programs can also limit their effectiveness. For instance, business assistance provided during severe drought events may reduce the need to call on other income smoothing measures such as FMDs, as the need to draw on cash reserves is lessened.

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?

The RBDC is supportive of FMDs as a self-reliance mechanism.

A major consequence of drought is depleted financial liquidity as a result of failed income streams and increased carry on costs. Encouraging farmers to set aside funds in FMDs makes good policy sense.

FMDs provide a mechanism to bolster farm liquidity during a time of need. FMDs should also be encouraged since they foster the principles of ; saving, self help, preparedness, being proactive and letting individuals take responsibility for the application of their own funds.

In Western Australia, FMDs are used for cash flow, especially in the second year of an event. While the quantum of Western Australian FMDs does not significantly vary (due to great variation of seasonal conditions within Western Australia), there is a considerable churn in Western Australian deposits with people drawing in times of need, and replacing in the good times.

Individual Farm Businesses that have been severely affected by droughts do draw down on FMDs. The draw down may appear to be delayed due to the marketing of grain in pools, which have a long drawn out repayment schedule, which can cover several tax years. This means they will often be drawn down in the second year of a drought.

The main reason for farmers increasing their FMD balance is to defer tax in a high profit year, to the next low profit year. Tax averaging does help to smooth the peaks and troughs within a five year period. However, it does not allow for the sheer magnitude of the difference in profit between the best and worst years experienced by

many farm businesses. Averaging is not effective when you make a substantial profit followed by a substantial loss.

The great thing about FMDs is that although the deposits are made for tax reasons, a significant FMD balance is a liquid and available tax effective emergency reserve for the business to cope with the huge variability in income flows, which result from good seasons and bad seasons. Very few other businesses are affected to the same extent by different seasons apart from some of the businesses that service agriculture.

FMDs are not regarded by the RBDC as solely a tax minimisation scheme for farm businesses. They are simply a mechanism to protect farm businesses from the current tax system, which is based on taxing a reasonably constant income stream and disadvantages businesses, which have a very variable income stream.

The Australian government is not missing out on tax, as at worst the tax is delayed and minimises assistance and social issues of extremely variable incomes in a region over a period of years. If farm businesses had a more reliable and constant income stream, they would pay the same amount of tax as they pay now, with a variable income and the use of averaging and FMDs.

If some Farm Businesses happen to have a good run of profitable years, the amount of tax that can be deferred is limited by the individual limit, this limit then describes the maximum reserve that a business can maintain. If a farm business then decides to convert some of this reserve into superannuation, this is no different from a business owner in a more stable income business, putting a percentage of the business profit into superannuation each year.

If businesses are carrying debt, they will only have FMDs if there is a tax advantage. It would be irrational for a business to hold FMDs without a tax advantage as the cost of holding an FMD is the difference between the interest paid by the farmer for their loan facility less the interest paid by the bank on the FMD.

As long as the FMD is deducted from the debt on which the EC Interest Rate Subsidy is being paid there is no chance of individuals deciding to not draw down FMDs when receiving an EC Interest Rate Subsidy.

FMDs can be improved to enhance their utilisation and attractiveness as a preparedness tool.

RBDC RECOMMENDATIONS

- To make the interest earned on FMDs Primary Production Income
- To allow FMDs to be held by other entities than Individuals.
- To retain the individual cap but to make the FMD limit for a trading entity a multiple of the five year.
- Taxable Income Average. To allow the early drawdown of FMDs without penalty if the farm business can prove > 50% drop in Taxable Income (this should apply to all farm businesses not just businesses covered by an EC declaration).
- Allow FMDs to be transferred from one approved financial institution to another.
- Remove the non-primary production income limit. Farm Businesses that are trying to diversify their risk are being penalised.
- Set up a form of co – contribution:
- The Government applies part of the current EC funding of interest costs to provide a co - contribution to "Drought Proofing FMDs" instead.
- In principle, this would be similar to storing/saving water in a dam in preparation for a drought.
- A co contribution would also change the incentive for investing in FMDs from a largely tax driven incentive to a risk management and tax driven incentive.
- Unlike current EC payments, the incentive would be available to farmers regardless of their debt level. A tapered co - contribution scheme along similar lines to that used to encourage investment in superannuation could be adopted to reflect a farm business's ability to provide for itself.
- However, the aim of a co - contribution FMD scheme should be the wide adoption of Drought or Financial Risk Proofing FMDs by the rural sector. The concept could be further developed to include both farms and rural town businesses."

Program implementation

How has the implementation of drought support policies affected their accessibility and usefulness? Are there impediments to accessing support arrangements? Could support arrangements be delivered in a more efficient manner?

For example, are the government institutions responsible for delivery of business and welfare assistance the most appropriate organisations and do state differences add to compliance costs?

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?

ECIRS is administered by the RBDC in Western Australia. Average processing times are less than 14 days but this can increase in times of staff shortages and scheme closing dates. Applications for ECIRS have been streamlined over the years and criteria refined to lessen the load on the applicant, and the assessor, whilst complying with the Australian Government guidelines.

The information required is the minimum that a competent small business should have available i.e. statement of assets and liabilities, cash flows for the relevant years. (Attachment: ECIRS Application Form).

An example of a different approach adopted in administering the guidelines, in Western Australia, the criteria to demonstrate long-term profitability is met by the requirement is that the farm business financier must sign a declaration to the effect that in their opinion the business is long term profitable.

Since 2000, very few financiers have declined to sign the declaration declaring that the farm is profitable or not. However, this has meant the discussion regarding future profitability and viability prospects occur between the financier, the farms, and/or farm consultants or other advisors, rather than involving the government department's who don't have the commercial expertise and should not be the primary instigator of this decision making process. Removing Government role in assessing farmer's viability has dramatically reduced the levels of appeals, and angst over the process for the applicants and the assessors. This means that the number of assessors needed is drastically reduced, making for a more efficient process.

Should there be a uniform national approach to drought policy?

The principles of drought policy should be uniform and the access to the social welfare component should also be uniform. In relation to other elements or initiatives available under drought policy, Australian agriculture is comprised of different regions in different industries with different sized properties. Western Australia's scale and size are a case in point perfect. (Source: DAFWA Productivity Submission August 2008)

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?

During drought, farmers are time rich, but cash poor. Investing the money currently provided to ECIRS in Western Australia (\$50million since 2000) could be done in a number of alternative ways, which could benefit the whole sector being impacted by the drought (or climate change).

There are certainly opportunity "costs" of ECIRS. These are costs for the farmer, and costs for government.

This goes to the problem with the core of the EC criteria that those farmers assisted are those if but for the ECIRS assistance, they would be at a risk of not farming.

The RBDC supports building the case for alternative drought investment by government, whether in short season wheat varieties, through to better business planning, undertaking training in financial management etc, rather than ECIRS.

The arguments are emerging clearly if we can demonstrate that by keeping providing the ECIRS, we are dis-incentivising people making difficult decisions, and this is actually costing them (and the Government) money i.e. eroding equity, at a much greater rate than we are able to compensate through ERIS or DSAS.

Therefore, we have too narrow a focus, and not enough appropriate investment for public good in R, D, E and capacity building in areas, which support whole business decision making. A more long term and predictable investment is required from the Government.

Since 2000, \$50million invested in these activities in Western Australia, could have yielded some real advances that would benefit all involved or affected by drought, not just those receiving ECIRS.

Some suggestions how these funds, if quarantined for agriculture in Western Australia could be spent in the future:

- Examine new business structures – decoupling ownership and farming, to encourage entries and exits to/from agriculture.
- Improving FMDs.
- Capacity building – seasonal forecasting, farm businesses, Access to farm business and business advice and implementation grants.
- Forecasting and Benchmarking (utilising NAMS IP)
- Regional Partnerships regional development and leadership- NEAR Strategy.
- Infrastructure projects – fast tracking of local govt and commonwealth, state road works and others.
- Community projects –NRM areas

- Revise the back catalogues of State Ag Departments and provided Funding for non- commercial varieties, crops, pastures that provide answers to short term seasons
- Encouraging short term and long term off- farm income opportunities i.e. resources sector, civil projects- RCC, Skills Passport, Agriculture/Mining alliances, other non- drought farms
- Input costs- development of low input farming systems.

There are also bureaucratic impediments:

- Fixed costs – examine different ways to drive these costs down- education.
- Tax incentives on training –
- Tax incentives on R & D to encourage drought mitigation, climate change adaptation R & D
- Land titles - making smaller land use titles to increase flexibility of land sales for exiting as well as entering agriculture, stamp duty changes to encourage greater land transfer.

LIST OF ATTACHMENTS

“Summary of Assistance in New Zealand, Canada and the United States,” RBDC Internal paper, July 2008.

NEAR Strategy Document, Department of Agriculture and Food, March 2008

The Effectiveness of the FarmBis Training Assistance and Exceptional Circumstance Interest Rate Subsidy, Patterson Market Research, June 2008.

Mining the Exceptional Circumstances and FarmBis Database, March 2008, Internal RBDC Paper

Survey of Western Australian Farm Consultants, RBDC Internal Paper, August 2008

“Economists’ thoughts on WA Broadacre farming towards 2020”, Ross Kingwell and David Pannell, 2008.