



Submission by The



In response to

Australian Government Productivity Commission

Inquiry into Government Drought Support

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Summary

The Australian agricultural sector is not only important economically to Australia but also to our ability to feed ourselves. Short-term vision now could see problems not only with supply of food but also its costs. There is not enough arable land to feed the increasing population of the world and if we neglect our agricultural sector now there may be unpalatable ramifications in the future.

The SAFF believes support to some level for farms in drought is necessary but it also believes that strong proactive action now by all parties will better equip Australia to deal with drought and create a profitable, sustainable source of food and trade for our future.

It is up to the government, farmers and all of Australia to support the industry that will feed them in the future – NOW!

Recommendations

The South Australian Farmer's Federation (SAFF) recommends that the South Australian Government:

- Revise the EC process to a case-by-case basis removing the need for regional applications
- Ensure EC support directed to those who are viable in the long term
- Target those farmers willing to undertake continuous improvement strategies and review farming practices
- Introduce targeted research and development of crops and stock more suitable to drought susceptible climates
- Introduce low interest loans to support farmers undertaking risk management / succession planning strategies
- Introduce taxation benefits to stimulate / support industries in a similar fashion to forestry, mining and other industries
- Provide Stewardship payments for maintenance of land on behalf of all Australians
- Introduce taxation benefits such as a zone allowance in EC-declared areas to support small businesses and those working in these areas so that rural communities remain viable
- Ensure the long-term ability of Australia to feed itself by ensuring the viability of the Agricultural sector
- Ensure that our farmers are working in a level playing field to overseas competitors. They cannot be expected to compete against subsidised industries without some assistance through research, efficiency gains and incentives

Rationales for Government Drought Support

Important Rationales for Government Intervention

The last five years have seen not only severe droughts but widespread severe droughts. The effects of this on the Australian economy cannot be underestimated. Government intervention in cases of severe drought is necessary to maintain:

- the agricultural economy (a major part of the Australian economy);
- export markets;
- competitiveness in the industry; and
- rural communities.

Agricultural economy

The Australian agricultural economy directly contributes around 3% of Australia's Gross Domestic Product (GDP). When you add those products created from agricultural products and the support services that rely on agriculture to survive, this contribution rises to around 12.1% of GDP. This sector also directly employs around 308,000 people and around 1.6 million people when taking all industries using agricultural products in their production processes into account.

Australia is one of the world's major agricultural exporters. In fact agricultural exports account for around 20% of Australia's exports. Agriculture is not only a major contributor to the local economy but also to Australia's international balance of trade.

The agricultural sector is a major player in the Australian economy

Farmers run their businesses in much the same way as all successful businesses. They plan as best they can to meet all known contingencies, research new products and markets, investigate systems to constantly improve their production methods, embrace new technology, changing world markets and poor seasonal conditions.

At the end of the day however there are few businesses that are so reliant on factors beyond their control, the weather and the unpredictability of world markets, largely affected by supply as a result of the weather.

This last drought is unprecedented in terms of its length of time and how widespread it has been.

Rationale

The rationale for government intervention is that severe drought cannot be predicted nor can its affects be entirely mitigated. Without government support in times of such dire need, the agricultural sector could be diminished permanently which would affect not only the Australian economy but also its international balance of trade. In fact at this time it is hard to see what could

replace the contribution this sector makes to the economy in the medium-term. The effect on the economy is a cost far in excess of the cost of support.

Drought has been a regional phenomenon, with some regions well prepared for drought whilst other areas are not prepared or poorly prepared due to the fact that they rarely, if ever had had to face the reality of drought in their area. This does not make them poor farmers, but rather that they are now dealing with exceptional weather patterns for their area. Clearly government assistance at times such as these will help these farmers get back on their feet, develop new strategies and remain farming.

Export markets

Australia is a major agricultural exporter to the world, especially in the grains arena where it is one of the 5 major agricultural exporters. Over the last few years adverse weather patterns have seen a significant fall in worldwide production, which saw grain prices soar in the last season, supplies become short and demand rise. Like any free market system all of these factors are related and the system worked fairly well.

The problem however is that the market is not solely dependent on demand and supply balancing itself. Economic theory suggests that if supply cannot meet demand then new entrants will emerge to fill the need. Conversely low supply will drive prices up and as the demand/supply balance is restored the prices will adjust accordingly. This theory has worked well in most free marketplaces in the world. It has also worked for the agricultural industry in most cases.

The SAFF believes however that this scenario is changing. There are a number of factors that will affect how the economic markets actually operate:

- Very little scope for increasing the area of agricultural production
- Increasing world population
- Climate change

Apart from Russia, Ukraine and Kazakhstan there are not many areas where agricultural production can be increased. The only other areas of possible expansion are in the South American rainforest areas which would have severe world wide effects on the environment. This means the potential for increasing production to meet increasing demand is limited.

The world population is increasing and the area under production is limited. This scenario will likely see price pressures in the short term and improved productivity technology employed in the medium to long term. If the world is to be fed we will need all the land available to meet demand for produce.

Climate change is a “hot” topic currently being discussed by communities and governments around the world. There are a number of theories, predictions and assumptions being made about what climate change is and what it will mean to the world as a whole. The Australian Government is currently looking at carbon trading as a means of preparing Australia for climate change.

All of these factors affect how Australia grows crops, how Australia operates on the world stage and how Australia will fare in the future. The problem is there does not appear to be a clear consensus on how the climate will change; in fact the SAFF does not see any clear scientific data on what the results of climate change will be. That is not to say that the SAFF does not recognise that climate change is a real risk that needs to be planned for.

Rationale

The Australian Government should support agriculture in times of severe drought to protect, secure and enhance our agricultural production into the future. It should take a long-term view that would see Australia as an important agricultural community that would continue to add to the wealth and survival of the Australian economy.

The Australian government also needs to support the agricultural sector at other times by providing the research and training necessary to see Australian farmers understand and deal with climate change and the necessary operational changes necessary to produce in this new climate.

Competiveness in the industry

Australian farmers need to be competitive to maintain their businesses and operate in the global markets.

The big question however is the extent to which Australian producers are actually able to manage this. The SAFF would argue that there are a number of factors that hinder Australian farmers from being able to compete fairly. These include:

- Competitors who are subsidised (e.g. USA agricultural enhancement program)
- Tighter regulations than some competitors

These two factors increase the relative costs of an Australian producer to produce their products compared to their competitors in other countries. The playing field is not “level”.

Despite this most farmers can compete profitably in the global market. In times of severe drought and other weather conditions, particularly where they are for prolonged periods, the ability of farmers to keep producing is sorely stretched to the limit. They can plan and prepare themselves but they will not always be able to combat severe conditions.

Such support is not unknown in other industries that are less reliant on weather and operate in a more manageable economic environment. With the recent Mitsubishi closure in Adelaide the State and Federal Governments provided funds to help relocate, retrain and support workers being laid off. In other industries governments have offered incentives to assist an industry to get started or survive. All industries, including agriculture create wealth, jobs, and vibrancy to an economy

Rationale

The Australian Government is better served both in cost terms and social responsibility to assist viable farm enterprises in times of severe drought by ensuring the longevity of the Australian Agriculture sector. The long-term survival of a viable industry far outweighs any costs of short-term support.

Rural communities

Rural communities depend on the farm sector to provide jobs, to trade in the community and support local businesses. Farm enterprises are in fact the backbone of many rural communities. Over the years many of these communities have suffered due to more difficult farming conditions, the winding back of farm expenditure and the loss of workers to other industries outside of the community. Add to this the centralisation of many government services and the corresponding loss of jobs and it is clear that rural communities are struggling in many cases.

The recent drought has put even further pressures on these communities impacting on many aspects of community health, personal health and the viability of communities as a whole.

Rationale

The Australian Government should support farmers in times of severe drought not only for their survival but the survival of rural communities. The loss of these communities may well have many long-term affects that will be hard to correct once they have occurred. The SAFF believes it would be more cost effective and would have a greater level of social justice to support farmers for drought conditions when necessary rather than see the possible demise of these communities.

Preparedness

Preparedness for most farmers contains a number of elements, some of which are and have been a normal part of their risk management strategies for a good number of years. Now there are other factors at work following such a long and widespread drought that will also need to be considered.

Preparedness will include but not be limited to the following:

- Storage sheds for hay and fodder
- Grain silos for feed and on-farm storage
- Better water storage facilities and infrastructure
- Plans to keep stocks of seed
- Plans to support livestock levels in times of drought
- Plans to rebuild and maintain breeding livestock
- Additional land for economies of scale
- Financial ability to withstand poor seasons – even if prolonged
- Off-farm income where possible to supplement family living
- Funds to support and educate family
- Fire fighting equipment
- Exploration of new techniques and technology for better yields and land care
- Facilities to sell livestock in times of drought (abattoirs etc)
- Continual improvement

Most farmers have some of these plans and systems in place for what would be considered a normal cycle of seasons. This last drought however has been anything but normal. Climate change and the uncertainty around what it will actually mean for farmers both in the short and longer terms adds a burden onto farmers that they have previously not had to deal with.

In the past poor seasons and even drought have been followed by good years where farmers, especially those with good farming practices, can recover. This last drought has seen so many poor years strung together that many farmers are struggling to survive let alone being able to institute the strategies they know they need to be put in place.

Self-Reliance

For farmers self reliance is about being able to manage their farms profitably and consistently using their own resources and regardless of the seasons and what they bring

In an ideal world farmers would even be able to weather a drought as severe as the last one without relying on government support.

The reality however is that this last drought was exceptional in both its length and its widespread nature. With experts predicting that weather patterns may be changing on a more permanent basis, farming may now be changed forever.

With this uncertainty in mind and the fact that farmers have been pushed to their financial, physical and mental limits through the recent drought they may need some immediate help to achieve their self reliance in the long term.

The SAFF sees a number of areas where governments can institute programs to assist farmers to become more self reliant. These could include:

- Government-funded research into long-term effects of climate change with information freely distributed to farmers
- Government-subsidised funding for the development of new production technology aimed at drought-proofing Australian farming
- Practical training in new techniques designed to protect farms from drought
- Research into biotechnology, the production of crops and livestock better suited to the changing climate and the introduction of these into the Australian farming sector
- Changing taxation laws to allow for 100% depreciation write off for programs, buildings and technology designed to drought-proof farms
- Stamp duty relief for farm loans taken to undertake drought-proof farms
- Stamp duty relief on property purchases made to drought-proof farms
- Change rules for assets levels for those farmers exiting farming
- Low interest rate loans

Farmers in the main strive to be independent and self reliant and do not like relying on others to help them.

Now that the farming landscape may have changed forever, farmers may need government help and incentives to assist them to achieve their self reliance. Farmers are not looking for handouts but carefully planned programs that will assist in addressing the challenges that lie ahead.

Impediments to Greater Self-Reliance and Preparedness

Lessons learned from last drought

The last drought has taught South Australian farmers and the farmers of the nation that the old assumptions of good and poor seasons may well be gone forever. In the past most farmers could rely on several good seasons after poor ones and if they had good farming practices in place the seasons would average out to provide them with a good income. They could normally control their debt and continue farming.

Machinery purchases and the necessary upgrading of equipment took place when they could afford it and in general the replacement/repair strategies saw machinery well kept and working efficiently.

Many farmers reduce or increase the size of their herd to meet prevailing conditions whilst maintaining needed breeding livestock and viable herd sizes.

Recent times however have seen a number of factors emerge that will inevitably have an impact on many farmers and the communities in which they operate:

- Weather patterns becoming less reliable
- Machinery replacement delayed
- Machinery maintenance pushed out further
- Reduction of stock numbers well below normal sustainable levels
- Farm expenditure cut to an absolute minimum to enable a seasons production
- The reduction of many basic household expenditures
- Fuel costs rising rapidly
- Other farm inputs rising
- Farmers using Farm Management Deposits (FMDs) to continue farming
- Farmers' inability to plan for retirement as savings, FMDs and investments used to support farms under financial pressure.

All of these factors may well now affect how farmers run their farms and in fact how they and their families live their lives.

Farmers recognise the need to be drought prepared, to try new methods and use new technology. The issue is whether or not their cash flow will be able to accommodate the changes. After such a severe drought their finances will be stretched making it very difficult to make improvements. Assistance with depreciation rates, stamp duty, research and other similar measures may be needed before farmers will be able to afford these proactive measures. This help is of little relative cost to the government but may provide long-term cost benefits if farmers are able to drought-proof their properties.

Of course the biggest issue, climate change, is really an unknown at this time. How many good seasons, if any, will they have to prepare before the next drought. The more farmers are assisted, the faster they can introduce new

measures and the more likely it is that they can survive the next drought because they were prepared

One issue that arose as a result of the last drought is the need to recognise a drought earlier than has been the case in the past. There are a number of real advantages in developing a system that identifies drought earlier than is currently the case:

- The management of national resources such as water can begin while there are reserves to manage
- Those who need assistance receive it earlier
- Those farms that are not viable are able to be exited more quickly, giving farmers some chance of a future
- Rural communities can be supported as a whole before they decline to an unsustainable level

Government policy and assistance needs to reflect these issues and to provide effective and relevant relief to viable farmers.

Strategies adopted by farmers

In many ways the drought has made it clear that there are advantages of new technologies and strategies, some that have in the past, not been well received by farmers. Many farmers are now changing the methods they use to farm their properties to meet these challenges.

Some of the strategies they have employed are:

- Direct drilling – this seeding method has proven to result in better yields and better land care management than older seeding methods
- Creation of sufficient dam capacity to hold water
- Maintenance of water runs for dams to maximise water capture
- Use of deep-ripping techniques for sandy soils
- Use of certain crops or a mixture of crops to reduce wind drift
- Using mixed farming techniques to better use land
- Storing sufficient hay to feed livestock during lean periods
- Keeping enough seed to plant a proportion of crop without purchase of seed
- Use of trees and native scrub varieties to stop erosion and provide shelter for stock and crops

Most successful farmers found that a mixture of these strategies worked well for them. It is not one thing that defined success but the implementation of a broad range of strategies that made the most of all of the land under their control. It seems that a mix of strategies promoted the best crop growth, better maintenance of herd levels, the most effective land protection and better long-term sustainability than relying on one type of farming or outdated practices.

Are Assistance Measures Effective and Efficient in Severe Drought

Drought support programs

The current drought support programs have served the community to a degree but are based on an old paradigm. The SAFF suggests that this paradigm is changing in line with the climate change scenario.

In the last drought the support programs actually:

- Helped farmers who have the potential for long-term viability to get through a long drought for which they did not have the resources to prepare for fully.
- Helped some farmers exit the industry; they either lost the will to farm or realised their properties were unviable.
- Did enable some unviable farms to continue farming

Until this last drought the support programs were usually sufficient to the need of farmers in drought. The severity of this drought has highlighted some issues that may cause a long-term adjustment in the farm paradigm. Many farmers use the general rule that one bad year requires five or six average years before the farm is able to recover. Of course a number of good years both in production and sales prices speeds the recovery.

If climate change is upon us then farmers are going to have to change the way in which their farm operation works.

The SAFF believes that future programs must concentrate on sustainable farming, drought proofing, researching new technology, training and creating adaptability to changing climates.

EC declaration process

The current process has helped a number of farmers and given the current system, worked relatively well.

Having said that there are a number of issues that need to be addressed for the future including:

- Helping those who, in the long term, have a future in farming
- Making the process easier to complete
- Ensuring the programs go to those who need help
- Assessments that treat farm assets fairly
- Assessments that treat off farm income fairly
- Programs aimed at supporting succession planning
- Programs aimed at helping young farmers and new entrants to survive a drought early in their business life
- Provide a viable exit strategy for those unable to continue
- Ensuring support does not go to unviable farms

- If EC given, we need to allow farmers to farm – unlike metropolitan dole system farmers still have expenses to farm land

In general most farmers who applied for EC assistance stated it was hard to understand, difficult to comply with and in a number of cases denied. Where it was denied there were costs to farmers who needed professional assistance in compiling information, making them worse off than before. The process and application process needs to be simpler and easier to comply with.

Where a severe drought does occur again the SAFF would like to see a system in place that is easier to understand, easier to comply with and has an assessment mechanism that treats farm assets appropriately.

The SAFF would also like to see an end to the regional nature of a drought declaration. There have been a number of cases where a region in serious drought is declared, and then right next door another region, which as a whole does not meet the drought criteria, has a belt of farms where the conditions do meet drought criteria. These farmers are being disadvantaged by a line on a map.

The SAFF believes that the entitlement to EC needs to be on a case-by-case basis so that each case is judged on its merits and not some arbitrary line on a map.

In conjunction with this the SAFF through discussions with its members has identified that some EC support is going to farmers with little long-term interest in farming and no children willing to take over the farm. Some operate in a semi-retirement on properties that would not be viable in the long term. This may have the affect of driving land prices up since the EC support enables them to stay on a property. Some of these farmers cannot undertake activities to reduce soil drift install drought proof measures and grow viable produce. It can keep some on farms who should not be there at the detriment of the whole farming community.

On the other hand there are those farmers just taking over properties as part of their families' succession planning, new entrants into farming and some operators in trouble through market forces beyond their control. With rising input costs, climate and world market prices beyond their control these farmers may be caught in a timing issue where they have not been able to protect themselves from drought conditions due to the timing of the drought and the length of time they have had to farm.

Differences in circumstances, the effect it has on the farming communities as a whole and the farm enterprises themselves, indicates a need for some EC assistance. It also recognises the need to ensure that the support goes to farms that are viable in the long term, are looking to continue farming and/or have children looking to take over the farm. The EC process needs to be redefined to identify, quantify and validate these factors to ensure the support goes to those who will benefit the most – our future farmers.

What are the Alternatives?

The EC process does answer an immediate need for some farmers in dire straits due to unprecedented drought. There are however flaws in how it identifies drought areas, how the funds are distributed and how complicated it is to gain relief.

With the environmental, climate and technology changes required to meet the challenges of a changing environment, the SAFF sees the need to develop and embrace a new paradigm.

The SAFF would like to see the government take a proactive stance on drought and offer support in a variety of ways including:

- Development and implementation of a plan for targeted research into drought-resistant crops
- Coordinated government and private research into drought-resistant crops
- Development and implementation of a plan for targeted research into livestock better suited to the changing environment
- Coordinated government and private research into livestock better suited to the changing environment
- Development and payment of stewardship payments to compensate farmers for looking after the land for the Australian people.
- Research into current and future areas where crops can be grown and livestock farmed
- Development of a true management system for the national water resources
- Creation of incentives for farmers to improve/change farming practices to drought-proof properties

The SAFF believes that the future of Australian farming is going to change forever and that the issues are too large to be solely funded by the private sector. Given the propensity for major change that this represents, the affects it may have on the Australian economy and the ability Australia will have to feed itself, it is the best interests of all Australians that the government take a proactive and long-term strategic approach to the issues of drought-proofing Australia.

Given the issues of State boundaries and the complexity of regional issues and circumstances, the SAFF feels that a national approach to these issues is required.

In the Productivity Commission Issues Paper, one of the alternative support measures suggested is income contingency loans. The SAFF has concerns about such a HECS-style arrangement. It would work well for the more affluent producers. Those that really need the assistance would struggle to ever pay it back on top of all their other liabilities. Interest free loans may be a better scheme and workable with potentially genuine benefit.

As part of tax reform, consideration should be given to the introduction of zone allowances in those rural areas that are EC-declared. These would be similar to defence forces allowances. While zone allowances would not directly assist drought-affected farmers who with little income would not be facing tax

bills, it would assist rural communities including small businesses and others working in these drought areas. It could well encourage people to remain in the district and not to move elsewhere for employment, hence assisting in maintaining the local rural communities.

The Future

The future of Australian agriculture whether cropping, livestock, wine, fruit, vegetables or other agricultural pursuits depends on whether or not we learn how to handle drought conditions.

The SAFF feels that a national coordinated plan to develop crops and livestock better suited to the new conditions will go a long way to ensuring the future of Australian farming. A research program developed in consultation with the States designed to handle differing climatic conditions in regions and to produce a high yield product would benefit the farming industries and consumers alike. This program is large and would by necessity take a long-term view of the industry and its needs. Careful research and the dissemination of information in an easy to understand fashion would lead farmers to review and alter their choices of crops and livestock to ones which would provide the best yield for the least money. This may mean overturning centuries of experience and embracing new technologies and ideas. It will take careful consideration of the affects on our food chain and the maintenance of our land. It is necessary to ensure the future viability of our agricultural industry. Coordination of government programs, government funding and privately funded research will generate the best results.

Stewardship

Regardless of the income they receive and the conditions they have to operate in, farmers are spending money on maintaining the land not only for themselves but for Australia as a whole. The Natural Resource Management regime imposed by the government and by farmers themselves to keep the land in the best conditions possible costs time and money to implement. For a farmer both are valuable and take them away from directing these resources into income-earning activities. Farmers do not question the need for these practices to take place, nor do they deny the benefits these programs provide to our future generations. They do however feel that the cost to provide the future viability of Australian land, both productive and unproductive, rests with a small group of Australians, the farmers. It would seem that the stewardship of the land is seen as important and necessary by the government and Australians alike but the costs are being borne by farmers.

The SAFF believes that a system of stewardship payments should be paid to farmers to reimburse them for the costs they bear on behalf of all Australians. These payments should be based on the effort and costs involved in a farmer meeting this stewardship role.

The SAFF suggests that the government in consultation with the farming representative bodies develop a system for identifying, quantifying and paying stewardship payments to farmers and non-farming landholders demonstrating a stewardship role.

Farming Area

In South Australia the areas where farming is viable may well be changing. The Goyder line, according to some experts, is moving southward as climatic change, drought and current farming practices mean that the land can support less farming efforts than was previously the case. This could well mean that nationally the land area that can be farmed is changing. As a part of government and private research, attention needs to be paid to developing practices to make sure as much area as is commercially practical can be farmed and to look at areas that in the past could not support farming as potential new farm belts. This is all new ground, untested and needing vision, insight, courage and determination by the government, farmers and the general Australian community. Like all challenges, if tackled head on in a cooperative manner, the potential benefits for Australia as a whole could be huge. The price of failure could be devastating to our people and way of life.

The challenge for government will be to take charge and forge ahead creating a viable future for primary producers and rural communities.