

Department of Primary Industries and Water

**Submission to the
Productivity Commission Inquiry
Government Drought Support**

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1 Background

Agriculture is integral to the Tasmanian economy. It accounts directly for around 4.7% of Gross State Product (GSP), however, estimates of overall contribution to the State's economy, including all downstream processing and benefits to other sectors, is estimated to be 16 per cent of GSP and 20 per cent of total state employment (Davey and Maynard, 2007).

The sector is highly diversified, with major industries including red meat, wool, vegetables, dairying, horticulture and grain. Tasmanian agriculture has a farm gate value of \$800 - \$1,000 million per annum. The packaged and wholesale value is around \$1,740 million for food products alone, rising to \$2,660 million in total net food sales, including overseas exports, interstate trade and retail/food service sales in Tasmania. (DPIW, 2004-2005).

Over the last two years, the drought has had a major impact on red meat, wool and grain farming industries. They are located primarily in those areas declared under the exceptional circumstance provisions – the Central Midlands, and North East and Flinders Island.

There have, however, been significant increases in dairy, stonefruits and wine production because these industries tend to be located in areas less affected by drought. As a result, the total gross value of Tasmania's agricultural production has increased at the same time that many drought affected farmers have had a negative income.

With Tasmanian agriculture dominated by small family-owned businesses, and most produce being sold interstate and overseas, the sector is particularly sensitive to world market fluctuations, both in terms of product prices received and the cost of essential farming inputs such as fuel and fertiliser.

2 Current Drought Conditions

Tasmania's lower rainfall areas, including the Midlands, Derwent Valley, Fingal Valley, East Coast and Flinders Island have experienced a sustained dry period with lower than average rainfall for most years since the 1970s (Mokany et al 2006).

Severe drought conditions in the eastern states in recent years have also extended to Tasmania. The spring and summer of 2006 were exceptionally dry and were followed by a very dry autumn in 2007. This sequence of dry seasons triggered an application for Exceptional Circumstances (EC) drought conditions in the Central Highlands, Southern Midlands, East Coast, North East Coast and Flinders Island districts in early 2007. As noted above, the Central Midlands, and North East and Flinders Island regions are currently covered by the EC provisions.

3 Current Government Drought Support Measures in Tasmania

Exceptional Circumstances Interest Rate Support (ECIRS)

The declaration of EC in 2007 meant that farmers and small businesses in the affected areas became eligible for exceptional circumstances interest rate subsidies (ECIRS), which are jointly funded by the Commonwealth (90%) and State

Governments (10%). The ECIRS scheme is administered in Tasmania by the Department of Primary Industries and Water (DPIW).

By early August 2008, 125 farming businesses had received over \$4 million in assistance through the ECIRS, with a further seven applications pending. The average amount of interest subsidy assistance to date has been \$32,000. During this time, a further two non-farming businesses had also received assistance. The first round of the ECIRS scheme is scheduled to finish on 22 October 2008 and the second round on 28 April 2009. The Tasmanian Government is committed to maintaining this programme until the current drought conditions abate.

While this scheme has been widely advertised across Tasmanian, the uptake thus far has been quite a deal less than anticipated. While no specific investigation has been undertaken to ascertain the reasons, general consensus suggests potential applicants either do not have the skills or confidence to complete the written applications, or that they are either too busy or too stressed to do so.

Centrelink EC Income Support

Families in drought declared areas are also eligible for EC income support administered by Centrelink. Figures for the uptake of this assistance in Tasmania are not available to DPIW.

State Financial Assistance Measures to Support Essential Breeding Stock

The Tasmanian Government announced a further relief package in April 2008 as drought conditions worsened. This \$2.5 million package had two components:

1. \$2.15 million to support purchases of fodder and water for essential breeding stock through grants of up to \$5,000 per farm in the EC areas, and for purchases made between 1 March and 30 June 2008.

To be eligible for these grants, farm businesses needed to be receiving either ECIRS or EC income support from Centrelink.

After three months of operation, 151 grants had been made, at an average of \$4,487 per farm. As at 31 July 2008, approximately \$750,000 in assistance has been provided by the State Government to support breeding stock. The majority of these grants have been to farms in the Southern Midlands area, where autumn and early winter rainfalls have remained exceptionally low.

In July 2008, the Minister for Primary Industries and Water raised the level of assistance to a total of \$10,000 per farm for purchases made between the 1 March and 30 September 2008. The eligibility criteria remain unchanged – the farm business needs to be receiving either ECIRS or EC family support through Centrelink to be eligible for additional assistance for fodder purchases.

2. \$350,000 for one-off grants to community organisations providing drought support programs, including the Rural Alive and Well program, the Country Women's Association (CWA) community grants program, Aussie Helpers and increased support for the Rural Financial Counselling Service (RFCS).

Additional State Government Financial Assistance Measures

Specialist advisers from DPIW are providing technical assistance to farmers in the form of information delivered through the popular media including the Department's websites, and also in field days addressing issues such as drought lotting stock and feeding pregnant ewes.

Poor or non-existent broadband coverage in Tasmania continues to be an impediment to effective and far-reaching communication of assistance by government and non-government organisations. At best, farming families have access to dial-up internet access, which places significant limitations on the size, style and volume of financial and business management data, information and tools that can be downloaded.

Each of the following sections in this submission addresses some of the main questions raised in the Productivity Commission Issues Paper. Comments rely primarily on anecdotal evidence as the DPIW does not have the resources to conduct detailed research on the impacts of various drought support policies. The limited resources which are available have been committed to managing the support schemes outlined above.

4 Rationales for Government Drought Support

Which are the more important rationales for government intervention during severe drought?

The rationale for Government support during severe drought is underpinned by:

1. The importance of agriculture to the Tasmanian economy;
2. Agriculture as custodian of about a third of the Tasmanian landmass; and
3. The need to sustain vibrant and productive rural communities.

1. Importance of agriculture to the Tasmanian economy: The farm dependent economy (FDE), which includes agriculture, farm-input and farm-output, is approximately 30% more important to the Tasmanian economy than it is for the rest of Australia, and agricultural activities contribute significantly to the State's overseas and interstate exports. In Tasmania, total FDE contribution is between 2 -3 times that of agriculture as a whole (Source: Infrastructure and Resource Information Service (IRIS)). As noted in the previous section, while overall agricultural production in Tasmania has increased because of the high productivity of the dairy, stonefruits and wine industries, the impact of the current drought on the red meat, wool and grains industries is estimated to be costing the Tasmanian economy about \$200 million annually at the farm gate.

While Tasmania's agricultural industries are small in comparison to their mainland counterparts, the State's contribution to national continuity of supply is not insignificant. This is especially so when mainland agricultural businesses are experiencing periods of severe drought and the State is able to meet increased demand.

2. Agriculture as custodian of about a third of the Tasmanian landmass:

During periods of sustained drought, Tasmania's natural resources are open to exploitation. For instance, in their struggle to survive, farming businesses need to expand their options in terms of stock feed and this often leads to overexploitation of native pastures. Natural resource exploitation, however, has long term effects that are detrimental to farming businesses and environmentally unacceptable to the wider community. Providing assistance to drought stricken businesses may reduce the risk of resource degradation, but often the problem is well established before such assistance becomes available.

Sustainable management of natural resources is imperative before, during and after periods of drought. While most native pastures are highly tolerant of drought

conditions, they will disappear if grazed too heavily. If they do survive, they may take several years to regain their former vigour.

Drought also impacts on native animal species which are competing with farm stock for diminishing food sources. Some species cause significant damage to farm forest vegetation (possums), and aggravate land erosion (wombats). Introduced species such as deer and rabbits damage grazing lands and hamper farming reforestation and revegetation efforts. At all times, but especially so during severe drought periods, prudent farm management includes management plans for protecting natural resources and biodiversity. Natural resource management should be seen as a farming business investment, not a burden.

A sound policy option is government support measures that foster capacity building and preparedness to manage risks to biodiversity in times of severe drought. Given that voluntary adoption of such practices will not be universal, cross compliance may be required in the future in order to prevent overexploitation. A careful balance needs to be found between conserving natural resources, sustaining biodiversity, and meeting the needs of farming businesses in times of severe drought.

3. The need to sustain vibrant and productive rural communities: The Tasmanian population is small and decentralised compared to mainland States. Farming and related industries are the economic lifeblood of many smaller Tasmanian communities. Because of their narrow income base, these communities become vulnerable in times of severe drought as stock numbers and farm spending decline significantly.

Spending on agricultural inputs may actually increase during times of drought as farmers buy more fodder and other equipment needed to provide feed and water. However, spending on non-farm items at local businesses suffers as less is spent on goods and services such as clothing, dining out, and household items. If local businesses supplying these goods and services close, the fabric of the local community also starts to unravel and may prove difficult to halt.

The CSIRO/Bureau of Meteorology Report: *Drought Exceptional Circumstances* (2008) concludes that exceptionally hot dry conditions across southern Australia have been increasing rapidly over recent decades and this trend is expected to continue in the future. Further, exceptionally hot years are likely to occur every 1 – 2 years on average over the period 2010 – 2040. If this prediction is accurate, family farms and related rural communities will be facing these difficulties more often. As the CSIRO/Bureau of Meteorology Report (2008, 19) suggests, the existing EC trigger definition (a one in 20 – 25 year event) is no longer appropriate under changing climate conditions, and that “future drought policy may be better served by avoiding the need for a trigger at all”.

A mix of strategic drought policies which include support for viable farming businesses and rural communities, structural adjustment packages for unviable businesses, natural resource management and biodiversity conservation initiatives, and education and training opportunities (including diversification and training for non-farm sources of income) are what is needed to sustain vibrant and productive rural communities in climatic conditions that can no longer be considered exceptional. Those who manage for the risks of drought at both individual and community levels stand the best chance of survival during difficult times.

5 Self Reliance and Preparedness

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

The objectives outlined in Australia's National Drought Policy emphasise the need for primary producers and rural communities to adopt self-reliant approaches to managing the risks arising from climatic variability; and to ensure early recovery of agricultural and rural industries consistent with long-term sustainable levels.

However, there is a limit to the scale of event for which individual businesses can be prepared and self-reliant. Predictability, duration and severity of drought are central to preparedness, self-reliance and critical to prudent property management planning.

While accurate long-term weather forecasts are instrumental for drought preparedness and strategic business planning, this is not currently possible. Ongoing investment in technological resources that enable reliable long range weather forecasting is essential, even though the element of uncertainty surrounding the impacts of climate change may make future weather predictions more difficult.

Currently, farmers have access to tools such as rolling 12 month rainfall totals and trigger points that suggest when stocking rates will need to be reduced. A well-prepared farmer will have knowledge of, and use these tools to manage the risks associated with impending drought and assess its potential impact on business. Consequently they will have a property management plan that includes destocking strategies, and fodder and financial reserves. They will have an inventory of vegetation resources on their land, knowledge of their property's hydrology, and an understanding of land capability (Mokany et al 2006). They will have prioritised grazing areas so as not to degrade permanent pastures and natural resources, either during or after periods of severe drought. They may even have constructed a drought lot, where large numbers of animals are concentrated in a small area for hand feeding, thereby easing the pressure on remaining farm areas.

Farming businesses can reasonably be expected to prepare for variable seasons, including regular dry spells, but can be overwhelmed by severe drought events. Assistance for those businesses deemed viable in the long term should allow them to recover quickly once the exceptional drought event has passed.

Self reliance and preparedness are about taking responsibility for the future and having management plans in place, rather than having an attitude that someone else (usually the broader community and State and Commonwealth governments) will automatically step in and provide a safety net.

What have been the lessons learned from the last drought and what strategies are farmers now adopting in response to those lessons?

The length of time between the most recent droughts on Flinders Island, Southern Midlands and Central Highlands areas of Tasmania has been relatively short, at approximately 6 to 7 years.

Considering the level of destocking previously undertaken and the extent of pasture damage over these areas, farmers were only just beginning to recover before the onset of current drought conditions that commenced in late 2005.

Although it is recognised that farmers were conscious of the need to initiate drought management strategies, the effects of the previous drought were still being felt, with capital expenditure directed primarily at pasture renovation and restocking.

Many farmers also recognised from their experience with the previous drought that they needed to vary their farm enterprises and review grazing techniques. Where possible, quite a few changed from total reliance on grazing to incorporating cash cropping, and invested in plant and equipment and irrigation infrastructure. The most recent drought has, however, impacted on this strategy, primarily because of lack of access to irrigation water. The Tasmanian Government is currently addressing irrigation issues in the State's Midlands region.

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?

Farming businesses in Tasmania are much smaller than their mainland counterparts and the bulk of their produce is exported, making them more vulnerable to volatile market conditions and rapidly rising input costs for goods such as fuel and fertiliser. While these factors are largely outside the control of the individual, many farming businesses are also acutely aware that governments will step in with support when market conditions become volatile and have a negative economic impact on operations. The perception that a safety net exists can lead to inaction in relation to risk management. Rationalisation, as has occurred in the dairy industry, may assist with the management of these pressures.

A farm business can use futures trading for some commodities (for example, wool), to hedge prices for their products. They can also use financial instruments such as farm management deposits (FMD) to put aside cash reserves in good years. However, despite these efforts, which are by no means universal, a severe weather event on top of the cost price squeeze can make small farm businesses highly financially vulnerable.

Farm-dependent small businesses such as feed and equipment suppliers do not have an alternative customer base. If farm incomes are suffering, their incomes also fall. In turn, this affects their spending on inputs, particularly wages for employees. Farm-dependent businesses employees live and spend locally and their reduced capacity to consume exacerbates the negative economic impacts of severe drought on small and relatively isolated communities.

Some country towns are able to diversify their economic base away from agriculture, for example, by engaging in tourism-based activities, however, this option is not available to all. Where possible, however, diversification strategies should be encouraged and financially supported.

Education and training opportunities for risk management in farm businesses are available and in the Tasmanian context their uptake encouraged through the FarmBis program, which subsidised the costs of this type of training. This program has now closed and may lead to decline in training opportunities as the cost of training becomes higher to the farm business. This will be particularly evident at a time when the costs of other inputs are rising so sharply.

Business support services such as agricultural consultants are available. The key factor in their use is recognition by farmers that professional assistance can add value to their business.

6 Are Assistance Measures Effective and Efficient in Severe Drought?

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?

The current assistance programs are proving to be disincentives for self reliance and drought preparedness strategies because safety nets are there to help farming businesses through difficult periods. DPIW has received numerous comments from a range of stakeholders that the current system rewards rather than discourages poor performance and lack of preparation.

The current system is not sending the right signals to farm businesses. A better way might be a safety support system that cuts in at a much higher threshold of severity, but at the same time, funds programs that encourage self reliance and preparedness.

Those farms which have entered an EC period with little or no debt are ineligible for ECIRS. At first glance this seems fair because only those in the greatest need receive assistance.

However, businesses which have been managed prudently and in a risk-averse manner during good periods are excluded from this form of assistance when circumstances become more difficult, whereas farm businesses with high levels of debt have immediate access to government-funded support.

This discriminates against those who have adopted sound drought management plans by putting aside cash reserves in good years (for instance, through FMDs) and by reducing stocking levels early as conditions worsen.

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 drought of low frequency, timing uncertainty and high consequence? Does the process need to be refined in the context of a changing climate to remain targeted towards such severe droughts?

There must be a balance between achieving a timely outcome and reducing the risk of 'rotting' the system. Under current arrangements, the National Rural Advisory Council (NRAC) is charged with ensuring this balance.

The declaration process with the current drought in Tasmania was extended because NRAC had a high workload dealing with EC applications in other parts of the country. The process was transparent because many stakeholders had input into the preparation of the EC applications and had a chance to interact with NRAC members.

Because they possess the necessary expertise, government agencies are best placed to take responsibility for preparing an EC application and pursuing it to the point of declaration. They take an unbiased approach because they represent the interests of an entire state rather than a particular region. The process of receiving

only one application from a region is the most efficient; in contrast multiple application submissions with possible contradictions will require a much more complex and time consuming assessment process.

The definition of an exceptional circumstances event and the threshold at which assistance cuts in will need to be revised because of the predicted effects of climate change.

Do the geographic boundaries used in the EC declaration process unfairly exclude some farmers from relief payments or conversely include some that do not need assistance?

The current system of declaring EC areas means that there must be boundaries on the map. The mapping and selection process for these boundaries has been assisted by the National Agricultural Monitoring Scheme (NAMS). The Scheme has added rigour to both the mapping and declaration processes.

With the predicted increase in drought events, the NAMS would benefit greatly from further development and streamlining. As NAMS is a Government responsibility, it will require ongoing investment in order to remain effective and efficient.

No matter how carefully the EC boundaries are drawn, it is inevitable that some farms are, or will be, located just outside the boundaries and as such cannot access support in the current “all or nothing” approach. Their need for support may be only marginally lower than those inside the declared area. Where possible, EC boundaries should follow geographic features or non-agricultural land use areas in order to circumvent this problem.

If a EC boundary system is to continue, it could be made more equitable by using buffer zones where farming businesses can be eligible for lower rates of EC support on a sliding scale, for example, in intervals of five to ten kilometres from the declared boundary.

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

While the Commonwealth provides the bulk of EC funding, the State contributes administratively and is the point of contact between farmers and the ECIRS program. Consequently it is the State that is perceived to be taking the political risks in regard to the timing of declaration and the drawing of EC boundaries. While the issue of Commonwealth funding is a key factor in the EC declaration process, it is difficult under current arrangements to view it as an incentive.

With the states undertaking ECIRS implementation work, agency, agency personnel are not available for other tasks normally assigned to them. Demand for state support rises as drought conditions worsen; therefore, when state drought support measures (which are fully funded by the state) are taken into account together with Commonwealth generated implementation work, the states make a significant overall contribution to the EC process.

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

The lines become blurred when analysing the criterion for assessing exceptional circumstances. The trigger for declaring EC is a one in 20 – 25 year event, however,

assistance continues even when it is clear that severe drought has exceeded the criterion. The exceptional circumstances are clearly no longer exceptional and yet the expectation for ongoing assistance remain

The current rules for ECIRS assistance state that the maximum benefit is \$500,000 over five years. If this maximum is reached and drought is still severe what happens? It could be argued that support should continue in these circumstances, otherwise the funds already invested have probably been wasted.

Is a trigger approach such as an EC declaration a necessary first step to determine individual eligibility for drought relief?

There must be some mechanisms which separate individual bad management, or bad luck, from large-scale regional exceptional circumstances.

Most farms in Tasmania are small in contrast to their mainland counterparts; however climate can also be highly variable, with some isolated pockets more greatly affected by drought than others. The overall general trend is for the impacts of drought to be felt at a regional rather than individual level. Administering assistance on an individual farm basis would also require each one to be inspected to determine cause and effect. This would greatly increase the workload of EC staff, would reduce efficiency and be extremely costly.

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

There is little evidence to suggest that ECIRS support has improved the survival of farm businesses and farm dependant small businesses. ECIRS support is usually not enough to trigger any significant change in the trajectory of a business. It can, however, provide a welcome, short term reprieve, for example, by allowing the business to avoid or delay re-financing (and higher borrowing costs), or otherwise going further into debt to purchase essential inputs.

It is often apparent that a business in serious financial difficulty needs to change its business model or practices if it is to survive. In this situation, access to business advice or mentoring may be of more long-term benefit than an interest subsidy. However, the subsidy may still be useful in relieving the immediate pressures on farmers and affording them time to consider issues beyond day to day survival.

As most applicants for ECIRS support are not in imminent danger of financial collapse, and ECIRS support is just one of many factors affecting the long-term viability of farm businesses, it would be reasonable to conclude that ECIRS support has a minor impact on the survival of most farm businesses.

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

It is plausible that ECIRS guidelines, once better understood by farmers, will have some influence on farm business behaviour. Examples of detrimental behaviour might include farmers temporarily raising debt levels to increase their interest costs, selling off-farm assets to satisfy the non-farm asset test, and artificially reducing income or inflating expenses in order to appear in financial difficulty. However, as most farm businesses have only limited incentive or capacity to manipulate these parameters, the prospect of ECIRS support will have only a minor influence, if any, on the behaviour of most farmers.

None of the behaviours illustrated is likely to have a significant adverse effect on the business itself, although EC declarations can also be viewed as a face saving measure which shifts any perception of 'fault' from business and/or rural community, especially those who are suffering primarily as a result of poor drought risk management or ineffective farming practices. This shift in burden of responsibility may effect farm business decisions.

Businesses with the strongest incentive for behavioural change are those borderline cases presenting for ECIRS support which also have sizeable debts. In these cases, attempts to manipulate financial information are often easy to detect. It should be noted that most Tasmanian applicants for ECIRS support appear to have been scrupulously honest, sometimes knowingly to the detriment of their application.

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

Most ECIRS applications list at least one source of non-farm income. Applicants typically come from family-run businesses, and it is common for the female partner to contribute the bulk of non-farm income, usually from wages earned in a service sector such as teaching, aged care, retail, or State or Commonwealth public service. Their capacity to earn an income off-farm appears to be influenced by their proximity to a major population centre.

The main exception to this picture is where the male partner is seasonally employed in agricultural services such as shearing or farm contracting. As many farmers have some form of off-farm investment (for instance, shares or FMDs), many ECIRS applicants have reported incomes from interest and dividends that range from a few hundred to tens of thousands of dollars.

The drought has reduced off-farm earning opportunities for those farmers providing services to agriculture and many partners spend longer hours in off-farm employment. There is little evidence to suggest that the ECIRS program has acted as a disincentive to seek off-farm income.

It is possible that some applicants may be deterred from seeking off-farm income, especially if it has contributed to them being assessed as ineligible for ECIRS support in the first EC year. However, few applicants have been ruled ineligible because of off-farm income, and anticipating the outcome of an ECIRS assessment many months in advance would be a very risky strategy.

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

Linking business support to debt creates an incentive for businesses to increase debt or delay paying off existing debt. Furthermore, there is only a weak correlation between debt and financial difficulty (need) – some businesses choose to be highly leveraged and many with large debts also have large net assets.

The debt-to-equity ratio would be a better indicator of financial difficulty. It could, however, disproportionately favour unviable businesses unless there was a clear minimum threshold below which support would not be provided. This alternative would also create an incentive for some businesses to take on additional debt, or to maintain debt levels within a particular range, an approach not consistent with sound business practices. Net equity is more difficult to manipulate, and would only be useful as an indicator with reference to the scale of the business.

In broader terms, it would be more effective and efficient to re-align business support (and hence incentives) away from the financial performance of the business towards factors that will improve risk management, preparedness and self-reliance, for example, subsidising the cost of larger grain silos to help augment feed reserves, and assisting with stock and vegetation management measures.

To what extent have farmers benefited from other input (...fodder ...) subsidies? Have the benefits gone to farmers or to others in the marketing chain...? Do such subsidies encourage poor farm management practices, such as maintaining excessive stocking levels?

As discussed above, many farms in EC areas in Tasmania have applied for the State Government fodder subsidy announced in April 2008. As eligibility for this subsidy is linked to EC funding provisions, many others have found themselves excluded because they are not drawing the ECIRS or accessing Centrelink EC income support.

Tasmania is a net importer of grain, so the cost impact is the national price plus freight. Because the current drought is national, rising demand for supplementary feed has increased the national price. The Bass Strait Freight Equalisation Scheme subsidises the price of grain imports to mainland Tasmania.

Freight to Flinders Island has only recently become eligible under this scheme. Consequently, farmers on Flinders Island (currently an EC-declared area) were paying significantly higher prices for imported fodder prior to the extension of the Equalisation Scheme to the Bass Strait islands.

Inevitably, fodder vendors – other farmers supplying hay and grain and the merchants supplying sheep pellets and grain – have also received fodder assistance money. All parties have, however, benefited to some extent. Farmers have been assisted to maintain their essential breeding stock, although as the maximum limit of \$10,000 per farm is equivalent to the cost of one container of grain, it is still a relatively small input for larger farms, and fodder suppliers have received income which would otherwise have been falling away during the drought. As discussed above, this income will find its way back into those rural communities that would otherwise be suffering from a trading downturn during exceptional circumstances.

Do subsidies encourage poor farm practices such as maintaining excessive livestock?

The current state fodder subsidy was not announced until well after the EC declaration and therefore has not been a factor in maintaining excess livestock.

In addition, the current state fodder subsidies are not sufficiently large to do this, but if it were increased in the future, there could come a point where the subsidy encouraged the purchase of livestock for lot feeding. In terms of farm business efficiency, overstocking would create animal welfare issues, impact on soil and vegetation and be counter-productive.

What role do farm financial counsellors play in guiding farm business decision making prior to, during and following drought?

Farm financial counsellors have been very active in assisting farming clients meet application requirements for the various assistance schemes on offer, particularly the ECIRS application process.

In so far as they help to improve the quality of applications and are able to clarify specific points, farm financial counsellors provide valuable support to ECIRS assessment officers.

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

In principle, governments should have structural adjustment policies that deal with social dislocation resulting from any major economic shifts at regional, state, and national levels.

Structural adjustment occurs continuously as a normal part of the business of agriculture. Drought or economic downturns and buoyant times either speed up or slow down the rate of adjustment.

The dairy industry is a good example of structural adjustment driven by market forces. In this industry, adjustment has resulted in fewer farms but increased production. As discussed earlier in this submission, climatic exceptional circumstances are just one of the pressures on family farming businesses.

In general, structural adjustment policies should be designed to operate before, during and after drought in a consistent and transparent manner.

Why is there little use of current exit programs?

Current evidence in Tasmania suggests that the uptake of structural adjustment schemes is not proceeding at any greater rate than normal. The most likely explanation is optimism within the farming community that "the drought will eventually break", and that if they can just hold on, 'normal' farming will resume in the future.

Farmers are often prepared to take an income cut before they contemplate selling. The exit grant is relatively inflexible in that it is only an option for some unviable businesses. A significant proportion of businesses assessed as unviable belong to young farmers who may not have been in business long enough to qualify for the grant. Furthermore, to be eligible for the grant an applicant must have virtually no assets left – many sensibly choose to exit the industry before they reach this point.

There is a need to help farmers see the difference between life style and business decisions. Governments need to put more resources into addressing this issue through education and training. In this way, smaller non-viable businesses could be encouraged to see a life outside farming and in the face of falling income, make a decision to exit early with dignity rather than suffering a "death by a thousand cuts".

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?

Traditionally, rural communities have focused almost exclusively on servicing agriculture. Any business with limited capacity to diversify is vulnerable. Many communities have other resources or opportunities on which they could capitalise, but for the most part, they remain unrecognised. For example, some Tasmanian towns have started to move away from dependence on agriculture toward tertiary education or tourism related services. These have been developed largely in

response to external influences, or instigated by people moving to these communities from other areas.

Governments have a role to play, as they do in the broader economy, in providing counter-cyclical assistance to drought-depressed communities. Assistance directed at improving infrastructure or environmental restoration work could help to generate jobs, income and discretionary spending, while at the same time enhancing the long-term productive capacity and sustainability of the area.

Governments could assist rural communities by providing economic development officers to work with the local population to recognise and develop non-agricultural opportunities. This assistance could also involve resources for feasibility studies and business concept development. This type of initiative would increase the resilience of rural communities and reduce their vulnerability to drought and other agricultural related challenges. It may also assist in increasing off-farm employment opportunities.

At the farm level, policies should be directed at providing encouragement and incentive to manage the risk of drought and to be both prepared and self-reliant if the event occurs. This could be managed through the taxation system by allowing drought-proofing infrastructure spending on measures such as larger silos or irrigation equipment, to be tax deductible above 100%.

Incentives will also be required to encourage farmers to adopt pro-active management measures – uptake of new technology by farmers is generally slow. Desired outcomes associated with the use, maintenance and protection of natural resources may also require legislation, over and above voluntary codes of practice. The Tasmanian government is making progress with private land natural resource management initiatives including weed management, the Private Land Conservation Programme (PLCP), collaborative research projects on managing native vegetation during drought, and funding PLCP Stewardship Officers who assist landowners manage protected areas. Nevertheless, resources are limited and demand for drought support will grow as challenging weather conditions increase.

Environmental and Natural Resource Management Considerations

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

The use of feed lots to manage livestock in times of drought allows perennial pasture species to be rested from grazing and improve their likelihood of survival. Unfortunately, many non-native pasture species that have been traditionally planted are unsuited to the environment and their demise during severe drought periods is not unexpected.

Research has identified species better able to tolerate drought, but they must be adopted and used on farm. Pasture re-establishment is an expensive process, costing up to \$500 per hectare but is essential if drought affected areas are to return to their full production capacity.

Maintenance of ground cover with perennial pasture species has positive effects for both the environment and farming business by preventing soil erosion, reducing the risk of salinity and providing a high quality grazing feed base. Government assistance could be provided to assist pasture re-establishment, including extension

of information about species selection and management. This information is also imperative in times of increasing climate variability.

Current government assistance programs do little for drought recovery other than helping farmers retain equity that may be used in recovery strategies. The programs are of little value in the financial management of natural resources on private land.

However, a joint DPIW/Tasmanian Farmers and Graziers Association (TFGA) assistance project for the development of drought feeding lots will have a positive effect. By encouraging the concentration of large numbers of sheep in a small area for drought feeding, the remainder of the farm, including native remnant vegetation, is protected from overgrazing.

This has two positive effects. It prevents overgrazing and subsequent risk of soil loss during the drought and will also enable rapid recovery of grazing plants once the drought breaks. Where drought lots have not been used, perennial plant cover has been lost and replaced by annual species with lower feed values and survival rates.

What is the role of Government in providing social security type payments to self employed farmers and contractors during drought?

The Government currently provides these services to any Australian citizen who does not have a job, whose assets fall below a defined threshold and who is capable of seeking employment. Farmers and other related business operators are no different; they too have the prospect of being financially viable once a particular crisis or challenge is over. If self-reliance and preparedness are to be encouraged, the thresholds for receipt of these services need to be carefully considered so as not to destroy incentives while at the same time ensuring families can meet their basic needs.

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?

Many applicants for ECIRS support in Tasmania have completely withdrawn or were in the process of withdrawing the last of their FMDs in order to supplement the diminished cash flow resulting from the drought. Relatively few had substantial remaining FMD balances and those that did were less likely to be considered as being in financial difficulty and were therefore ineligible for ECIRS support. ECIRS eligibility criteria and the way in which they are interpreted may therefore discourage the use of FMDs.

FMDs appear to be a useful source of liquidity during drought, however their value (relative to alternative financial options) in helping farmers to prepare for severe drought events remains unclear.

Program Implementation

How has the implementation of drought support policies affected their accessibility and usefulness?

The take-up rate for ECIRS support among Tasmanian farmers to date has been much lower than expected, however, it is unclear why this is the case. The ECIRS

eligibility requirements, such as the off-farm asset test, appear generous and are unlikely to act as a barrier to all but a few potential applicants. Funding for research into the accessibility and usefulness of drought support policies such as ECIRS would help shed light on the issue of low uptake, however, the resources for investigation and analysis are not currently available.

Are there impediments to accessing support arrangements?

The ECIRS scheme has been extremely well publicised in popular media within Tasmania and support is available to applicants through DPIW and rural financial counsellors. Anecdotal evidence suggests that some farmers have found the ECIRS application process daunting and have chosen not to apply for this reason.

The application process for the drought fodder support payment is relatively simple. Some applicants, however, have been excluded as they are not accessing either ECIRS or EC support from Centrelink as is required in order to be eligible for drought fodder payments.

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?

At present, applications for ECIRS and income support are assessed separately by both DPIW and Centrelink without reference to each other, resulting in duplication at both levels. Although the process would benefit greatly from streamlining, the practice of delegating assessments to the most capable authority appears to be the most prudent approach.

The ECIRS guidelines determined by the Australian Government are lengthy, complex, and in some places ambiguous and lacking in guidance. Deficiencies in the guidelines contribute directly to the complexity of the ECIRS application and assessment process. This leads to lack of transparency and a less predictable outcome, and applicants feel they have wasted considerable time and effort if unsuccessful.

The ambiguous nature of the guidelines also means subtle but important differences in the way different assessment officers or jurisdictions interpret and apply them, implying potentially inequitable outcomes for applicants. DPIW has had to invest considerable effort in ensuring a consistent approach among its assessment officers and between jurisdictions.

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?

The time taken to prepare an application varies from business to business depending on whether they have the most current financial information, stock numbers and cash flow budget details. It also depends on whether they prepare the application themselves, engage the services of a rural financial counsellor, or seek assistance from a chartered accountant. Most applicants choose to complete the application form themselves or with assistance from the Rural Financial Counselling Service (RFCS). Relatively few have engaged an accountant to complete the application.

The preparation time can be extended when it becomes necessary for DPIW to seek additional information from applicants. It is the policy of the RFCS to visit applicants on site prior to lodging applications and this may also extend preparation time depending on the counsellor's workload and availability. Discussions with the RFCS indicate that their average turnaround time would be in the vicinity of two to three weeks.

The only monetary cost involved in preparing an application are those charged by an accountant, as the RFCS service is free to the farmer.

The DPIW aims to process and assess ECIRS applications within four weeks. This has been achieved in most cases except where it has been necessary to seek additional information from clients.

Tasmania has chosen to use ECIRS application forms based on those used in Victoria. While the forms are complex, most of the information collected is necessary for assessing applications. There is, however, some duplication between the application form and the financial statements and income tax returns that applicants must submit with the form. It may be possible to streamline the application process by focusing exclusively on financial statements and income tax returns.

On average it takes one person approximately one working day to assess an ECIRS application, seek additional information where necessary, make a recommendation to the delegate, notify the applicant of the outcome, process the interest subsidy payment (where applicable) and respond to any inquiries. A high proportion of applicants who are determined to be ineligible for ECIRS request a review of the decision.

Some applications are simpler than others and it is possible to assess two of these applications in one working day. However, many applications are incomplete, involve complex business structures, and/or raise issues that need to be discussed among assessment officers, or with Commonwealth agencies. This dialogue is necessary to ensure that the ECIRS guidelines are applied consistently among assessors and across jurisdictions.

Should there be a uniform national approach to drought policy?

The current ECIRS is a uniform national system, however individual State Governments have also implemented complementary support measures. There needs to be a uniform national drought policy that defines whether the approach will be reactive, pro-active or a mixture of both.

With a philosophy of encouraging self-reliance and preparedness, the basic approach should be focused on proactive strategies combined with a high threshold for drought support, beyond which some reactive measures become available. If all jurisdictions agree on this philosophy, they could still tailor individual State responses if needed.

Delivery of support arrangements.

Centrelink has an established network for delivering social support therefore it is logical that drought support in terms of family payments remain with this Commonwealth agency.

Programs designed to create drought preparedness and self reliance could be delivered by both government and private based organisations and based on recognised quality standards. The role of government would be to act as an assessor and an auditor of these standards.

7 Alternatives

Are there alternatives to the current drought support policy measures that could meet the objectives of the National Drought Policy in a more efficient manner, particularly in the face of significant long term climate change?

Adopting a policy based on provision of proactive assistance to farmers would remove ECIRS and income support as the primary source of support. They would only be invoked above a very high drought threshold. This threshold would, however, need to be flexible, subject to regular review in the light of climate change, and adapted to changing conditions.

This approach would see positive incentives, such as subsidised risk management training and tax relief and assistance with specialised infrastructure being provided as the Government's primary source of drought support to farm businesses during periods of drought.

At the same time, Governments will also need to develop policies aimed at assisting farmers adapt to the effects of climate change, including but not limited to, managing the increased risk of extreme events.

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