



**Submission to
The Productivity Commission**

~ Inquiry into Government Drought Support ~

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Executive Summary

Rural communities form the economic heart of rural Australia, and the cultural backbone of our nation. The current exceptional drought has had a significant impact on the agricultural industry in NSW. Since the onset of the current drought NSW, the gross value of agricultural production has dropped from a high of \$10.2 billion in 2001-02 to \$7.7 billion in 2006/07 (ABS 2008). The severity of the drought and the associated drop in production has a number of environmental, social and economic impacts on the landscape, rural businesses, family structures and local rural communities.

The NSW Farmers' Association (the 'Association') views a comprehensive review of the national drought policy as a necessary first step for providing the future of a more profitable, competitive and sustainable Australian agricultural sector. Accordingly, the Australian Government must develop an appropriate policy framework which will shape an environment in which the sector can improve, grow and innovate. This framework must also extend across the range of Government policy areas including, but not limited to, policies on water, the environment and Research and Development.

Drought is a natural disaster that differs from other disasters in that it has a slow onset, evolves over months or even years, and affects a large region. It is therefore difficult to determine its onset, severity and end points. However similar to other natural disasters, the impacts of drought spans through economic, environmental, and social sectors and can be reduced through mitigation and preparedness.

Farmers are constantly adopting production methods and operations to improve their productivity which in turn protects them against income variability. The severity of the drought is the key influence on the ability of farmers to become more self reliant. Planning and preparedness can play a major role in alleviating the impacts of short or less severe droughts. However, sustained and severe droughts are very difficult to prepare for and therefore support measures are necessary.

In defining Exceptional Circumstances ('EC') areas, an objective view must be taken of the defining characteristics of each area. The Association supports the principle of the National Agricultural Monitoring System, in particular the concept of harmonisation of the drought declaration process nationally. However it is believed that the accuracy and consistency across the State and country could be improved with a greater clarity of measures used for the assessment of drought declarations. Furthermore provisions of drought support need to be extended to include intensive livestock industries including dairy, pork and poultry, horticultural industries and other irrigated agricultural operations.

Interest Rate Subsidies ('IRS') provide an invaluable tool to allow farm business to continue operating through the drought. Farming is a capital intensive operation and requires large amounts of financial investment to develop and improve productivity. The IRS has provided farmers with the ability to maintain these previous debts and satisfy ongoing debts in order to maintain continuity of their business. Such continuity will allow for improved sustainability through the capital improvements.

Household Support has played a critical role for families who are unable to work off farm in difficult times, and has allowed the payment of basic necessities to remain independent from the farm expenses. Income support has provided the basic safety net that is available to all other employed persons within the community while acknowledging the ongoing business of the farm operation.

The environmental consequences of drought and how best to manage them is a careful balance between economics and the environment. While farmers are recognised as being environmental stewards with a direct interest in the environmental and biodiversity characteristics of their land, particularly as it contributes to the productive capability, there is considerable tension between maintaining economic viability and possible environmental degradation as a result of drought. As the custodians of collective community interests the Government has a role to play in recognising environmental values and developing policies to reflect such community values.

Drought policy needs to be considered within the context of a whole suite of Government policies, financial policies including Farm Management Deposits (FMDs) and other taxation devices are included in this suite. Due to the huge variability of farm income because of the seasonal income streams and variations between seasons, FMDs provide a valuable income equalisation scheme that has beneficial financial outcomes in business planning and operations.

The application process for EC assistance is long, protracted and complex. It is even more frustrating for farmers completing these applications that they must complete forms with similar information for a number of different agencies. Developing a single system that allowed farmers to complete one form and then have these records be made available for the assessment of different forms of support would greatly reduce the burden and complications of completing numerous forms.

A number of alternatives for consideration in the revision of the national drought policy have been put forward in this submission including income contingent loans and insurance. It must be recognised however the importance of a suite of options being made available to accommodate for the plethora of issues that arise out of severe drought. Despite the National Drought Policy, various organisations involved with assistance and mitigation have not been very efficient and effective in coordinating their activities to develop a unified and streamlined policy framework for drought support. Drought, Climate Change, Water Management and Environmental Sustainability are all intrinsically linked. Given that interconnectedness of these policy issues, it is suggested that a special institution should be established which would be able to centralise all the policy operations relevant to drought.

Summary of Recommendations

Recommendation 1

That drought preparedness and self reliance measures be developed and encouraged as part of best management practices for rural businesses.

Recommendation 2

That increased budget allocations are made for FarmReady assistance during drought, recognising the importance of incentives in minimising the barriers to training participation in times of hardship.

Recommendation 3

That readily available climatic and economic data be used to assist with the assessment process and that clearly defined criteria and thresholds are provided for the EC declaration process

Recommendation 4

That EC support and/or drought relief be made available to horticultural and intensive livestock industries, ie. poultry, pigs, dairy, and irrigators equal to that offered to other agricultural industries.

Recommendation 5

That drought assistance and declaration procedures be upgraded, for use in future drought situations, to allow more flexibility in declarations and a better method of identifying drought through property by property assessment by the RLPB.

Recommendation 6

That the capacity be provided for individual assessment by Centrelink to determine access to household support for farm families affected by drought.

Recommendation 7

An interest rate subsidy at the EC rate or at least 60% of such interest rate continue for an extended period after the end of a drought, with a moratorium on capital repayments. Interest rate subsidies would only be available on debts accrued and not capital acquisitions.

Recommendation 8

That the Exceptional Circumstances interest rate subsidy upper limit over five years be removed.

Recommendation 9

That drought freight subsidies continue to be made available for transport of fodder, water and agistment or sale for areas in drought.

Recommendation 10

That Federal and State Governments contribute more funding for the Rural Financial Counselling Service, without the requirement of community funding and that the funding be provided in three year blocks.

Recommendation 11

Government should introduce a 'Natural Disaster Conservation Grant' which will provide emergency funding and technical assistance to farmers to prevent and rehabilitate farmland damaged by natural disasters such as drought, and for carrying out emergency water conservation measures in case of severe drought.

Recommendation 12

That Farm Management Deposits be retained to allow all farmers to actively manage their highly variable income, with eligibility criteria amended to include Trusts and Companies.

Recommendation 13

That the format for Exceptional Circumstances drought applications be standardised and centralised in a common system.

Recommendation 14

That announcements of EC declarations be structured to coincide with other information provided by authorities and provide recipients with the suitable notice period of at least six weeks.

Recommendation 15

That EC declaration periods be structured so that expiry dates occur after key growing periods in the agricultural calendar and allow for consideration of demonstrated economic recovery.

Recommendation 16

That drought preparedness incentives be developed, including the pursuit of a system of drought stockfeed preparedness through accelerated income tax deductibility for capital items.

Recommendation 17

That 100 percent tax deductibility in the year of expenditure be introduced for:

- a) dams, bores, pumps and water reticulation facilities; and
- b) grain, hay and fodder storage facilities;

Recommendation 18

That the Federal Government establish an umbrella institution which would be able to centralise the development and application of all agriculture relevant policy.

Recommendation 19

That thresholds for off-farm assets and income in relation to the EC IRS and Income Support payments be increased and that the present off-farm assets test be raised to a level not exceeding 50% of the value of the farm assets where that value is higher than the current thresholds.

Recommendation 20

That the Government waive fixed charges for irrigation water supply and stock and domestic use in those catchments where surface water allocations reach zero.

Recommendation 21

The all State Governments provide a 50% rate subsidy for local government farmland rates in EC declared areas for the duration of the declaration

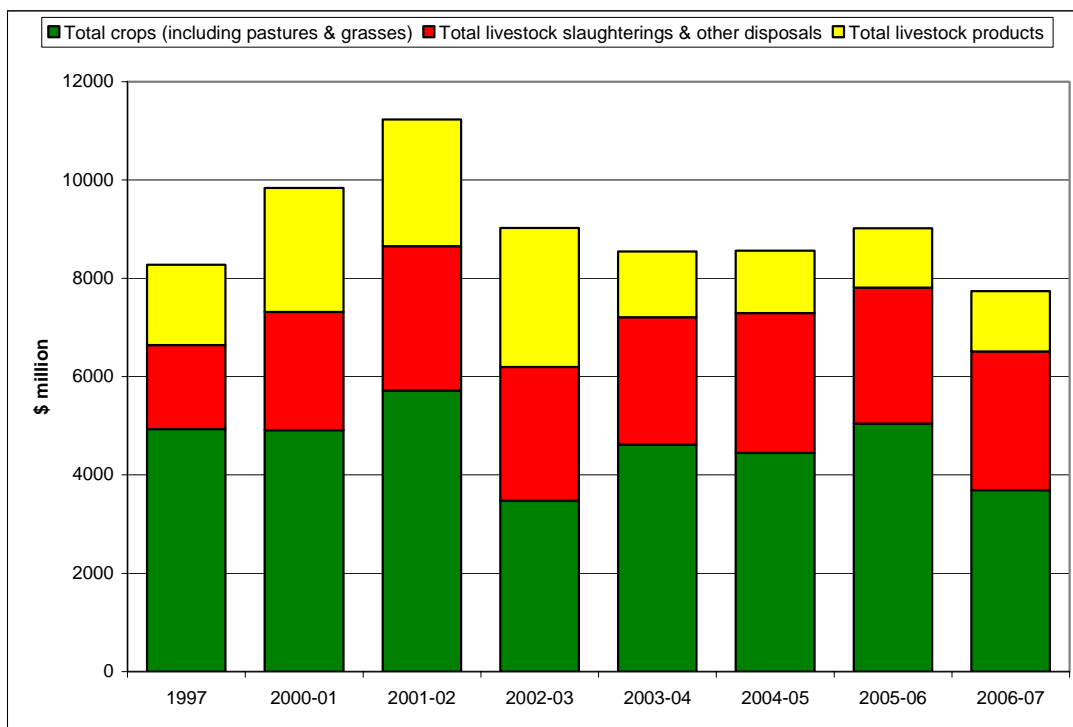
1. Introduction

The NSW Farmers' Association (the 'Association') is Australia's largest state farming organisation representing the interests of the majority of commercial farm operations throughout the farming community in NSW. Through its commercial, policy and apolitical lobbying activities it provides a powerful and positive link between farmers, the Government and the general public.

Rural communities form the economic heart of rural Australia, and the cultural backbone of our nation. In 2001/02, the last financial year not dramatically impacted by drought, agriculture contributed \$10.2 billion to the NSW economy and employed over 122,000 people. This represented 26 percent of the total value of Australian agricultural production. The value of exports of agricultural commodities from NSW (ie/ sourced from agricultural industries) amounted to \$1.5 billion in 2004/05.

The drought has had a significant impact on the gross value of agricultural production in NSW. Figure 1 illustrates that since the onset of the current drought NSW gross value of agricultural production has dropped from a high of \$10.2 billion in 2001-02 to \$7.7 billion in 2006/07 (ABS 2008). The drop in value is primarily attributed to the drop in crops harvested and to a lesser extent a drop in total livestock products. In 'normal' production seasons, NSW farmers typically have the highest value of agricultural production of any State.

Figure 1 Gross Value of NSW Agricultural Production



As of November 2006, 104 000 people were directly employed in agriculture and fisheries in NSW (ABS 2005a). Agriculture is directly responsible for up to 40 percent of the economic activity across regional and rural NSW. However, once multiplier effects are taken into account, this is as high as 70-80 percent in most small towns in rural and regional NSW.

Agriculture is the biggest land user in NSW. Approximately 64.4 million hectares or 80 percent of the land mass of NSW was used for agricultural activity in 2004/05. Of that, approximately 10 percent or 7.7 million hectares was used for cropping (ABS 2005a). There were 40,077 farms with an estimated value of agricultural operations of \$5,000 or more in NSW as at 30 June 2005 (ABS 2005b). This number has declined steadily from 42,758 in 1997, with the sharpest decline between 2004 and 2005. Drought has arguably been a significant catalyst for change.

Despite these statistics, the ongoing success or otherwise of the industry is strongly influenced by seasonal conditions. As such, the Association has a long history of involvement in drought-related matters, particularly at a policy level. The ongoing drought has had a significant impact not only from economic, production and environmental perspectives, but also from a social perspective at family, community and regional levels.

The Association views a comprehensive review of the national drought policy as a necessary first step for providing the future of a more profitable, competitive and sustainable Australian agricultural sector. Accordingly, the Australian Government must develop an appropriate policy framework which will shape an environment in which the sector can improve, grow and innovate. This framework must also extend across the range of government policy areas including, but not limited to, policies on water, the environment and Research and Development. Environments which stifle self reliance, competition and market development breed inefficiency. In the long run, such dependency will erode any competitive advantage the sector has been able to develop in recent history.

Accordingly, the Association supports the development of a comprehensive, integrated and effective national drought policy based on risk management and preparedness measures which:

- a) facilitates the early recovery of agricultural and rural industries from drought;
- b) includes a range of financial and practical management tools to allow farmers to effectively prepare for and manage their response to drought;
- c) includes an appropriate transition period during which appropriate incentives will be available to facilitate and encourage wider uptake of self-reliance;
- d) maintains Exceptional Circumstance drought assistance in severe drought events; and
- e) recognises the interconnectedness of drought, water and environmental sustainability policy and the necessity for a broader strategic national umbrella institution to oversee the development and application of these non-mutually exclusive areas.

Through its close ties with farmers and rural communities, the Association is in a unique position to contribute to the Productivity Commission's *Inquiry into Government Drought Support*. The Association has also lodged a submission in response to the Expert Social Panel's review of the social impact of drought earlier this month which should be considered complementary to this submission.

2 Rationales for government drought support

The basic rationale for the provision of support during severe drought revolves around three key areas. Farmers have had forces outside their control which have severely impeded on their ability to run their businesses. These impeding conditions are external to normal market forces, such as rising input costs or downturns in global commodity markets which also influence other sectors. Whilst drought preparedness is critical to minimising the effects these external forces have on a farmer's operations, a line must be drawn as to what is feasibly possible and what is beyond the resilience and planning of a farming operation. This is critical to understanding the difference between a drought which may possibly be within the means of farmers to plan for, and a severe drought which extends beyond these reasonable expectations from an economic, climatic, environmental or social perspective.

Government support in extreme drought events is also justified from a market failure perspective. As it stands, farmers are, for the most part, unable to source insurance instruments to mitigate against the effects of drought. Unlike other business sectors which are able to take out policies such as Business Interruption Insurance¹, the farming sector has no means of insuring itself from the loss of income as a result of a drought. While risk mitigation strategies such as forward contracting, utilising futures or hedging currencies are available, these assist with preparedness to reduce the effects of market fluctuations but do not cover for loss of income during periods where drought results in no income.

The final point revolves around the role and contribution the agricultural sector provides to the nation and the potential ramifications if Government support was to be relinquished during periods of severe drought. This argument can be supported by appreciating:

- The contribution farmers make to the maintenance of the country's agricultural and environmental resource base, which would otherwise be rundown if a farmer is unable to afford its upkeep, a case which is exacerbated during periods of severe drought. Farmers also play a critical role as environmental stewards, protecting the environment from weeds and feral pests, improving water quality, managing native vegetation, and conducting hazard reduction activities;
- Agriculture's role in the provision and maintenance of food security in an environment of increasing food costs and competition for scarce resources.
- The long term profitability of the sector. Ongoing investment and maintenance is needed to ensure continued productivity. Without the maintenance of the capital base the structural costs associated with the shut down and start up of the industry would be considerable.
- Agriculture is directly responsible for up to 40 percent of the economic activity across regional and rural NSW. However, once multiplier effects are taken into account, this is as high as 70-80 percent in most small towns in rural and regional NSW. Without Government support during periods of drought, there would be a considerable social capital drain away from regional to metropolitan Australia.

It is the combination of these three areas which largely place the agricultural sector in a unique situation to provide a rationale for Government intervention in times of severe drought. While drought preparedness strategies are an absolute necessity in strengthening the sector's ability to ameliorate the effects of drought, it must be considered how far farmers

¹ Business interruption insurance indemnifies insureds for losses sustained if an event forces a business to suspend or cease operating, returning to the insured the amount of profit that would have been earned had there been no interruption to the business' operations.

can go in terms of building these reserves before such practices start to impact on the commercial aspects of their farms. Not to mention the difficulty in commencing preparedness activities when recovery from the current drought has not yet commenced.

Rural communities form the economic and social heart of rural Australia. It is a social and economic imperative that the Australian Government supports the sector in a suitable manner to maximise its potential viability and long term profitability during times of severe drought.

2.1 Preparedness and self reliance

Drought is a natural disaster that differs from other disasters in that it has a slow onset, evolves over months or even years, and affects a large region. It is therefore difficult to determine its onset, severity and end points. However similar to other natural disasters, the impacts of drought spans through economic, environmental, and social sectors and can be reduced through mitigation and preparedness.

Current forecasts are suggesting that the climate will be more variable and the occurrence of drought, as it is currently defined, is expected to increase in frequency, intensity and duration. As with all other variables in business operations it is important to develop drought preparedness plans to minimise the impacts of future droughts. A greater emphasis on the adoption of a more proactive risk-based management approach before the onset of financial pressures of drought would minimise the reliance on reactionary measures. The Association believes that drought preparedness options are a necessity to increase self reliance and minimise the impacts of drought.

Recommendation 1

That drought preparedness and self reliance measures be developed and encouraged as part of best management practices for rural businesses.

Preparedness and self reliance policy measures strengthen the position of the agricultural sector to manage and maintain their productive base and structures throughout a drought event. Preparedness and self reliance are measures that can be implemented before the event occurs assuming the business has fully recovered from the previous drought. While the results of preparedness action will be utilised during dry periods, actual investment in preparedness measures will be limited during times of drought when capital is limited. As such they should be used in conjunction with drought support that can be accessed through the drought. It should also be recognised that following a drought, capital will continue to be limited as reserves are rebuilt and therefore the uptake of preparedness and self reliance measures will experience a lag following recovery.

The following points provide some suggestions on drought preparedness measures that would assist farmers.

i. National and State Drought Policies and Plans (Risk Management)

In developing appropriate drought policy measures, an understanding between the relationship and interaction between all Government policies including but not limited to policies on water management, climate change and the environment must be considered to enhance preparedness and to manage the risks of drought. Looking at drought policy in isolation will limit its effectiveness and also give rise to distortions, or mutually exclusive

policy measures. For example a drought preparedness measure such as improving irrigation practices and technology can only be considered in the context of water policy and licence entitlements.

ii. Research Development and Extension

Providing the tools and innovation to increase productivity improves Australia's competitiveness. Investing in research and development and providing the facilitation of this information with the extension services in a timely fashion affords farmers the ability to produce at the most efficient level.

iii. Reliable Data Collection

An essential part of an efficiently operating market is the provision of timely and accurate data on which sound business decisions can be made. For example to predict streamflow, aquifer and reservoir levels, a network of data-gathering sites needs to be set up to ensure reliable and timely information flow to the plan for drought.

iv. Analysis and Dissemination of Information (early warning of drought)

Appropriate reporting mechanisms must be put in place to advise all stakeholders of the risk of drought and determine the capacity of the agricultural sector to cope with the threat of drought. It is increasingly frustrating and costly when longer term climatic models predicting rainfall show average or acceptable levels of rain which fail to eventuate. The Bureau of Meteorology have predicted average seasons for the last three years yet they have not materialised. This inaccuracy of reporting costs farmers and better methodologies and analysis needs to be developed

v. Organisation of Various Levels of Government to Respond Early

There is a need to establish a Federal Drought Committee which should include representatives from various Government agencies with responsibilities for monitoring climate and water supply, data and information providers etc. It should also include stakeholders such as farmers and industry bodies. A nationally coordinated group would allow for consistency of responses and collective organisation rather than the fractured approach that currently occurs.

vi. Mechanism to Assess Drought Impact

Drought impacts can be classified as economic, environmental or social, although many impacts may span more than one sector. There is a need to have some mechanism in place to assess the various impacts and to prepare for them before a drought occurs.

vii. Development of Regional Networks

The development of regional networks can provide the opportunity for regions to share experiences and lessons learnt. Through communication and coordination effective assistance and preparedness measures can be shared and developed.

3 Impediments to greater self reliance and preparedness

Farmers are constantly adopting production methods and operations to improve their productivity and to protect them against income variability. With the drought continuing to affect large areas of NSW, with only 15.3 percent of the State considered "satisfactory" from a climate perspective in August 2008 (see Annexure 2), the drought cannot be called over for most regions of the State. However there are a number of lessons that have already been learnt from this drought and are continuing to be learnt to protect and prepare farmers for dry periods in the future. The following outlines a number of strategies that are being utilised by

farmers. Although they are by no means comprehensive they do demonstrate that farmers are continuing to reduce their exposure to drought risk

- Destocking of livestock down to core breeding stock to protect the environment and support the remaining livestock;
- Reduced tillage and minimum till operations retain stubble and therefore support moisture levels; and
- Irrigation innovations such as sub surface irrigation to reduce evaporation and conserve water supplies.

The Association held a drought summit in Parkes in mid 2005 where participants identified the top 10 steps taken to avoid drought. These are outlined below. Programs designed to encourage or facilitate investment of implementation of any of these would assist in ameliorating the effects of drought.

1. Farm Management Deposits
2. Fodder Conservation
3. Improved Water Storage Facilities
4. Destocking
5. Evacuated Dams
6. New Silos and Haysheds
7. Water Reticulation
8. New Bores and Dams
9. Off-Farm Income
10. Pasture Improvement

The severity of the drought is the key influence on farmers abilities to become more self reliant. Planning and preparedness can play a major role in alleviating the impacts of short or less severe droughts. However, sustained and severe droughts are very difficult to prepare for. The extent of the drought, as indicated by the drought maps in Annexure 2 illustrates that some areas of NSW have been drought declared for at least six years. Such extended time of low or no income simply cannot be planned for.

The production cycle of agriculture limits its ability to adapt quickly. Production cycles in agriculture range from one year for crops to several years for tree crops and livestock. Developing, testing and introducing new technologies into these production cycles takes time and a number of successful successive seasons before the gains can be fully recognised. Furthermore the biological production cycle affects the income cycle with farmers generally receiving concentrated income flows at a single time of the year. This fluctuation in income makes it difficult to plan investments and recover from negative cash flows. A sufficient period between natural disasters needs to be afforded before farmers can invest in preparedness activities.

Support for training provides a valuable mechanism for encouraging greater preparedness and self reliance. Naturally investments on farm will be targeted towards those with the highest return. Training and education is often not seen as delivering immediate financial benefits and therefore may not have the take up that would be expected. Support to encourage this investment provides greater incentive to take up training and education. The Association strongly advocates a learning culture within the rural sector, and recognises the benefits of actively engaging farmers in seeking opportunities for learning.

The Association was a strong advocate of the FarmBis program, which was found to be "successful in stimulating a culture of continuous learning in the sector, with growing participation in and application of training" (ANAO 2004). Primary producers, spouses, farm family members, partners and professional farm and land managers were strong supporters of the FarmBis program in NSW. As indicated in Table 1, whilst there is often a time lag

between when FarmBis training is announced and when training demand commences, this was not the experience in NSW. Farmers were so keenly interested in the program that demand for FarmBis II training was strong at the outset.

Despite the drought, demand for the FarmBis program in NSW was consistently strong, particularly in the early years of the program (see Table 1). In fact, demand for FarmBis subsidised training was so high that FarmBis II funding in NSW ran out nine months earlier than the scheduled program end of 30 June 2004.

Table 1: FarmBis Uptake and Expenditure in NSW

	Number of Approved Training Applications	Expenditure (\$m)
1998 – 2001	22 500	9.848
2001-02	6 380	9.796
2002-03	6 311	12.186
2003-04	1 165	4.240
TOTAL	36 356	\$36.070m

Despite the overwhelming success of the program in NSW, it was announced in May 2005 that the NSW Government would not be participating in subsequent stages of FarmBis. This meant that rural communities in NSW were at a distinct disadvantage to those in every other State and Territory from a training perspective, in the middle of the drought.

Given the significant time and financial pressures facing farmers and rural communities as a result of drought, incentives are essential in order to maintain and improve training participation rates. It is therefore pleasing to note that FarmReady assistance will extend to travel, accommodation and childcare costs

Recommendation 2

That increased budget allocations are made for FarmReady assistance during drought, recognising the importance of incentives in minimising the barriers to training participation in times of hardship.

4 Are assistance measures effective and efficient in severe drought?

4.1 Policy design

Innovation and productivity improvements, which include drought mitigation strategies are continually being implemented by farmers. As mentioned earlier in this submission it is difficult to judge the impact of drought support measures on self reliance measures as they operate in different operational spheres. Self reliance and preparedness measures should be targeted at times where production levels are high and there is capacity to invest in these mechanisms. During times of drought self preservation and managing the ongoing operations becomes the priority with a natural trend away from investing in self reliance and preparedness measures.

In an attempt to reduce financial exposure and expenditure on drought support mechanisms, Governments' establish criteria and thresholds that limit access to support. While based on the principle of capacity to pay, that is those in a worse off situation should be given more support, these thresholds add distortions to the support provided. This is not an argument to dispose of the support mechanisms which provide valuable assistance, however it serves as an important point to ensure careful consideration is given to the use of thresholds so as to not discriminate against those who are seeking self sustaining ways to overcome hardships as a result of the drought.

There have been a number of concerns raised with the Association about the current thresholds for the drought support and the impact they have on farm entity business decisions. Introducing support mechanisms can obviously disrupt the market and create distortions. However providing the most equitable approach should minimise the impact of this issue. For example the current income threshold for the Interest Rate Subsidy (IRS) of \$40,000 deters some farming families from seeking off farm income. A farmer with a \$50,000 interest bill receiving the 80 percent IRS would be in a better position if they did not seek off farm employment to assist in covering the farm debts. It has been suggested that applying a net income calculation would ameliorate such a situation by not discriminating against those that seek off farm income.

A further example is the introduction of fat scores to the NSW drought transport subsidy system. Fat scores were introduced in June 2006 preventing access to the subsidy if the livestock had a fat score above 3, which reflected a better physical condition. This in turn provided a perverse incentive to farmers to retain stock for longer, losing condition so they could access the subsidy. Maintaining access to all would have facilitated more favourable market responses and more timely decisions. The rationale for the introduction of the fat score requirement was that the subsidy was provided on the basis of maintaining animal welfare and not as a subsidy to support farmers to transport stock. However an argument exists that by supporting decisions to sell earlier by ensuring the subsidy is available to all, a better welfare outcome is achieved rather than allowing the condition of the livestock to deteriorate.

The Association does not believe that drought support measures have prevented the development of market responses to manage drought risk. It should be noted that while the financial commitment to drought support has been significant it is a smaller proportion of farmers that have actually received the support. Over the last three years the number of farmer receiving Interest Rates Subsidies has been around 5,000 to 6,000 and similarly around 8,000 have received Income Support in NSW. Given there are approximately 40,000 farms with an estimated value of agricultural operations of \$5,000 or more in NSW, these figures represent a small proportion and demonstrates that drought support measures have not prevented the development of market responses. While ongoing drought support is very much welcomed by the Association, it is not perceived that such support is of the quantum or tenure that allows farmers to not remain proactive and hope the support provides enough to bring them through a drought.

4.2 EC declaration process

The role of the National Rural Advisory Council (NRAC) in providing recommendations to the Federal Government regarding EC applications and declarations has been supported by the Association for its independence from political favour. In defining EC areas, an objective view must be taken of the defining characteristics of each area. The Association supports the principle of the National Agricultural Monitoring System, in particular the concept of harmonisation of the drought declaration process nationally. However it is believed that the

accuracy and consistency across the State and country could be improved with a greater clarity of measures used for the assessment of drought declarations.

It was made clear during the recent EC declaration process for 27 regions in NSW (Bourke and Brewarrina were reviewed in May 2008 and the 26 remaining areas were reviewed in July) that the lack of clarity on criteria and the levels of these criteria make the information collection process unnecessarily difficult. State Government authorities are left second guessing what information to provide through to the decision making process. Similarly stakeholders that participate in NRAC tours are uncertain on what NRAC is looking for when touring an area to make a decision. Decisions on pasture growth, soil moisture, crop forecasts, crop reports, livestock numbers, rainfall, temperature just to name a few are all variables that could contribute to the decision making process. Yet recent decisions appear to have been made on the basis of only one of these variables, namely rainfall.

Recommendation 3

That readily available climatic and economic data be used to assist with the assessment process and that clearly defined criteria and thresholds are provided for the EC declaration process

Despite the intentions for the process to remain objective, Members of the Association have expressed concern over the possible political influence that may play a part in the declaration process. These concerns demonstrate a lack of transparency in the declaration process. While the declaration process may follow a defined process the secrecy and short timeframes that exists with NRAC tours and information gathering leads to speculation amongst the community. The Association welcomed the opportunity to be involved in the recent EC assessment process for the 27 areas of NSW, however even with this level of involvement it was still unclear to the Association what information requirements were needed and how the decision process was progressing.

This uncertainty is further emphasised in the case of intensive agricultural operations. The Association is not aware of a reference point for irrigators or other intensive industries to be EC-declared. A possible solution for irrigators was to use data from State Water. Intensive industries also experience stress and pressures from drought. In many instances regardless of whether they are located in a drought declared area they draw feed from drought declared area. A clear example was the pork industry that has seen significant reductions in numbers as a result of high grain prices brought on by a reduced supply as a result of the drought. Similarly the current 12 month recovery period as outlined in the National Drought Policy would not cover a horticulturalist who lost their tree crops as a result of drought. In such situations the recovery period may actually be up to 10 years.

Recommendation 4

That EC support and/or drought relief be made available to horticultural and intensive livestock industries, ie. poultry, pigs, dairy, and irrigators equal to that offered to other agricultural industries.

The issue of defined boundaries and individual assessments will always draw much debate. Furthermore the actual definition of boundaries will never completely satisfy all. The increasingly sporadic and variable nature of the climate and the possibility that this may increase should raise questions on the appropriateness of the geographical boundary

assessment. In the last EC assessment process in NSW it has become evident that within areas there can be variations in rainfall that can mean the difference between a possible crop and no crop. Furthermore the definition of a boundary line often excludes those just outside the boundary. While they still suffer the same weather conditions as their next door neighbour they are unable to access the support measures.

Further to the EC declaration, the requirements that individuals meet specific assistance thresholds before they are afforded the assistance should provide reassurance to the EC declaration process. While there will always be areas within regions that are less severely affected than others the individual tests provide the assurance that enterprise who deserve support are provided the opportunity to access support.

Recommendation 5

That drought assistance and declaration procedures be upgraded, for use in future drought situations, to allow more flexibility in declarations and a better method of identifying drought through property by property assessment by the RLPB.

Recommendation 6

That the capacity be provided for individual assessment by Centrelink to determine access to household support for farm families affected by drought.

The Association does not believe that there is an ongoing expectation or complacency regarding EC declarations. Many farming families are continuing to face enormous economic and social pressures and while the support is very much appreciated there would be many that would prefer for the drought to break so they can begin to rebuild their businesses. The Association believes that the ongoing review process involved in the income support component provides for reassessment of individual situations. The fact that so few farms following these reviews have no longer been allowed the assistance demonstrates that there are very few farming families that are actually in improving situations. The provision of ongoing support is therefore still warranted.

Although there is not an ongoing expectation of support, the Association is aware that the extended EC period has led to a large dependency on the support provided. Completely "turning off" any support in one single sweep will place a very large financial burden back onto the farm business and local community. There must be a reasonable transition out of IRS and household payments to enable businesses to re-establish themselves with a few reasonable income years. For example a farmer may currently be receiving \$65,000 in interest rate subsidies per year. Simply ending the support without the opportunity for the cash flow to recover or a transitional arrangement will place large financial pressures on the farm business, the family and local community.

IRS is provided in recognition of a farmers inability to generate cashflow sufficient during a period of drought (and increased in recognition of the ongoing drought severity) to service loans taken out before the drought. As they are not available for farmers making further capital acquisitions during drought or for farmers who are clearly not sustainable they provide a clear maintenance structure through a period of recognised reduced cashflow due to drought. In recognition of the differing recovery periods for farming as opposed to breeding operations (already discussed) there should be a reasonable withdrawal phase for this measure to enable income generation to re-establish.

In assessing EC drought applications, the National Rural Advisory Council requires information on regional rainfall, including average annual rainfall; how the rainfall was received; and anomalies in how the rainfall was received. This information is critically important in facilitating consideration of the impact of rainfall as well as its frequency and duration. These factors are important particularly from a hydrological and irrigation perspective. This information provides a better understanding of the nature of a hydrological recovery from drought (particularly important for intensive and irrigated agriculture), as well as the traditionally utilised agronomic recovery. However the problem with this approach is that it is time consuming to obtain the relevant data and in many cases when such data is available drought has well and truly established itself. Hence EC is not regarded as the first step to trigger drought assistance.

It is therefore suggested that drought be defined more aptly to differentiate the different types of drought and the trigger mechanism be based on the onset of each of the different drought scenarios as all areas and regions do not suffer from the same intensity of drought simultaneously. Drought needs to be defined along the following lines to trigger assistance:

i. Meteorological Drought

This type of drought is often defined by a period of substantially diminished precipitation duration and/or intensity that persists long enough to produce a significant hydrologic imbalance. The commonly used definition of meteorological drought is an interval of time, generally of the order of months or years, during which the actual moisture supply at a given place consistently falls below the climatologically-appropriate moisture supply.

ii. Agricultural Drought

Generally occurs when there is inadequate precipitation and/or soil moisture to sustain crop or forage production systems. The water deficit results in serious damage and economic loss to plant or animal agriculture. Agricultural drought usually begins after meteorological drought but before hydrological drought and can also affect livestock and other agricultural operations.

iii. Hydrological Drought

Refers to deficiencies in surface and subsurface water supplies. It is measured as streamflow, and as lake, reservoir, and groundwater levels. There is usually a time lag between a lack of rain or snow and less measurable water in streams, lakes, and reservoirs, making hydrological measurements not the earliest indicators of drought.

iv. Socioeconomic drought

This drought occurs when physical water shortages start to affect the health, well being, and quality of life of the people, or when the drought starts to affect the supply and demand of an economic product.

Based on these stages of the onset of drought support policy could be structured to ensure appropriate support is provided at the appropriate time.

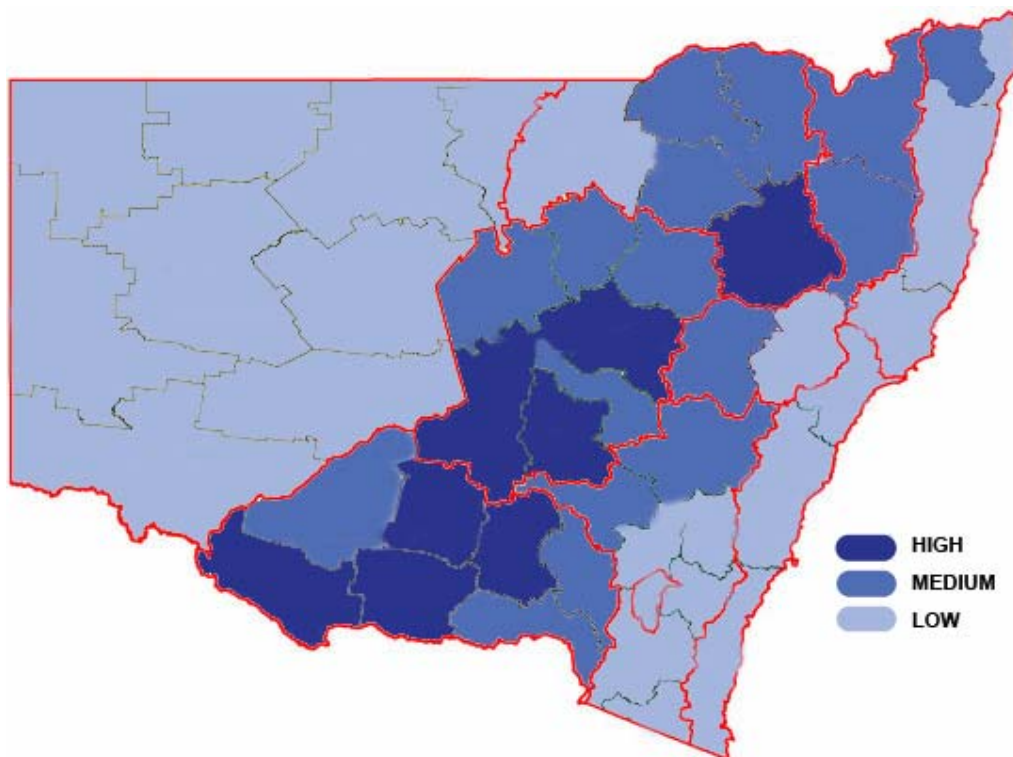
4.3 Business support measures

Interest Rate Subsidies (IRS) have provided an invaluable support mechanism for many farms in NSW. Since the commencement of the drought in 2003 over 28,000 applications for IRS have been approved in NSW with approximately \$912 million provided in support. Without this support many farm businesses and rural communities would not have managed through the drought. The importance of such business support is further accentuated by the fact that the farm business is in many cases intrinsically linked to the family household.

Figure 2 illustrates that the majority of this support has been to the cropping belt of NSW including the irrigated areas of the Murray and Murrumbidgee. In Figure 2 the total IRS expenditure per Rural Lands Protection Board ('RLPB') is broken into high exposure (greater than \$30 million) medium (\$15 to \$30 million) and low (less than \$15 million). It is clear from the illustration that the areas dominating the expenditure are those that have experienced the longest drought conditions as illustrated in the NSW drought maps in Annexure 2.

Information on the level of IRS per rateable holding however shows a slightly different picture. Breaking the information contained in Figure 2 into expenditure per rateable holding reveals that the areas in western NSW have a much higher exposure reflecting the lower property numbers, extenuated dry periods and the availability of cost effective off-farm employment in these more isolated or less developed areas.

Figure 2 Total Interest Rate Subsidy Expenditure NSW



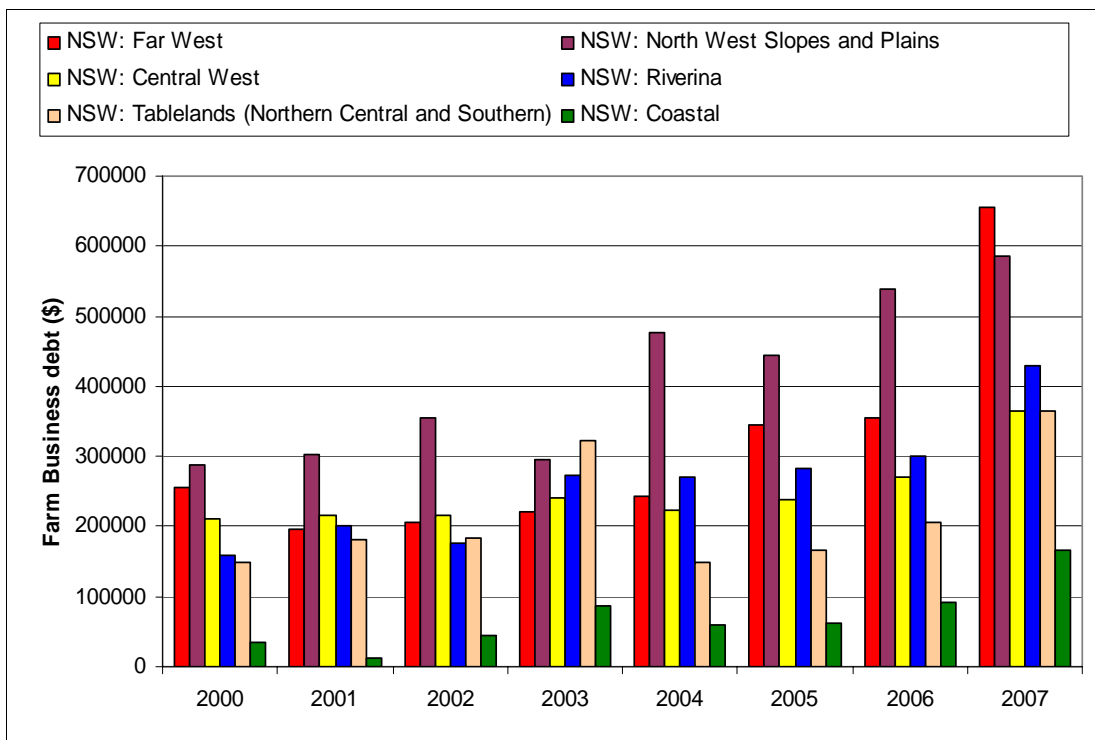
Comparing the areas of high IRS uptake with the average debt levels for farms in NSW demonstrates that the support is going to areas that most need it. Figure 3 illustrates the average farm business debt held by farm businesses in the regions of NSW for the years 2000 to 2007. It is clear that the regions of Northwest Slopes and Plains and the Far West have experienced large and growing trends in farm debt levels. The Riverina, Central West and Tablelands areas have also experienced large increases in farm debt. It is also notable that it is these areas that have most recently embraced new technology of zero til and controlled traffic farming to reduce environmental impacts which in itself is costly.

IRS has provided an invaluable tool to allow farm business to continue operating through the drought. Farming is a capital intensive operation and requires large amounts of financial investment to develop and improve productivity. The IRS has provided farmers with the

ability to maintain these previous debts and satisfy ongoing debts in order to maintain continuity of their business. Such continuity will allow for improved sustainability through the capital improvements.

As mentioned earlier in the submission current threshold levels may create disincentives to seek off farm income. As highlighted earlier an annual off farm income of \$40,000 would restrict a farmers ability to claim the IRS yet without the off farm income they might be claiming \$65,000 in IRS. It is therefore possible for a farmer receiving off farm income to be placed in a worse position than if they did not seek the off farm income. As such the Association suggests that a net position be taken into account to ensure that there is no disincentive to seek off farm income. In such a situation with \$40,000 in off-farm income the claimant could be able to access the net value of IRS for example \$25,000.

Figure 3 NSW Farm Business Debt



Source: ABARE interactive data <http://www.abareconomics.com/interactive/agsurf/>

Members of the Association have expressed that the IRS application criterion is narrow and inconsistent with some producers unfairly ineligible. An example includes a father/son partnership in the process of succession planning unable to receive the subsidies due to the father's investments for retirement, forcing the business to use the investments to keep the farm operating.

Recommendation 7

An interest rate subsidy at the EC rate or at least 60% of such interest rate continue for an extended period after the end of a drought, with a moratorium on capital repayments. Interest rate subsidies would only be available on debts accrued and not capital acquisitions.

Recommendation 8

That the Exceptional Circumstances interest rate subsidy upper limit over five years be removed.

While it acknowledged that the IRS is paid to the financial institutions where the debt is held and therefore may not directly flow into the local economy the provision of IRS frees up other cash flows to be circulated within the community. Income that may be spent servicing farm debt may instead be utilised to pay for local services and consumables which in turn circulates through the local economy.

Farmers in NSW receive a limited number of additional assistance measures from the State Government outside the Federal EC program. Input measures include transport subsidies for stock, fodder and water. Other measures include grants through various Departments for programs to help farmers implement improvement and recovery strategies and grants to assist in the payment of bills.

The transport subsidy has been very beneficial to farmers providing valuable assistance to mitigate effects of drought on livestock. In NSW approximately \$400 million has been spent assisting farmers through the drought and the Department of Primary Industries continues to receive approximately 200 applications per week for drought transport subsidies demonstrating the demand for the program. While the Association is not aware of any situations where transport operators have increased their charges as a result of the of the transport subsidy it is recognised that this could potentially occur. However it is felt that the subsidy is assisting farmers to make decisions and supporting the welfare objectives of the subsidy.

Recommendation 9

That drought freight subsidies continue to be made available for transport of fodder, water and agistment or sale for areas in drought.

Rural Financial Counsellors play a critical role in the rural community. The informal nature of their role creates an important link between the farm business and more structured financial advice. Having local contacts with experience in rural communities provides farm operators the opportunity to discuss options in a more informal setting, providing direction and suggestions before confronting the more complex and often more expensive financial advisers.

One of the concerns raised by Members and Financial Counsellors is the tenuous nature of their positions. While farmers often deal with annual financial issues the financial counsellors are only contracted for 12 months and other support workers are only contracted for 6 months. Such limited contracts limit the continuity of exposure counsellors have with rural residents and make it difficult to develop relationships and follow through with various clients. The financial security and terms of contracts need to be extended to ensure there is security of positions and continuity of service.

Recommendation 10

That Federal and State Governments contribute more funding for the Rural Financial Counselling Service, without the requirement of community funding and that the funding be provided in three year blocks.

Policy issues concerning structural adjustment in agriculture involve both efficiency and distributional issues. As outlined in Godden (1997 p. 253).

Efficiency aspects concern whether or not there are market failures or imperfections in the adjustment process that could lead to an inefficient rate of adjustment, or an eventual inefficient disposition of resources. Distributional questions are also important; is the rate of farm adjustment 'too much' for individual producers or the agricultural sector to bear? Is the 'end point' of structural adjustment socially desirable?

Given this description of the adjustment policy rationales and the expectation that dry conditions, as part of the ongoing aspects of agriculture should be planned for as part of farm businesses it is unclear of the intentions of the current exit programs established under the current drought framework. As experience in financial markets demonstrate, exiting at the worst time is not the best financial decision and to a certain extent once farmers are in drought it is often perceived that the best solution is to rationalise and see out the dry period.

Current exit strategies do not appear to target structural adjustment but rather provide a safety net for ill-prepared farmers. The low take-up rate of the current exit program is expected to be a result of the incentive not being great enough or the recognition through normal market operations farmers will make a decision based on economic circumstances regardless of the exit program provisions.

There are a number of reasons that to the current exit programs do not meet the intended outcomes. In the majority of the cases the farm is their superannuation scheme and they anticipate receiving sufficient money from the sale of all or part of farm to provide for their retirement. The current exit packages are not sufficient to enable farmers to move into other enterprises for regular income. This is coupled with the fact that the farm provides the vehicle for generational renewal, and in drought there are not many buyers to purchase the farms.

Farmers can also be reluctant to leave their farms despite severe droughts because of the sentimental value they attach to their farms. Furthermore the pride associated with farming and age of farmers contributes to the decision to access exit measures. Exit from farms is viewed as a last resort and normally takes place when the farms are foreclosed by the banks or other lending agencies. In other instances, farmers will exit farms if they have huge debts and come to realise that they are not likely to recover from it anytime soon as no further funds are available for them to continue.

Farming businesses provide the backbone for the majority of rural and regional communities. Agriculture is directly responsible for up to 40 percent of the economic activity across regional and rural NSW. However, once multiplier effects are taken into account, this is as high as 70-80 percent in most small towns in rural and regional NSW.

In terms of transparent, effective and efficient policies government needs to consider the following:

- Create a whole of government /industry policy. There is a need to set growth targets for each region. This would help to drive government actions and generate community support for them. This could be done through Business Enterprise Centres (BECs) or agencies based in local governments. There are a number of regional agencies which could work together to promote their wider area on the

national or international stage. State and local governments should facilitate this process.

- Increase incentives and funding for rural and regional programs. It is suggested that government programs that are targeted to specific industry sectors should be flexible, be available to all regional residents and take into account the diversity of circumstances between regions. Furthermore business partnerships such as industry clusters and networks should be encouraged and various government agencies should develop better coordination between the three tiers of government for business dealing with structural changes.
- Incentives such as a venture capital fund should be established for regionally based small to medium size enterprises targeted at 'higher risk' activities such as small technology-based companies. It is further suggested that the Financial Counselling Services should be expanded to focus on the provision of business support.
- Focus program delivery via fewer delivery agencies. There is a lack of coordinated effort between the three tiers of government to deal with globalisation, structural adjustment and social and economic change taking place in rural and regional areas. There is a need for a coordinated regional development policy which will facilitate the efficient and effective delivery of various programs. This would require the development and implementation of a federal-state decentralisation policy, which places greater emphasis on regional governance and innovations in fiscal policy to support regional development.

4.4 Income support

Household Support has played a critical role for families who are unable to work off farm in difficult times, and has allowed the payment of basic necessities to remain independent from the farm expenses. Income support has provided the basic safety net that is available to all other employed persons within the community while acknowledging the ongoing business of the farm operation.

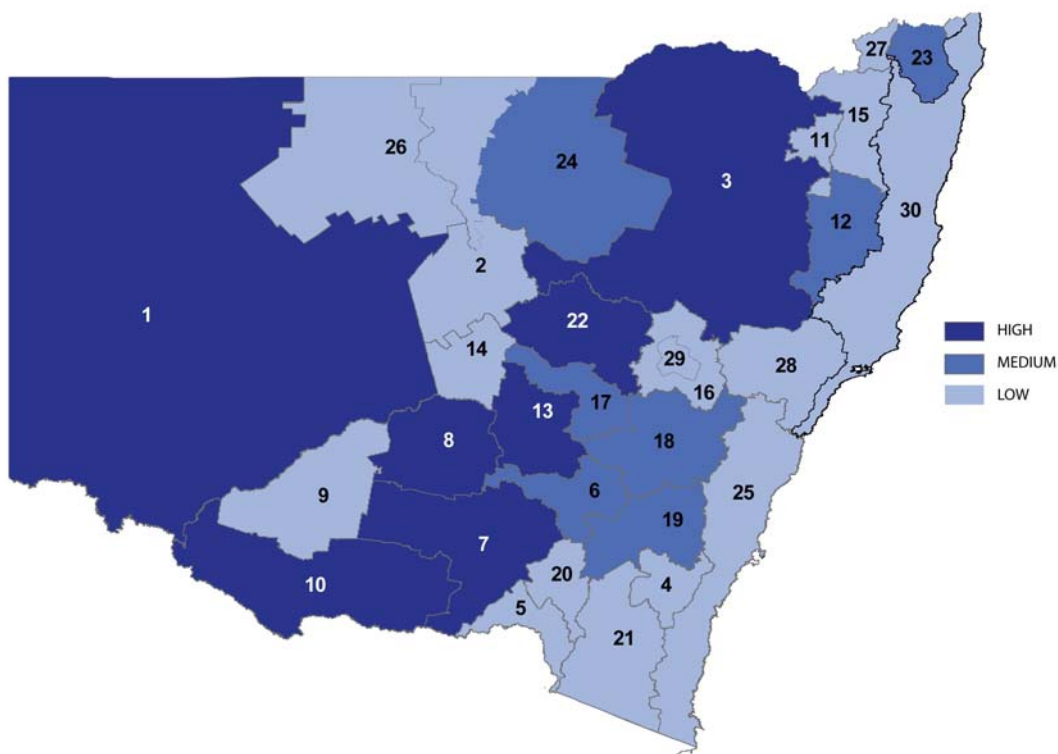
Similar to the IRS, NSW has had a large exposure to the income support components of the national drought program. For the 12 months to July 2008 there were over 8,000 farmers in NSW receiving income support with a total expenditure of \$4.82 million. Figure 4 illustrates the areas in NSW that had the greatest expenditure of income support. The graph illustrates the areas with high (greater than \$6 million) medium (between \$2 and \$6 million) and low (less than \$2 million) expenditure. As expected, the areas are similar to those for the IRS and reflect the main cropping belt of NSW and the Far West area. Within these areas the main commodity enterprises were dryland beef producers with approximately 12 percent of expenditure, Sheep/beef operations (10 percent), dryland sheep operations (7 percent), and dryland cropping (5 percent).

The areas of high expenditure reflect closely the areas of NSW that have experienced drier periods through the latter part of 2007 and early 2008. Annexure 2 illustrates the NSW drought status through 2007 and 2008 with the areas in drought through this period closely reflecting the areas of high income support expenditure. Such a correlation suggests the support is reaching those areas that need it the most. Furthermore it is expected that the regular review process associated with income support captures any changes in individual circumstances that would mean they fall outside the provisions and requirements for the support. It was noted by Members of the Association that for those families with a spouse working off farm, it can often be a tedious process to report to Centrelink if the work is

irregular (such as part time shift work) and can result in the turning down of work if the hours exceed the Household Support restrictions.

Income Support has offered a safety net in low income years, relaxing the financial and mental strain of the extreme drought. Members have expressed that small businesses within the towns of Parkes, Grenfell, Condobolin and Forbes and surrounding villages would not have survived without the money filtering through from Income Support. Furthermore Members have raised concerns that if EC (including Income Support) was removed by the end of 2008, great hardship would occur, even if the season was positive, and a gradual process is necessary to allow for adjustment, at both farm enterprise and local community level.

Figure 4 NSW Total EC Relief Payment for year 2007/08 as of April 2008



Poor access to general health services remains a predominant concern for Members, particularly as rural and remote Australians have poorer health than their metropolitan counterparts (Australian Institute of Health and Welfare, 2005). Given that this statistic is true of 'normal' periods, it is fair to assume that the health of rural and remote Australians is even worse during times of extreme stress and hardship, including the current drought.

It is believed that health is not adequately addressed in the farm family welfare package. Traditionally farming families experiencing drought tend to focus on maintenance of the business and neglect person health issues and these issues can be compounded through the physical and mental effects of drought. While the income support does provide for some ongoing financial commitments these often do not include health care or dental care. This is discussed in further detail in the Association's submission to the Expert Social Panel.

The increasing focus on economic considerations appears to highlight an anomaly in agricultural assistance during periods of drought which concurrently includes elements to hold farmers on the farm while others encourage farmers to exit.

As highlighted earlier in the submission under the section "Rationales for government drought support", policy economists recognise that in a competitive market economy, government resources are most appropriately targeted towards correcting instances of market failure, which is defined as the situation where freely operating markets do not provide the most desirable outcome for society as a whole.

The Australian society generally believes in "having a fair go" and is concerned with the alleviation of poverty. Numerous reports show that severe droughts normally lead to poverty in the rural and regional communities. The relevant market failure in the case of drought is the concern that freely operating markets will not provide a socially optimal level of welfare to all citizens. The appropriate response of Government is therefore the provision of welfare assistance to persons who are unable to generate sufficient income to attain a certain minimum standard of living.

It therefore follows that farm family welfare concerns are most appropriately addressed by providing support directly to the individuals and households who are in poverty. According to Milham and Davenport (1995) the Australian social security system has not been designed so as to adequately cater for self-employed persons such as farmers who become impoverished, with the major barriers to access being the assets and work activity test arrangements. Farmers have therefore experienced difficulty in accessing general welfare measures.

Since self-employed farmers and contractors cannot be readily absorbed into the workforce, they should be eligible for a social security type of payment. Criteria need to be developed and those that meet the criteria should qualify for social security-type payments during droughts. Furthermore, payments need to be based on individual circumstances as drought affects individual farms differently.

Eligibility for payments should be made on a case by case basis, and dependent on the farmer's actual (not potential) income streams and their total capital base value. While it is acknowledged that certain prerequisites for income support may be beneficial towards encouraging skills development and business sustainability it is often difficult in times of drought when the support is provided to implement such preparedness actions. As such the potential benefits of such co-sponsored arrangements should be considered before support becomes contingent on completing such activities.

Assistance however should not be based on the basis of allowing the equity in assets to be run down to a certain level. If this is going to be the case then it will take the farmers much longer to recover from drought or even make the farms non-viable.

Another policy tool available to the Federal Government is a system similar to that previously trialled, the *Land Stewardship Program*. The Association believes that a voluntary based system which pays farmers for the maintenance of certain parts of land which has a community value, would be beneficial to both the farmer and the nation generally. As previously stated, potential land degradation can be exacerbated during periods of drought which affects not only the land owner, but all ecological systems tied to that land.

4.5 Environmental and natural resource management considerations

The environmental consequences of drought and how best to manage this is a careful balance between economics and the environment. While farmers are recognised as being environmental stewards with a direct interest in the environmental and biodiversity characteristics of their land, particularly as it contributes to the productive capability, there is considerable tension between maintaining economic viability and possible environmental degradation as a result of drought. The dramatic pictures of sheep in barren landscapes are often posted as images of the drought creating falsified beliefs that farmers are degrading the landscape. The problem however is that as stewards of the land farmers do not receive any community support for the environmental services they provide. If there is a demonstrable community benefit from retaining environmental value this needs to be recognised and therefore realised in any economic considerations farmers are making as a result of the drought.

As the custodians of collective community interests the Government has a role to play in recognising environmental values and developing policies to reflect such community values. It is not believed that current government support is sufficient to influence any changes to environmental consequences of severe drought. It is here that other government policies such as those on water and vegetation could play a much larger role. Running in conjunction with drought policy which is designed to support the welfare and economic continuance of agriculture, environmental and water policy could support increased sustainability and better environmental outcomes without compromising the economic productivity of the landscape.

However the supposed purists' view of removing farmers from the landscape is definitely not the answer. During a drought, which is a natural occurrence in the driest continent on the planet, vegetation is depleted. Following the end of the drought when recovery occurs the first and fastest growing vegetation are the weeds. Maintaining farmers on the land helps to rebuild the environmental value in the land after times of drought and perhaps it is during these phases that such initiatives can be taken to improve the environmental qualities of the land.

Recommendation 11

Government should introduce a 'Natural Disaster Conservation Grant' which will provide emergency funding and technical assistance to farmers to prevent and rehabilitate farmland damaged by natural disasters such as drought, and for carrying out emergency water conservation measures in case of severe drought.

To be eligible for such program, the natural disaster must create new conservation problems that if untreated would:

- Impair or danger the land
- Materially affect the land's productivity capacity
- Be so costly to repair that government assistance is or will be required to return the land to productive agricultural use
- Increase surface and ground water retention by a target amount annually within prevalent drought areas within groundwater tables and streams

4.6 Interaction between programs

As outlined earlier in this submission drought policy needs to be considered within the context of a whole suite of government policies. Financial policies including Farm Management Deposits (FMDs) and other taxation devices are included in this suite. Firstly it

needs to be noted that the intended policy outcome for FMDs and the reason for their development was as a tax management tool. Because of the huge variability of farm income due to the seasonal income streams and variations between seasons FMDs provide a valuable income equalisation scheme that has beneficial financial outcomes in business planning and operations.

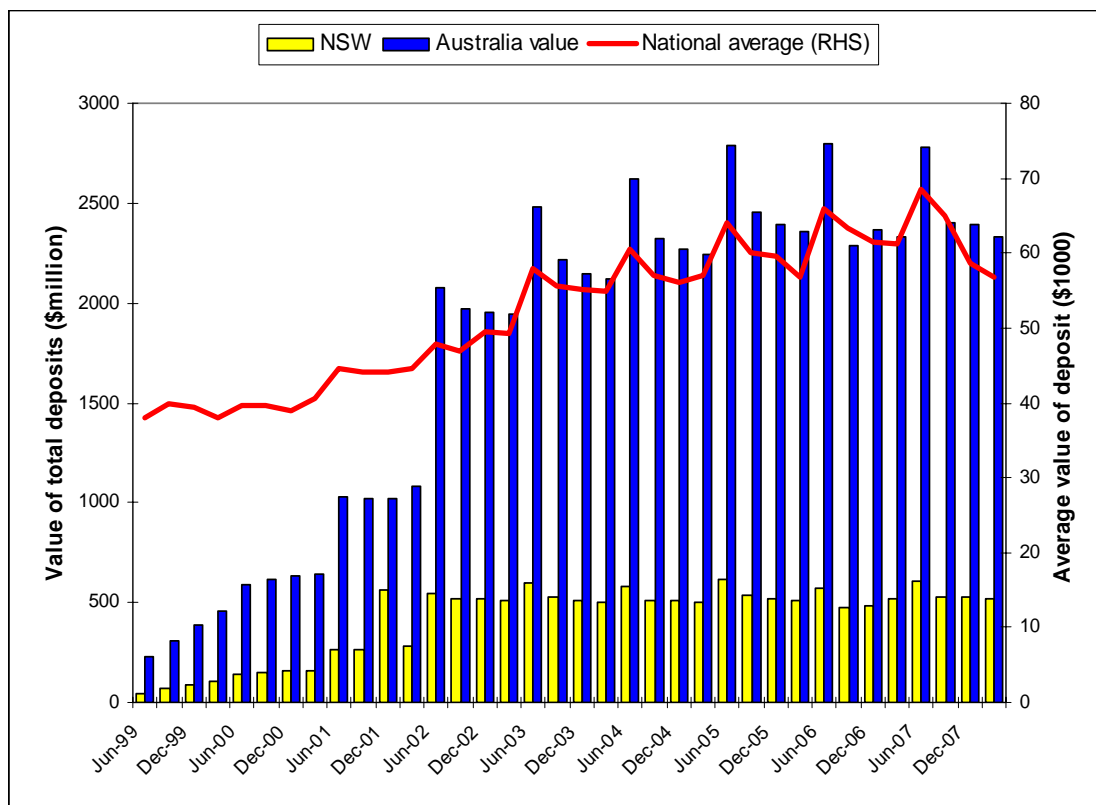
FMDs have become a popular tool for income equalisation within farm businesses. As Figure 5 illustrates, after its establishment in April 1999 FMDs have increased in popularity with the national value now at approximately \$2.3 billion. NSW however has experienced a moderation in demand with the total value held in FMDs hovering around the \$500 million. It could be argued that the development and continuation of the drought from 2002 has contributed to this outcome.

Recommendation 12

That Farm Management Deposits be retained to allow all farmers to actively manage their highly variable income, with eligibility criteria amended to include Trusts and Companies.

One concern raised by Members is that FMDs are not available to all business structures. For example trusts and companies cannot access them. While the majority of farm businesses are run as sole traders or partnerships there is a significant proportion (approximately 10 percent) that are run as trusts or companies making them ineligible to access FMDs. FMDs should be available to all farm business structures.

Figure 5 Farm Management Deposits



There is some commentary that suggests FMDs have not been utilised during the drought and that farmers are relying on support measures before drawing down on the FMDs. The Association is not aware of any situations where this is the case. The Review of Farm Management Deposit Schemes in 2006 noted that in reference to the drought, "66 per cent of farmers who have held FMDs have now made withdrawals from their accounts ... New South Wales had by far the largest withdrawal rate of all the states, reflecting drought conditions." Furthermore the review noted that, "the Scheme is, prima facia, meeting its objectives as a tax-linked, financial risk management tool for primary producers." As an income equalisation scheme FMDs will be invested and drawn down according to income flows. For cropping cycles this will usually mean that in good seasons they are invested and then when dry times arrive they are drawn down. Livestock operations however have a lag on the cropping season with the onset of dry periods leading to a sell off of livestock, spikes in income generations and therefore possibly increased contributions to FMDs. Similarly livestock enterprises will probably not draw down on the FMDs until they are in a position to rebuild the herd after a drought. Without more detailed data on the breakdown of FMD according to farming type it is difficult to confirm that FMDs are not being used accordingly. The Association does note that the application process for both Income Support and IRS make reference to FMDs and therefore presume that any funds held in FMDs are taken into account when determining eligibility for drought support.

Further comments have been made by Association members about the cap on FMDs. Current requirements only permit investments of up to \$400,000 in FMDs. The Association recommends that consideration be given to increasing the maximum cap on FMDs to ensure they can act as risk management tools for extended periods of low or no income. The conservative interest rates that currently apply to FMDs would suggest that farmers should not be using FMDs as an income generating tool and therefore the amount of monies invested should be in consideration of how much reserves are needed when income are low. In addition the taxation arrangements ensure that when the investment is drawn down it is included as income for that financial year and therefore from a tax minimisation position there would be no incentive to hold more funds in an FMD than what could be expected to be a normal income year.

4.7 Program implementation

The application process for EC assistance is long, protracted and complex. It is even more frustrating for farmers completing these applications that they must complete forms with similar information for a number of different agencies. The Productivity Commission (2007 p.101) noted in its assessment of regulatory burden that, "there may be scope to streamline support through adjustments to administrative arrangements." Developing a single system that allowed farmers to complete one form and then have these records be made available for the assessment of different forms of support would greatly reduce the burden and complications of completing numerous forms.

It was noted in the Productivity Commission (2007 p101) report by the Department of Agriculture Fisheries and Forestry that although efforts were made to reduce the administrative complexity, "drought programs addressed a range of target groups and required different expertise and experience to administer." While cognisant of the differences between drought programs, the Association notes that in the application forms for the IRS through the NSW Rural Assistance Authority and the Income support payments administered by Centrelink both require general identifying information, copies of latest balance sheets, cash flow budgets and income tax returns, and market values of property. Centralising the collection of such information and providing a commons system across agencies would remove the duplication and address these administrative inefficiencies.

Recommendation 13

That the format for Exceptional Circumstances drought applications be standardised and centralised in a common system.

Concerns have been raised by Association Members regarding the customer service provided by agencies when applying for support. General comments focused around the time it took to contact anyone, the lack of understanding of the issues, and the inability for individuals to answer the questions. The Association was fortunate to secure a Rural Service Officer on secondment from Centrelink in early 2008. This service which allows Members to call in via the Association contact numbers and speak directly with a dedicated Centrelink officer who is experienced in the area has been of significant benefit for Association's Members. It has also provided the staff within the Association the valuable opportunity to deal directly with Centrelink and develop working relationships that promote greater understanding and communication. This unique partnership arrangement between Government agencies and peak bodies should be commended and broader application considered in the future.

Appropriate timing of announcements is imperative. Currently Centrelink has legislative requirements to contact those receiving income support six weeks prior to the expiry of an EC declared area. When areas are due to expire the Association often receives concerned phone calls from Members when these letters arrive in the mail and there is no indication that the EC declaration will be continued. This causes undue stress and concern among rural residents with farmers often unnecessarily assuming the worst, that the EC declaration will not be rolled over. Timing announcements of EC declared areas to coincide with communications from all authorities will ameliorate any situation of mixed messages. The ability to have time to plan for business decisions is imperative to allow businesses to make effective decisions and prepare for ongoing activities.

Recommendation 14

That announcements of EC declarations be structured to coincide with other information provided by authorities and provide recipients with the suitable notice period of at least six weeks.

Timing of assistance periods should also be determined with consideration of seasonal fluctuations of agriculture and the resulting inconsistency of cash flows. The implications of this concern are currently being witnessed in NSW. 26 EC declarations were due to expire at the end of September. With a large number of those currently receiving support located in the NSW grain belt, many will be waiting for the outcome of this year's wheat harvest before they consider themselves in a position of recovery. As it has been seen previously the uncertainty with the season and the potential for unsuccessful crops could potentially mean farmers receiving support have the opportunity to access that support removed for three months before they receive any income from the wheat harvest in November. Structuring expiry dates to coincide with periods following key growing seasons such as after autumn and following spring will allow for farmers and decision makers to be better placed to recover following the removal of any declaration.

Recommendation 15

That EC declaration periods be structured so that expiry dates occur after key growing periods in the agricultural calendar and allow for consideration of demonstrated economic recovery.

The timing of EC declarations also place added pressures on limited resources within agencies leading to increased delays in processing during times of high demand. The key dates around announcements and extensions need to be recognised as times of high demand and suitable resources and strategies need to be implemented to ensure timely assessment and approval of applications

There are a number of arguments in favour of a national-based as opposed to state-based drought policy approaches:

- Equity: Different states and territories have different political leanings and perspectives on the role of the State in supporting farmers during times of drought. Having one state support farmers to a higher degree than farmers in another state significantly disadvantages the competitiveness of the latter (this is made all the more difficult given the magnitude of different support tools used by Governments to support farmers); and
- Cost savings with a centralisation of operations: A national system avoids the costs associated with the duplication of efforts if individual states were to take on drought support roles.

5 What are the alternatives?

In the development of any drought policy there need to be a number of instruments made available that allow for the diversity of individual situations and to target specific areas. The Association believes that the Income Support measures under the current drought policy are imperative for ensuring the protection of minimum welfare levels. Furthermore provisions must be available for the support of the farming business structure in times of severe drought. A number of alternatives are considered below. The Association believes that any consideration of alternatives should bear strong acknowledgement of the current demographics of farming and the need to provide incentives or encouragement for younger farmers to enter the industry. Furthermore incentives should be targeted at landholders to encourage the adoption of new technology, innovations, land management practices, benchmarking (for reflection and review purposes, as well as planning and future drought-proofing), and water-use efficiency etc.

5.1 Income contingent loans

Income contingent loans where the repayment depends on the future income of the recipient of the loan can provide another form of drought support. Bruce Chapman (2006 p.2) argues that:

One of the important motivations for income contingent loans organised through the public sector is that such interventions, compared to commercial bank loans, have the capacity to significantly reduce borrowing risks from private beneficiaries in a way that might be both equitable and beneficial to society generally. These arrangements also mean that finance can be made available for projects that would otherwise not have access to loans. As implied above, there are other reasons for such interventions, such as to reduce public sector outlays and to make fairer government intervention by converting taxpayer financed grants into income contingent loans.

In late 2007 the Association developed a proposal for an income contingent loan with the aim to provide cash flow/financial assistance to maintain core agricultural business activities so that business can continue to operate, help retain the rural skills base, sustain rural and regional communities, and assist farm businesses to prepare for climate change.

A number of criteria were developed in order to satisfy the Government and the general public that assistance is genuinely required and that any assistance which is provided will be utilised for the purposes intended. These criteria included:

- i. The applicant must be located in a current Exceptional Circumstances drought declared area.
- ii. The applicant must demonstrate long term farm viability through the provision of a lenders certificate
- iii. Financial support would be based upon a business plan which clearly outlines the activities for the forthcoming period
- iv. The scheme would provide financial support as either a HECs style loan (increased only as per CPI) or as a low interest loan.
- v. The approved funding would be either deposited as a lump sum into the farm's bank account or it would be paid upon the submission of invoices.
- vi. Timeframe of the program
- vii. Financial support could not be used for new capital expenditure
- viii. The applicant must be a primary producer with an Australian Business Number who is able to demonstrate 3 years of agricultural history (banks would determine whether young farmers are eligible for the scheme).

Unfortunately the proposal was not supported by Government at the time. However, the Association believes that the proposal still has merit and welcomes the Commission's consideration of the concepts.

5.2 Tax reform

Tax reform is seen by the Association as an opportunity to encourage investment in capital items that assist in drought preparedness. Incentives such as accelerated depreciation and tax deductibility on capital items encourage investment in these areas and through targeted measures can therefore be used to stimulate investment in drought preparedness measures.

Recommendation 16

That drought preparedness incentives be developed, including the pursuit of a system of drought stockfeed preparedness through accelerated income tax deductibility for capital items.

Recommendation 17

That 100 percent tax deductibility in the year of expenditure be introduced for:

- a) dams, bores, pumps and water reticulation facilities; and
- b) grain, hay and fodder storage facilities;

Consideration should be given to the possibilities of providing a taxation incentive on the purchase of grain hay or fodder to encourage it's purchase or storage. It is one thing to provide the facilities to store the fodder or grain, it is another question of purchasing or actually storing the fodder.

Members of the Association however expressed that no amount of tax incentives or accelerated depreciation was going to beat cash in the bank and for that reason FMDs were

a vital necessity to prepare for the next drought. As mentioned above any measures including taxation measures need to be considered in the context of a range of support mechanisms.

5.3 Insurance and derivatives

A policy tool that could potentially be adopted by the government relates to the market failure associated with the lack of crop insurance tools available to farmers. Drought support services such as EC support and the perceived non-commerciality of crop insurance has meant that farmers have not been able to use insurance tools to mitigate against the potential effects of drought. A Government underwritten crop-insurance type system would go towards enticing farmers to adopt financial responsibilities for their long-term commercial viability, there is sufficient scope to justify Government intervention in this market failure.

While private crop insurance for hail and fire damage has been widely available for some time, it would appear due to the commercial returns available to insurance providers of these two policies given the relatively lower risks of occurrence, drought insurance has failed to become a commercial tool offered by insurance providers.

An insurance system would, in an ideal situation, be revenue neutral. This would remove the financial burden that EC support mechanisms have on tax payers. Introducing such a scheme at a time when most of the country is, or is at least forecasted to move out of drought, would maximise the time for which the insurance fund would be able to build a sizeable premium capital base to be able to fund future drought payments. Further, the insurance system could offer decreased premiums the earlier in the scheme the farmer joins so as to overcome the issue of farmers simply waiting until the potential for a drought becomes immediately imminent.

Farmers would have the financial incentive to be more drought ready if the insurance system was able to be tiered so that a farmer could see their premiums linked to the levels of drought preparedness practices they have adopted on their farm.

It remains unclear however how commercially viable 'drought/crop insurance' would be to any other group (such as the private sector) to offer. According to the Royal Geographic Society of Queensland, the non-commerciality of drought insurance was raised by the Industries Assistance Commission (IAC, 1986) and Bureau of Agricultural Economics (BAE, 1986) in their respective submissions to the 1985 National Drought Consultative Committee. In effect, the RGSC claim, neither supported the concept of drought/crop insurance because it would prove to be too costly given the limited ability of insurers to 'risk pool' (that is, spreading the risk to other areas and other hazards) from the large areas and number of farmers affected by droughts.

5.4 Choice of assistance options

In developing a choice of assistance options, consideration must be given to the formation of a new Federal Government Drought Policy umbrella institution managing drought, climate change, water and environmental sustainability policies.

Despite the National Drought Policy, the various organisations involved with assistance and mitigation have not been very efficient and effective in coordinating their activities to develop a unified and streamlined policy framework for drought support. There could be many reasons for this, however one that has been commented on widely in the literature on drought is the lack of coordination of the activities of the various institutions involved with water and drought management.

Drought, Climate Change, Water Management and Environmental Sustainability are intrinsically linked. The situation in Australia is that while Water and Environmental Sustainability is under one Ministry, responsibilities for drought falls under another Ministry while Climate Change falls under yet another.

Given that interconnectedness of these policy issues, it is suggested that a special institution should be established either in Ministry for Agriculture, Fisheries and Forestry or in Ministry for Climate Change and Water known as the 'Australian Drought and Climate Change Mitigation and Information Centre' (ADCCMIC), which would be able to centralise all the policy operations relevant to drought. A similar Centre exists in the United States, called the 'National Drought Mitigation Centre', which was established in 1995.

It is suggested that the primary function of ADCCMIC would be to:

- Incorporate planning, implementation of plans and proactive mitigation measures, risk management, resource stewardship, environmental considerations, and public education as the key elements of effective national drought, climate change and water policies;
- Develop partnership with State Governments, Local Government and other stakeholders to ensure effective coordination of drought and climate change risk management and response activities;
- Improve collaboration among scientists and managers to enhance the effectiveness of observation networks, monitoring, prediction, information delivery, and applied research and to foster public understanding of and preparedness for drought and climate change;
- Provide analysis and reporting mechanisms to advise government Ministers of the risk of drought and determine the capacity of the agricultural sector, environment and existing programs to cope with the effects of drought and climate change;
- Develop and incorporate comprehensive insurance and financial strategies into drought and climate change preparedness plans to address exceptional drought conditions;
- Maintain a safety net of emergency relief that emphasizes sound stewardship of natural resources and self-help; and
- Coordinate drought, climate change and water programs and respond effectively, efficiently, and in a customer-oriented manner.

The establishment of ADMIC will ensure that there is no conflict between drought, climate change and water policies.

Recommendation 18

That the Federal Government establish an umbrella institution which would be able to centralise the development and application of all agriculture relevant policy.

5.5 Other options

In response to the ongoing drought the Association formed a Drought Taskforce in November 2006 to develop a number of alternative mechanisms that could be employed to assist farmers manage the ongoing drought. These measures were developed in the context of many areas in NSW having suffered ongoing drought for four years and where therefore seen as measures to assist with the short term pressures of drought. However a number of them could be applied in a longer term context.

5.5.1 Modification of existing measures

- i. Relaxing the income and asset thresholds – Under the current arrangements to be eligible for the EC income support payments applicants must satisfy an off-farm income threshold of approximately \$40,000 per annum. They must also satisfy an off-farm asset test of \$243,500 for a couple. As outlined earlier in this submission the current threshold may act as a disincentive to farming households seeking off farm income.

Recommendation 19

That thresholds for off-farm assets and income in relation to the EC IRS and Income Support payments be increased and that the present off-farm assets test be raised to a level not exceeding 50% of the value of the farm assets where that value is higher than the current thresholds.

- ii. Accessibility of the family support (Newstart) criteria to be extended to farm contractors. The Association welcomed the changes made by the previous Federal Government that made the income support measures available to farm contractors and other small businesses that have income reliant on agricultural operations. These operators are vital for the continued operations of agriculture and support for these businesses will ensure that when the drought breaks the services are still available to the agricultural community.
- iii. Increase the presence of Rural Financial Counsellors – With the continuation of the drought and the exposure of the rural financial counsellors the services that they provide to farmers and rural communities is invaluable. In the 2004 assessment (National Rural Advisory Council 2004 p.11) of Rural Financial Counselling service program the review committee expressed the view that;

...Due to continuing adjustment pressures in the farm sector, there will be a long-term need for information and decision-making support by farm and fishing enterprises considering their future in the industry, and by small rural businesses dependent on these industries”.

Concerns were raised in 2006 that the funding for these services would be reduced in light of growing demand. The Association was pleased to see the increased and ongoing commitment by the Federal Government for these services since 2006

- iv. Regional gatherings – Regional gatherings provide an important opportunity for people in rural communities to come together and share experiences in a social environment. Through such discussions information can be shared on issues such as access to assistance, mental health, farm operations, and other issues that area affecting rural communities. The NSW DPI host Farm Family Gatherings through the Drought Support Workers. These events has proven to be very popular with farming communities. The DPI reportedly held 91 of these events in June 2008 alone.
- v. Funding for mental health services – The impacts of drought on mental health are well recognised with statistics on suicides showing concerning high levels among rural males. Activities that increase the profile of mental health and the services available to assist rural residents are essential to mitigate the ongoing social effects of the drought.

The Association established a Rural Mental health Network in 2005 with the purpose of improving and maintaining the mental health and wellbeing of the people in farming in NSW by using all available resources efficiently and effectively. The Network brings together a range of organisations involved in rural mental health allowing for a sharing of resources and networking of ideas. In 2007 the Network secured \$100,000 from NSW Health for mental health first aid training. Following a number of successful two day courses the Network has recently approved the roll out of a number of short three hour courses that will be more attractive to those with time restraints. Similar courses and resources need to be made available to residents in rural NSW and indeed across Australia.

- vi. Access to healthcare cards – Presently those people receiving EC family support payments form Centrelink automatically receive a healthcare card. The Association believes that this system should be made available to all farmers in EC declared areas. The poor state of physical and mental health in rural areas is well documented. This is further exacerbated in times of drought when personal health is often compromised in favour of maintaining the household or business. Allowing access to the healthcare card will make health services more financially accessible for those people who need it during times of drought. This is discussed further in the Association's submission to the Expert Social Panel.
- vii. Access to Youth Allowance – currently families that can access EC Income Support payments have the assets test waived for their children accessing the Youth Allowance. This is a very beneficial mechanism and it supports families continuing their children's education through times of drought. However once the family comes out of EC the assets test reapplies and families, when income is still tight following drought, are forced to meet the payments or the student has to seek work to demonstrate eligibility for Youth allowance. Consideration should be given to extending the exclusion of assets criteria until the student completes their higher education.
- viii. Transport subsidies – As mentioned earlier in this submission the NSW Government reduced the availability of transport subsidies to those transporting stock with a fat score of between one and three. The Association believes that such a condition could impact on business decisions to off load stock early as they will not be able to access the subsidy.
- ix. Fixed charges for irrigation water – the Association believes that the Government should waive fixed charges for irrigation water supply and stock and domestic use in those catchments where surface water allocations reach zero. In NSW the Government has taken an inconsistent approach with the Minister for natural Resources deferring the fixed charges for the Lachlan catchment during a zero allocation period however the Murray and Macquarie catchments reached zero allocations with no rate relief.

Recommendation 20

That the Government waive fixed charges for irrigation water supply and stock and domestic use in those catchments where surface water allocations reach zero.

5.5.2 New measures

- i. Alternative seed variety release arrangements – The Association believes there is the need for alternative seed variety release arrangements to provide growers

- affected by drought access to good quality and relatively inexpensive seed. During times of drought the level of seed available for replanting is low and subsequently the prices are high. Under Plant Breeders legislation there are restrictions on the use of identified varieties such that the grain cannot be sold, traded or bartered as seed for sowing. To allow for greater availability of seed the Association proposes that the Federal Government permit 'farmer to farmer' trading of Plant Breeding Rights (PBR) protected seed on the proviso that the seed is supplied through a third party such as Elders, Landmark or GrainCorp and an end point royalty is paid.
- ii. Support for crop planting – following a failed crop due to drought grain farmers will have limited access to capital for which to plant their following season's crop. The length of the current drought has exacerbated this situation further. Providing access to finance to allow for the planting of next seasons crop (possibly in the form of an income contingent loan) would allow farmers to plant the crop and hopefully return an income at the end of the season.
 - iii. Support for maintenance of core breeding stock – within a livestock operation farmers will have a core breeding stock from which the desired characteristics and genetics are grown for their operation. Providing funding to maintain this core breeding stock will retain these valuable genetics within the herd and also provide a platform from which progeny can be raised following the drought.
 - iv. Waiving, deferment of charges for utilities and services – currently NSW does not have provisions for the waiving of local service charges and fees. It is recognised that some other states do have provisions, thereby creating disadvantages for NSW farmers. Waiving or subsidising charges such as local government rates, RLPB rates, and vehicle registration would free up valuable cash flow to allow households to provide basic provisions.

Recommendation 21

The all State Governments provide a 50% rate subsidy for local government farmland rates in EC declared areas for the duration of the declaration

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Annexure 1 – Crop Insurance Schemes in the US

USDA's Risk Management Agency (RMA)

The US Congress first authorized Federal crop insurance in the 1930s along with other initiatives to help agriculture recover from the combined effects of the Great Depression and the Dust Bowl.

The role of USDA's Risk Management Agency (RMA) is to help producers manage their business risks through effective, market based risk management solutions. RMA's mission is to promote, support, and regulate sound risk management solutions to preserve and strengthen the economic stability of America's agricultural producers. As part of this mission, RMA operates and manages the Federal Crop Insurance Corporation (FCIC). RMA was created in 1996; where as FCIC was founded in 1938 to carry out the crop insurance program.

Federal Crop Insurance Corporation

Initially, the program was started as an experiment, and crop insurance activities were mostly limited to major crops in the main producing areas. Crop insurance remained an experiment until passage of the Federal Crop Insurance Act of 1980.

The 1980 Act expanded the crop insurance program to many more crops and regions of the country. It encouraged expansion to replace the free disaster coverage (compensation to farmers for prevented planting losses and yield losses) offered under Farm Bills created in the 1960s and 1970s, because the free coverage competed with the experimental crop insurance program. To encourage participation in the expanded crop insurance program, the 1980 Act authorized a subsidy equal to 30 percent of the crop insurance premium limited to the dollar amount at 65 percent coverage.

Federal Crop Insurance Reform Act

However, dissatisfaction with the annual ad hoc disaster bills that were competing with the crop insurance program led to enactment of the Federal Crop Insurance Reform Act of 1994.

The 1994 Act made participation in the crop insurance program mandatory for farmers to be eligible for deficiency payments under price support programs, certain loans, and other benefits. Because participation was mandatory, catastrophic (CAT) coverage was created. CAT coverage compensated farmers for losses exceeding 50 percent of an average yield paid at 60 percent of the price established for the crop for that year. The premium for CAT coverage was completely subsidized.

In 1996, Congress repealed the mandatory participation requirement. However, farmers who accepted other benefits were required to purchase crop insurance or otherwise waive their eligibility for any disaster benefits that might be made available for the crop year. These provisions are still in effect.

Participation in the crop insurance program increased significantly following enactment of the 1994 Act. For example, in 1998, more than 180 million acres of farmland were insured under the program. This is more than three times the acreage insured in 1988, and more than twice the acreage insured in 1993. According to estimates by the USDA National Agricultural Statistics Service, in 1998, about two-thirds of the country's total planted acreage of field crops (except for hay) was insured under the program. The liability (or value of the insurance in force) in 1998 was \$28 billion, the largest amount since the inception of the program. The

total premium, which includes subsidy, and the premium paid by insured persons (nearly \$950 million) were also record figures.

However by 2007 the size of the program has grown tremendously. In the fiscal year 2007 there were 1.13 million policies, the premium value was \$6.55 billion and the crop value insured was \$67.2 billion

In 2000, Congress enacted legislation that expanded the role of the private sector allowing entities to participate in conducting research and development of new insurance products and features. With the expansion of the contracting and partnering authority, RMA can enter into contracts or create partnerships for research and development of new and innovative insurance products. Private entities may also submit unsolicited proposals for insurance products to the Board for approval. If approved by the Board, these unsolicited insurance products could receive reimbursement for research, development and operating costs, in addition to any approved premium subsidies and reinsurance. After three years the private entity may elect to retain ownership of the insurance product and charge a fee, as approved by the Board, to other insurance providers who sell the product or elect to transfer ownership of the product to RMA.

Premium subsidies were increased to encourage producers to purchase higher insurance coverage levels and to make the insurance program more attractive to prospective producers.

The details of how the insurance program works is outlined below

Details of How the Crop Insurance Program Works in the US

The Crop Insurance Contract

A crop insurance contract is a commitment between insured farmers and their insurance providers. Either party has the right to cancel or terminate the contract at the end of each crop year. Unless the contract is canceled, it is normally automatically renewed the following year.

Under the contract, the insured farmer agrees to insure all the eligible acreage of a crop planted in a particular county. This choice is made county by county and crop by crop. All eligible acreage must be insured to reduce the potential for adverse selection against the insurance provider. Adverse selection generally exists whenever the insured person has better knowledge of the relative riskiness of a particular situation than the insurance provider does.

The insurance provider agrees to indemnify (that is, to protect) the insured farmer against losses that occur during the crop year. In most cases, the insurance covers loss of yield exceeding a deductible amount. Losses must be due to unavoidable perils beyond the farmer's control.

Over the last few years, products that combine yield and price coverage have been introduced. These products cover loss in value due to a change in market price during the insurance period, in addition to the perils covered by the standard loss of yield coverage. Crop insurance policies also typically indemnify the insured person for other adverse events, such as the inability to plant or excessive loss of quality due to adverse weather. The nature and scope of this "helper" coverage vary depending on the crop. This is because of the differences in crops individual natures.

Publication of Policies

Crop insurance contracts developed by Federal Crop Insurance Corporation (FCIC) are published in the Code of Federal Regulations (CFR). Policies may also be developed by commercial, private sector insurance providers. If approved by FCIC, privately developed policies may replace or supplement the policies developed by FCIC. However, these policies are not published as regulations. Instead, a notice of availability is published in the CFR.

Government and Private Sector Roles

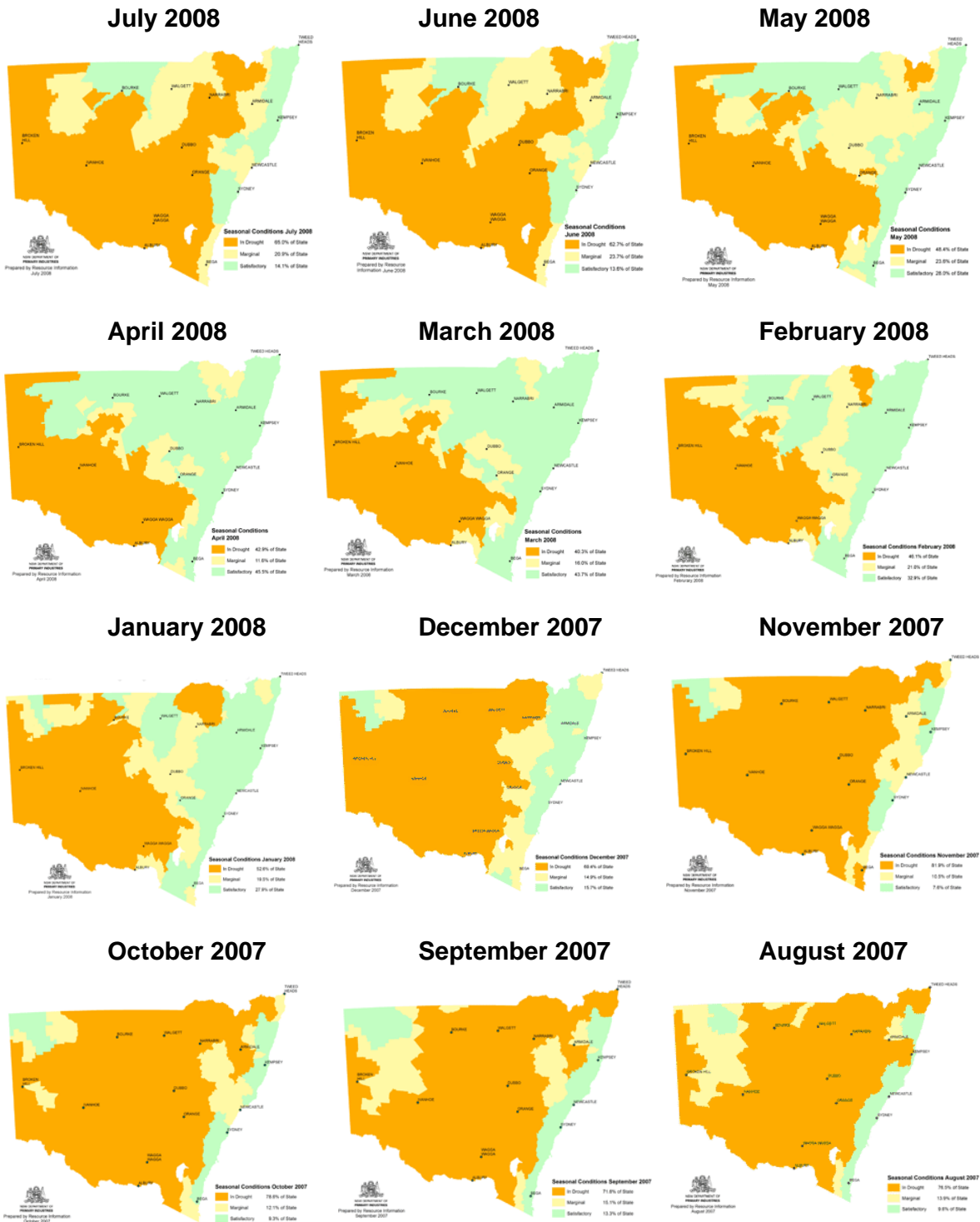
FCIC's mission is to encourage the sale of crop insurance -- through licensed private agents and brokers -- to the maximum extent possible. FCIC also provides reinsurance (subsidy) to approved commercial insurers which insure agricultural commodities using FCIC-approved acceptable plans. Since 1998, the private insurance companies reinsured by FCIC have sold and serviced all Multiple Peril Crop Insurance authorized under the Federal Crop Insurance Act.

Since there is both public and private sector involvement in the crop insurance program, these relationships result in:

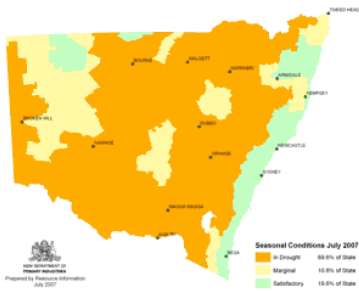
- A contract of insurance exists between insured farmers and their commercial insurance providers.
- Premium rates and insurance terms and conditions are established by FCIC for the products it develops, or established with FCIC approval for products developed by insurance providers.

Reinsurance agreements (cooperative financial assistance arrangements) exist between FCIC and the commercial insurance providers.

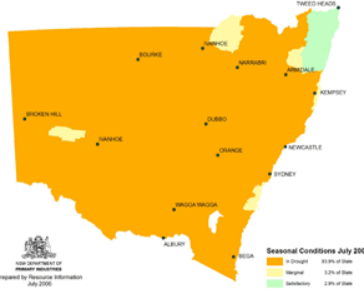
Annexure 2 – Drought maps of NSW



July 2007



July 2006



July 2005



July 2004



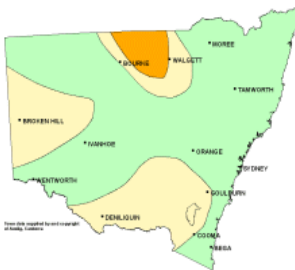
July 2003



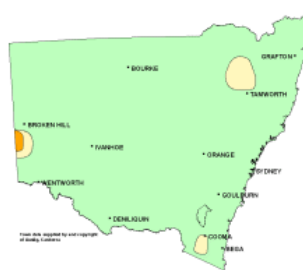
July 2002



July 2001



July 2000



July 1999



July 1998

