

Comments on the Productivity Commission paper.

These comments are the perspective of a farmer who farms near Lock on central Eyre Peninsula in South Australia in a 340 mm average rainfall with cropping (2,700 ha) being the main enterprise with a small merino sheep enterprise.

To be in a position of preparedness as outlined by the Productivity Commission means that measures need to be in place that will allow farming business to recover from the current drought and then position the farm and the farm business to handle drought in the near future. This would include building financial reserves and other initiatives at farm level eg grain and fodder storage, water storage and supply systems, livestock confinement areas, etc. It may also mean a change of farming systems.

A combination of farm profitability and government assistance will be required as well as strong support for research and development to identify sustainable farming and business practices in a changing climatic environment.

Farming is considered a primary industry because that is where the initial dollar is generated (as export derived income and therefore adds to the wealth of Australia) and there is a multiplier effect through the economy from there. This means that other secondary and service industries benefit from agriculture and derive much of their income from the primary sector. Farmer's terms of trade are declining and this means that these sectors that survive off the agricultural sector are getting a larger share of the agricultural dollar and the farmer is getting a smaller share. We are currently experiencing the situation where although commodity prices have risen significantly, it is largely the sectors that depend on agriculture for their income that are getting the benefit of increased farming returns. Input costs have risen dramatically.

Until farmers get to retain a larger share of the income they generate, and without government support it is difficult for me to see that drought preparedness is a realistic proposition.

I don't believe that major government support is a desirable option and by that I mean European Community type support.

This then means that drought preparedness essentially comes down to farmer's individual attitude to risk and their business management ability and the markets they operate in.

Overhead costs impact significantly on the ability of a farm business to survive drought. Overhead costs are those costs that are incurred regardless of whether or not any actual farming is done. These include licences and registration, council rates, stamp duty, general insurance, permanent labour, workcover, financing costs etc. They are costs that a farming business cannot pass on and therefore they come straight off the bottom line of farm profit. Many are government imposed or influenced costs. As these costs rise, farmer's terms of trade decline and the threshold for business survival rises.

The traditional way of addressing this issue is for the farmer to become more efficient. To achieve this efficiency usually requires more capital investment (to purchase or lease land, machinery, technology etc). If the farm hasn't been profitable enough in the past, this capital is usually borrowed – which increases risk and therefore reduces drought preparedness.

There is a further argument that structural adjustment enables farms to become larger and more efficient. This rationalisation exchanges people for capital. This does not reduce business risk and recent work by farm consultants on Eyre Peninsula with the Minnipa Agricultural Centre and the Australian Greenhouse Office suggests there is little correlation between business size and business survival in droughts. There is a better correlation with business age and equity.

Farming has to be profitable for proper natural resource management to occur at the farm level.

If we then say that the market can sort out the rationalisation and the adjustment that is required in the community and farm businesses in response to drought, we will see large falls in land value during drought and significant social upheaval. Farms will become bigger, they will be managed much more conservatively, new entrants to agriculture will be excluded other than the corporates, towns will continue to die and natural resource management will be problematic. – a fairly gloomy prospect.

So what and where is the role of government?

It is reasonable to argue that EC Relief type of payment should be maintained to support families during drought.

If there is no Interest Rate Subsidy available to business, then off farm asset limits should be very generous in assessment for EC Relief. This is because off farm investment income and/or capital from these assets would be used to support the farm business.

There is a huge amount of research and development required to find new farming and business models that will work in the EP environment under climate change as well as the development of adapted species of crops and pastures and maybe perennial crops –maybe even tree crops.

There is the opportunity to provide trade and market development assistance to provide some true value adding opportunity so that there may in time be some alternatives to the bulk production of a commodity where there is little market control. This has to be community driven to be successful, but there could be some government sponsored trade delegations.

Yield index insurance is worth further investigation to see if it will work. I can't quite work out if it works as a futures type market or what. If it does work as a futures type market, who operates on the other side of the market to the farmers? Conceivably one should be able to cover the possibility of a swap loss wipe out when production doesn't meet the level of sold swaps. Could be a complicated risk management model!

It needs to be recognised that there will be significant assistance required to encourage and enable farmers to shift to a position of drought preparedness and this will be further complicated by the introduction of a carbon tax.

There is a comment in the paper about the small level of adjustment out of farming. In this region any farmer who has survived the climatic and business environment of the last twenty years is here because they want to be. They have not chosen another vocation or relocated their business elsewhere. Despite the climatic variation, growth in business net worth over the last twenty years has been good and rivals that of alternative investments. In many cases the last three years have seen a contraction of net worth, but farming is a long term business and provided the lows can be

survived, one would think the managers who are still here are likely to be the ones who will be here in the future – at least until they die!

Note:- There may be some common themes with a submission from the Eyre Peninsula Drought Task Force as I am a member of that committee and have participated in formulating that submission. This is my private submission.