

SUBMISSION PRODUCTIVITY COMMISSION DRAFT INQUIRY REPORT

INQUIRY INTO GOVERNMENT DROUGHT SUPPORT

Draft Recommendation 6.1:

Exceptional Circumstances relief payments should be terminated, with the last year of eligibility for those in EC areas being 2009-10.

The removal of EC relief payments will decimate small rural towns and hasten the population decline being experienced across isolated areas such as those in the north western region of New South Wales.

Drought affects not only rural producers but also businesses in rural towns that rely on income from the rural community. Many small rural town dwellers also rely on the potential for seasonal work to supplement their income. This again manifests the loss of income to businesses in those towns with the combined effect being devastating for the whole community.

The implementation of a HECS-type scheme for primary producers whereby repayments could be made during good times may be an alternative to simply terminating income support.

Draft Recommendation 6.2:

Exceptional Circumstances interest rate subsidies should be terminated, with the last year of eligibility for those in EC areas being 2009-10.

1. The rationale for removing interest rate subsidies appears to be based on misguided assumptions about producer preparedness and self-reliance. There is no recognition that Australia's primary producers compete in a global economy where their main competitors are heavily subsidized by their own governments and/or are located in developing countries and only sustain production at the expense of human rights or environmental degradation. Australia's agricultural industry is highly efficient and in recent years many producers have sought to improve their viability through increasing the scale of their operations. To do this, they invariably have to borrow heavily. When increased borrowings coincide with severe or sustained drought which substantially reduces production and income,

these farmers have been able to fall back on interest rate subsidies until seasons and production levels improve. **To completely remove interest rates when drought and climate variability still cannot be successfully predicted will force many highly efficient farmers to leave agriculture.** This effectively punishes those who have been working towards self-reliance and taken responsibility for improving their competitiveness in the uneven global playing field.

2. A large percentage of primary producers do not have money invested in a superannuation fund. This is especially common among those around retirement age. They tend to count on the eventual sale of their rural property along with other production assets and any off-farm investments to fund their retirement. Without interest rate subsidies, or a functional alternative, primary producers will have no alternative but to utilize assets that have been set aside for “superannuation” purposes resulting in those farmers becoming reliant on social welfare payments at the end of their working life. This is a short-sighted approach to government spending priorities. **Alternatives to interest rate subsidies that support self-funded retirement by primary producers should be developed.**

3. With the average age of primary producers at alarmingly high levels, greater attention and assistance should be forthcoming for retirement and succession planning, particularly to allow future generations the opportunity to take over the production of Australia’s vital food and fibre resources. This could be achieved by the provision of low interest loans and/or significant interest rate subsidies during drought periods. **It is in Australia’s long term financial interests to encourage the next generation of highly skilled and enthusiastic farmers to enter the industry.**

Draft Recommendation 6.3:

States and territories should, as previously agreed, terminate transactions-based subsidies, effective by 30 June 2010.

It is granted that transactions-based subsidies such as those relating to the transport of livestock can be subject to abuse however to penalize genuine people in need without the investigation into tighter controls is unjust. In our view, **transaction-based subsidies, if properly monitored and administered, would provide a low-cost assistance to primary producers during drought.** These subsidies also help to sustain freight and transport businesses, as well as fuel, mechanical and other supporting industries, through drought periods. There would appear to be a reticence by bureaucrats to make the hard decisions when applications are “suspect” and more definitive guidelines need to be developed to ensure strict compliance.

To reduce the potential for abuse, criteria for transport assistance of drought affected stock should include the length of ownership and reference to issues such as core breeding stock.

Draft Recommendation 7.1:

The objectives of the of the Australia's Farming Future initiative should be revised and expanded to the following:

- ***Assist primary producers to adapt and adjust to the impacts of climate variability and climate change***
- ***Encourage primary producers to adopt self-reliant approaches to managing risks***
- ***Ensure that farm families in hardship have temporary access to a modified version of income support that recognizes the special circumstances of farmers.***

1. Incentives need to be introduced to ensure that primary producers are equipped to deal with the impacts of climate change. It is vital that this assistance is highly targeted and delivers measurable outcomes. The way to do this is **not** by creating an additional layer of training delivery to primary producers. Many are highly aware of new technology, improved soil and water management techniques, stock management systems, and new breeds of drought-tolerant grains, pulses and legumes that will help to maintain production in a changing climate. If they are not already aware, opportunities for extension advice and training already exist through state departments of primary industries, TAFE, and industry bodies. **The main hindrance to adopting new approaches is not purely lack of education but lack of available capital.**

2. Practical incentives should include investment allowances or low-interest loans for no-till machinery, grain storage and handling facilities for drought fodder supplies, stock fencing and watering efficiency improvements. **The incentives should be designed to deliver both production and (soil, water, carbon) environmental conservation outcomes** rather than an extension of the Landcare model which is almost entirely focused on environmental outcomes.

3. In order to become more self-reliant and maintain viable production into the future, provision of power, telecommunications and transport infrastructure needs to be equitable across agricultural regions of Australia. A genuine attempt needs to be made to **reverse poor maintenance and breakdown of infrastructure which significantly adds to costs of production for primary producers and reduces their capacity for self-reliance.**

4. **Considerable waste occurs with duplication between State and Federal Governments** and, more particularly, across Government departments within each of those tiers with a role in administering and delivering programs that support agriculture. Mitigation of such duplication

is essential to improve management of the rural industry and better communication between Government and producer.

Draft Recommendation 8.1:

Significant public funds should be directed to research, development and extension to assist farmers prepare for, manage and recover from the impacts of climate variability and change.

1. It is agreed that research, commercialization and extension are vital to assisting our agricultural sector adapt to climate change and remain viable and productive in the long term. **Primary producers are already substantial contributors to R&D** through compulsory government and industry levies. The use and cost benefits of these levies should be reviewed as part of any new plan for significant expenditure of public monies.

2. It is vital that research and development encompass a search for alternate products and enterprises **targeted to individual regions** and based on both **suitability** (climate, water availability, soils etc), and **commercial viability** including enabling infrastructure, available or achievable skills, new international markets and import-replacement potential. For example, as well as improving and enhancing traditional food and fibre production in our region, research, development and extension should investigate options for renewable fuel and energy production and new food and fibre crops. In our area for example mallee, mustard, hemp, aquaculture, and intensive horticulture have been identified as having good potential. There remains little assistance or incentive for producers to diversify into these areas.

3. **Region-specific R&D results** and recommendations are crucial. Such research needs to be conducted by an organization such as CSIRO via **partnerships** with producers, industry bodies and state extension officers. The fact that New South Wales is closing down three research stations does little to enhance the diversity which could become available for producers to ensure better methods and products mitigate the risk of farming. Effective partnerships would enable improved communication which would result in **improved design** of R&D initiatives and also address the need for **better communication of the results of research** back to producers in a more timely and affordable fashion to enable faster uptake of new systems and production technologies.

4. There also needs to be some **practical on-site assistance for primary producers to diversify**. Comment was made under Draft Recommendation 6.1 in respect of a modified version of income support and suggested the implementation of a HECS type scheme. The emphasis on local provision of processing and production allows for alternate employment for rural workers when local conditions are unfavourable for traditional agricultural enterprises.

5. Additional investment in **medium and long term weather forecasting** needs to be undertaken to ensure primary producers have improved decision-making tools to replace the current unreliable forecasts (which appear to deliver the equivalent results as participating in a Lotto draw). For example, in early 2007 there was widespread agreement by weather forecasters that 2007/08 would be an above-average year for rainfall. This information was used by agricultural advisers and financiers to encourage farmers to take greater risk. Many producers based production and marketing decisions on this seemingly overwhelming consensus by climate experts. The forward-selling disaster that financially devastated many farming families was the result of producer confidence in the latest scientific forecasting systems.

Draft Recommendation 8.2:

The contribution of rural financial counsellors to greater farm self-reliance should be reviewed to assess:

- ***The institutional barriers to the provision of private sector financial advice services in rural and remote regions***
- ***The extent to which the scheme's case-management provides for referrals to other relevant services in a timely manner***
- ***How services might be better targeted to instances where alternatives are not available.***

1. The rural financial counselling service operated much more efficiently and effectively when it was under an independent **local management** committee which was better able to identify trends and needs of the local rural sector and respond in a timely and low-cost manner. Centralised management has resulted in excessive and top-heavy administrative costs with additional staff and supporting infrastructure being allocated to the regional centre at the expense of basic equipment, travel, staffing and facilities for coalface staff. Services can only be better targeted where the management body has an intimate understanding of the local issues and remains focused on being responsive to local needs. It is imperative that the RFC program be retained and revert to operation under local management. Opportunities for streamlining the service and improving outcomes to clients could include initiatives such as co-location and sharing of administration with Dept of Primary Industries, Rural Lands Protection Boards or similar.

2. Private sector financial advice services to rural producers has, over the past couple of years, resulted in devastating and tragic losses to that sector. (see paragraph 5 above). The increased risk factors in dealing with futures and the like, without reliable advice, are significant and add pressure to participants who already deal in an industry that has immense variables. The use of **private sector financial advice should be scrapped from the recommendation.**

3. Referrals to other services in areas such as the north west of New South Wales are complex and problematic due to the **lack of available support services** in many areas of financial, retirement and business planning, and health, particularly, mental health. Any requirement to travel long distances to obtain assistance is non-productive and further adds to the problems being experienced. It is imperative that efforts are made to improve delivery of services at the local level so that referrals can be effective.

Draft Recommendation 8.3:

Significant public funding should be directed to a continuous learning program, incorporating the successful elements of the former FarmBis within the Farm Ready platform. The revised program should encompass advice and training for managing climate variability and for farm business management. Funding should be provided in the form of a subsidy which covers a proportion of the cost of training, with the recipient contributing to the balance.

1. The **inference that the FarmBis program was successful is disputed** in our local assessment. There were issues relating to costs of training (where course costs were seen to increase by at least the amount of subsidy available), cost of attending training (producers in more distant areas were disadvantaged by many courses being offered in regional centres), relevance to regions (many courses were standardized and do not recognize the diversity of among regions, especially those in semi-arid areas), relevance to production (there was limited options for producers in certain enterprises, industries or locations). FarmBis was seen as creating a wave of untested training providers who visited the region from a distant location and provided their services on a once-off basis. FarmBis also seemed to favour certain private companies promoting particular systems not necessarily proven to suit to all areas or industries.

2. Any training program for rural producers needs to be **delivered locally on area appropriate issues**, by being responsive to local needs and be tailored to local requirements. This can only be achieved by removing the extensive bureaucracy and utilizing the expertise available through the Department of Primary Industry, TAFE, and various industry bodies. In terms of climate variability there is already in place expertise by way of land care groups and these, in conjunction with Catchment Management Authorities, are ideally placed to provide guidance for primary producers subject to unnecessary involvement of bureaucracy being removed. 3. The delivery of local training/retraining locally is imperative due to the massive **costs for participants** to travel. The current trend of centralization does nothing to encourage participation by people who are already under extreme stress. Any requirement to impose cost of training on already cash-strapped rural producers will be met with an overwhelming reticence to participate.

Draft Recommendation 8.4:

The Farm Management Deposits scheme should be retained with its current cap of \$400 000 and no widening of its eligibility criteria.

Agreed.

It should be noted that to accumulate such deposits, debt needs to be reduced and this can only occur when good seasonal conditions prevail.

Draft Recommendation 9.1:

All farmers facing hardship should have access to temporary income support designed for farm circumstances. It would provide income at Newstart levels, subject to:

- ***an overall asset cap, inclusive of the value of the farm house, beginning at \$2 million with a taper to \$3 million***
- ***a liquid asset sub-cap of \$20 000 (inclusive of bank balances and Farm Management Deposit balances) and be conditional on the applicant:***
- ***seeking independent financial advice on the viability of the business***
- ***developing and carrying out a plan of action to improve self-reliance***

and on eligibility being reviewed, payment acquitted and plans updated every six months.

The scheme should be limited to a maximum claim of three years out of seven. It should commence on 1 July 2009.

Governments should ensure that there are adequate programs to assist those considering leaving farming, including counselling, training suited to earning off farm income and the recognition of prior learning.

1. In times of extreme drought that may result in a producer wishing to leave the industry there are **few jobs available locally** and, in most instances, the influence of the drought also reduces employment opportunity in large regional centres. Unless specific jobs are available participation in training is worthless and only leads to a reduction in self-esteem. This has been proven with the CDEP Program conducted in towns throughout the north west of New South Wales for Indigenous unemployed.

2. Primary producers who are suffering from drought are unlikely to be able to afford comprehensive independent financial advice on the viability of the business and that is not the time to be looking to improve self-reliance.

3. Incentives need to be provided in good times to **encourage improvement in self-reliance** and these could include the provision of on-farm storage for fodder, grain and water. Again, investment allowances could be reintroduced for these items and for improved farming techniques such as no till machinery that will significantly improve production capabilities during unfavourable periods.

Draft Recommendation 10.1:

The Exceptional Circumstances (EC) declaration process should be terminated. No new areas, full or interim, should be declared and current declarations should cease by 30 June 2010. In areas that remain declared, recipients of EC assistance should continue to receive assistance until declarations terminate, but not beyond 30 June 2010.

No draft recommendation has been forthcoming on a replacement mechanism to identify a trigger for assistance to rural industry due to serious drought conditions. It would appear that there is no recognition that Australian primary producers compete on a world stage that is littered with rural producer subsidies provided by most other countries. It is not suggested that subsidies should be provided during periods of good conditions however, the capability of producers to survive when poor production levels can be achieved is not being addressed.