

Comments from the South Australian Farmers Federation on the Draft Inquiry Report from the Productivity Commission's Inquiry into Government Drought Support

The South Australian Farmers Federation (SAFF) supports the aim to “*create an environment of self-reliance and preparedness, and encourage the adoption of appropriate climate change management practices.*”

Comments are provided at the end of this submission on each of the recommendations made by the Productivity Commission.

In general, SAFF supports both the approach and the recommendations made by the Productivity Commission. However, there are several other aspects that SAFF would like to see the Productivity Commission further address:

- Environmental stewardship payments

SAFF agrees with the recommendation that all farmers facing hardship should have access to a broad-based temporary scheme which allows for greater equity, recognition of issues of farm viability, enhanced self-reliance and ability to determine whether there is a future in farming for each applicant and their family.

As part of this process, SAFF would like to see environmental stewardship payments introduced in recognition that farm landholders are the custodians of the land for the entire Australian community. SAFF initially proposed this in 2004 when it presented to the South Australian Premier and Leader of the Opposition a strategic policy for the future, called *A Triple Bottom Line for the Bush* (copy attached). Since that date, not only has there been climate variability, but climate change has become a reality and it is now time to consider putting the key recommendations from *A Triple Bottom Line for the Bush* into practice.

Environmental stewardship is now being considered at both Federal and State levels. Last year's Federal Budget introduced a \$50 million Environmental Stewardship program. More recently, at the State level, the Fifth State of the Environment Report for South Australia, released on 26 November 2008, has as its first priority recommendation that Government “*improve incentives and support for environmental stewardship on private land.*”

One of the main aims of the current National Drought Policy is to “*maintain and protect Australia's agricultural and environmental resource base during periods of extreme stress.*” Regardless of what replaces the National Drought Policy, consideration of the environment will need to remain a high priority. Providing stewardship payments to those living on the land need to be part of this consideration.

- Support for small rural businesses

As seasonal conditions continue to deteriorate on a daily basis, the South Australian Farmers Federation (SAFF) is concerned at the effects this is having on small businesses in regional South Australia. This includes small transport companies, rural contractors, local machinery agents and small retailers in country towns.

While there is some drought assistance available for small businesses, it would appear that it is difficult for most businesses to access this. Small businesses can apply for interest rate subsidies, but in South Australia only about 30 applications have been approved so far this year. From feedback from small businesses, it appears that South Australia is not as flexible as in other States in assessing applications from small businesses for interest rate subsidies. For example there is little understanding that many small businesses with loans for machinery rather than land need to pay back the capital component of these loans.

If farmers and their families are going to be assisted, small rural businesses also need support. There is not much point in trying to assist farmers to remain until seasonal conditions improve if the small business infrastructure is not going to be in place when this happens.

Support for small rural businesses also assists in providing employment opportunities for both members of farming families and others living in rural communities which are often very limited in drought areas.

- Succession planning

SAFF must take issue with the statement “*The Commission considers that succession planning is a private matter and that governments should not seek to dictate the type and extent of succession arrangements used by farming families*” (page 212).

While this is correct for the actual arrangements finally chosen, to get to that point requires considerable discussion within a farming family. To assist the communication part of succession planning, there is a need for special advisers who can work through the appropriate processes involved with farming families. This could assist those families who need to leave agriculture, reduce marriage breakdowns and lessen the risk of suicide.

Succession planning for farm families is not just about business, it is about relationships. It is a form of business planning that aims to protect and preserve family and relationships. It demands a level of interpersonal communication that requires special attention. This was recognised by the South Australian Government which funded a number of workshops as part of its drought package. The aim of these workshops was to develop skills and raise awareness of farm family members in the process of succession planning.

As succession issues are often an impediment to adjustment in agriculture, the Productivity Commission should re-consider.

Another important part of succession planning from an overall industry perspective is to encourage young people into agriculture.

Other support measures

In our discussions with the Productivity Commission at the Adelaide Hearing on 28 November, there was a brief discussion on where to separate agriculture from rural development, country towns and rural living.

In further considering this aspect, SAFF is convinced that the taxation system should be used. In SAFF's initial submission, it was suggested that:

“As part of tax reform, consideration should be given to the introduction of zone allowances in those rural areas that are EC-declared. These would be similar to defence forces allowances. While zone allowances would not directly assist drought-affected farmers who with little income would not be facing tax bills, it would assist rural communities including small businesses and others working in these drought areas. It could well encourage people to remain in the district and not to move elsewhere for employment, hence assisting in maintaining the local rural communities.”

We ask that the Productivity Commission consider whether zone allowances have merit, or if there is some other way that the taxation system can be used to not only encourage people to remain in rural areas but to encourage others to consider moving to these areas.

SAFF was disappointed that the Productivity Commission sees little merit in accelerated depreciation. We believe that the initial investment in improved water infrastructure and other measures that now exist to assist farmers to be drought prepared was through the investment allowances and accelerated depreciation measures that were in existence even in the 1970's. The Productivity Commission has tried to argue that governments do not have a good record in picking winners, but in the case of drought, water and fodder conservation measures are obvious measures.

SAFF notes that the Productivity Commission sees little benefit in providing income contingency loans for farmers. SAFF also concerns about such a HECS-style arrangement. It would work well for the more affluent producers. Those that really need the assistance would struggle to ever pay it back on top of all their other liabilities. Interest free loans may be a better scheme and workable with potentially genuine benefit.

- Red tape

The Productivity Commission noted that 80% of farmers are not receiving drought assistance despite some of the worse drought conditions. While for some this would have been because they have drought-proofed their farming businesses, for many it was due to the drought assistance being too difficult to access. The Productivity Commission itself had come to this conclusion in its 2007 *“Annual Review of Regulatory Burdens on Business: Primary Sector”* and had made a number of recommendations on how to avoid duplication and reduce unnecessary burdens in the application process.

The following are comments from the South Australian Farmers Federation (SAFF) on some of the draft recommendations.

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

These payments should remain in place until the proposed temporary income support measures have been introduced.

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

While it is agreed that these need to be phased out, given the current drought conditions the current arrangements need to remain in place until at least two years after EC declarations cease to assist with recovery from drought.

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

These subsidies have not existed in South Australia for some time. This has placed SAFF in a difficult situation as members have seen these subsidies available in other States and have insisted that SAFF lobby for these in South Australia (see attached resultant policy statement). Of greater concern has been the effect these subsidies have had in distorting the markets within this State such as increasing demand for hay with more buyers from those States who are eligible for subsidies and thus increasing prices local farmers have had to pay.

- * *The objectives 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 recognises the special circumstances of farmers.*

This recommendation is supported in general terms but it is necessary to know more specific details. This recommendation needs to be implemented before the current EC arrangements are terminated. And as indicated earlier, self-reliant measures include water and fodder conservation measures.

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

This recommendation is supported. SAFF is very pleased that emphasis has also been placed on extension. So often there is funding provided for research and development, but in recent times the need to extend any findings to farmers has been forgotten, and certainly not funded by government.

- * *The contribution of rural financial counsellors to greater farmer 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.*

This recommendation is confusing.

Firstly the rural counselling scheme was reviewed not that long ago and the revamp has not been in place for enough time to allow a measured review to take place. In South Australia, the centralised rural counselling scheme only began a three year contract last year and this needs to run for at least another year before any review.

Secondly, access to a rural counsellor has always been a free service and is used by many who can not afford to pay for financial advice. There has never been any conflict with private sector financial advice services that often receive referrals and make referrals to the rural counselling service.

Thirdly, the case-management approach has not yet started in South Australia.

As rural counselling is an on-the-ground service, there would be merit if rural counsellors could have an expanded role and in considering the options for clients, assist with succession planning which could assist particularly with the transition of older generations out of farming.

- * *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 the balance.*

The previous FarmBis program in South Australia was relatively successful and since its completion, there has only been limited subsidised training provided. To encourage farmers to consider their training needs, this recommendation is critical to supporting farmers to independently manage climate variability and other business risks.

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

While SAFF supports the current FMD scheme, this could be further enhanced by increasing the limit to reflect the size of farming operations. There could possibly be indexation.

Consideration also needs to be given to extending the FMD scheme to small rural businesses as one way to assist them in the same way as the farmers these businesses support.

* *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, payments 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.

This recommendation is supported. This scheme needs to be in place before any assistance provided under EC is removed. It should be a broad-based temporary scheme which allows for greater equity, recognition of issues of farm viability, enhanced self-reliance and ability to determine whether there is a future in farming for each applicant and their family.

However this scheme needs to be made easier to access than the previous household support scheme. The asset level should be even higher than the \$2 million suggested, while the liquid asset sub-cap of \$20 000 is also too small. In addition, seeking and finding off-farm work should not necessarily make a farming family ineligible. This could well be the catalyst for making the farm family consider there are other career choices besides farming.

More effective exit grants need to be provided to assist those considering leaving farming. Such grants need to be separated from both bankruptcy and taxation provisions.

Future assistance schemes could revolve around the tax system to encourage this transition, such as exemption from capital gains tax from the sale of farming assets if leaving agriculture and the abolition of sales tax on the purchase of farming land.

- * *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.*

SAFF has always considered the EC declaration process unnecessary and welcomes this recommendation. With a means test in place for individual applications, why has it been necessary to have a cumbersome declaration process with the added difficulties imposed from drawing lines on a map?

However the timeline proposed must be questioned. EC must now remain in place until seasonal conditions improve. This can not just be changed by an arbitrary date. And SAFF's preference to help with drought recovery is for current assistance arrangements to remain in place until at least two years after EC declarations cease.