

AUSTRALIAN PORK LIMITED

Productivity Commission Inquiry into Government Drought Support

Submission #2



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1 Executive summary

Australian Pork Limited (APL) welcomes the opportunity for comment on the DRAFT Report of the Productivity Commission (PC) Inquiry into Government Drought Support published in November 2008. Further to APL's first submission to this PC Inquiry, this second submission will mainly elaborate on the recommendations in the PC's DRAFT report as well as on key recommendations made by the Expert Social Panel in its final report *It's about people: Changing perspectives on dryness*.

Current drought policy can impact successful farmers and does not promote self-reliance of primary producers. There are inequalities in the access to welfare payments and APL supports the review of current measures. A new approach is required for better drought management and preparedness. This review is particularly important in the context of upcoming policy instruments of an emissions trading scheme.

Australian pork producers are severely impacted by drought; yet in the last drought, most were unable to access assistance due to restrictive EC eligibility criteria. As outlined in APL's first submission, not only the EC eligibility criteria but also the involved paperwork and the extended timeframe for processing EC applications did not mesh well with the timing and cost imperatives of high cash flow enterprises such as the Australian pork industry. At best, the exceptional circumstances relief payments have been largely ineffective and have not provided the necessary and appropriate financial adjustment for pork producers.

Existing state drought assistance schemes vary in criteria, delivery method and organisations responsible for administration. Each state instigates its own drought assistance schemes, which vary in criteria and delivery method. Modern day farming operations extend beyond council and state borders as companies seek to mitigate operational risk by operating in different geographic areas. Existing differences in jurisdiction and availability of support measures between states represent major impediments for farmers to access drought assistance, creating additional bureaucratic barriers and contributing to the complexity and prolonged timeframe of the assessment process.

Pork producers have adopted a self-help approach to managing drought risk, as government programs have proven to be a poor fit to pork production. APL has been actively monitoring the impacts of the current drought on the Australian pork industry and has been advising its members on various strategies to mitigate drought impacts, particularly in the areas of feed and water management. Self-reliance through preparedness and risk management is encouraged.

This is also reflected by the findings of the Expert Social Panel that states, Australian farmers have already made production and efficiency gains via advances in agricultural science and technology and in the process become the least dependent on government support of any in the world. Producer support estimates to Australian agriculture is the lowest in the OECD.

It is vital that primary producers are prepared to deal with adverse effects of climate change and manage their production risk proactively. However, increasing cost of production due to

the ongoing drought and low returns for producers have significantly reduced the adaptive capacity of pork producers to cope with effects of climate change.

From a pork industry perspective, the proposed Carbon Pollution Reduction System (CPRS) will further penalise the adaptive capacity of the industry since it is a low margin business and farm income is likely to be further reduced in the short to medium term, limiting producers' ability to undertake investments into climate change adaption. This impact is even more severe because of existing import competition from countries such as the US, Canada and the EU that not only provide significant subsidies to primary producers; but also have no stated intention to cover emissions from agriculture under any form of emission trading scheme with associated impacts on cost of production. Both are key factors, which improve the competitiveness of these industries compared to the Australian pork industry both domestically and internationally.

The current situation of the pork industry clearly conflicts with the findings of a recently published ABARE study¹ that states, "Australia exhibits many of the characteristics necessary to ensure a high level of adaptive capacity in response to climate change."

Impacts of increasing climate variability as described in the joint BoM-CSIRO report² and the prospects of operating in a carbon constraint economy with emission trading are likely to impact the long-term sustainability of Australian pork farmers. Based only on a self-help approach, operating under such adverse market conditions is simply impossible long-term. While drought preparedness is essential and self-reliance should be the aim of all good managers, it is essential that some form of financial assistance be available as a welfare safety net.

The current review of existing government drought assistance and the recommendations made by the Productivity Commission are welcomed and supported in principle by APL. The comments and recommendations made in this submission are intended to assist government with adapting drought assistance measures to the current environment of climate variability and change.

APL's key recommendations to the PC's DRAFT report on government drought assistance in a climate change environment are:

Assistance programs

- The temporary income support scheme must be designed to reflect the key characteristics of different agricultural industries, broad acre farming as well as intensive livestock industries.
- Access to funding should be tied to a 6 month review cycle: the key assessment criteria for eligibility should be progress in self-reliance rather than a mere preset

¹ ABARE (2007), Adapting to climate change - issues and challenges in the agriculture sector, available at http://www.abareconomics.com/interactive/ac_mar07/htm/a2.htm

² CSIRO, BOM July 2008, An assessment of the impact of climate change on the nature and frequency of exceptional climatic events, available at http://www.daff.gov.au/agriculture-food/drought/national_review_of_drought_policy/climatic_assessment

timeframe such as three years out of seven. This creates a real incentive for producers for ongoing improvement of on-farm preparedness and self-reliance.

- Adequate programs need to be in place to assist those producers considering leaving farming, including counselling, training suited to earning off farm income and the recognition of prior learning.

Eligibility

- Eligibility requirements for FMD's should be widened to make this risk management tool available for modern day farming businesses, such as companies, other farm entities (e.g. Trust structures) and enterprises, to support those producers who are deemed competitive and viable in the long term.
- Assets testing policies should consider that piggeries have high values of specialised on-farm assets, which unevenly restrict access to current assistance measures based on assets testing. These assets represent sunk cost i.e. in case the producer exits the industry these assets have no market value or, worst case, create costs for recycling.
- The eligibility criteria of a company should be assessed as a whole, rather than assessing every director of a company.
- The income testing under the new scheme must reflect that the land on the production site is unsuitable for alternative cropping or livestock farming and that it does not directly or indirectly contribute to farm income.

Harmonisation

- Harmonisation of state and federal regulations in relation to drought assistance is a key requirement to remove bottlenecks for producers and farm enterprises applying for assistance.
- Policies that recognise the nature of a farm enterprise spanning state and jurisdictional borders are an essential component.
- Any assistance measures provided to any one industry must not competitively disadvantage another.

Administration

- It is important that the Government recognise that the pork industry is different in terms of its adaptive capacity compared to other agricultural industries.
- All support agencies in Government, the finance industry and the professional services industry relevant to pork producers need to be trained in the basics of pork production to improve their understanding and remove existing barriers in the drought assistance application process of pork producers. This includes stakeholder training in APL's suite of risk management tools.
- Pork producers need to be subject of joint APL / federal and state government communication programs to clarify pork producers' eligibility to drought assistance programs.
- The necessary paperwork for the assessment process and the turnover time from lodgement to response of applications need to be streamlined.
- The information flow between applicants and the executing agency needs to be improved to increase transparency of the system. The same applies to communication between government and agencies responsible for administering drought assistance.

Research, Development and Extension

- Significant government funding should be provided via Australia's Farming Future initiative to assist primary producers to adapt and adjust to the impacts of climate variability and climate change.
- A coordinated suit of research & development and extension for both livestock and plant-based industries is vital to understand sources of nitrous oxide and improve management and mitigation options.
- Farmers and farm businesses must have available user-friendly, reliable and up-to-date information specific to their location regarding climatic conditions and future climate variability.
- Further co-ordinated investment is required to improve the understanding of climate change.

Training

- There must be training programs available in rural and regional Australia to further enhance skills and knowledge for applied use in the agricultural sector when good conditions for farming are once again available.
- Funding opportunities, be it Farm Ready, New Apprenticeships, etc., aimed at encouraging accessible training, should be non-restrictive and made available at all levels.
- APL strongly supports Farm Ready (Australia's Farming Future initiative) funding including other opportunities for training and development for agricultural industries.
- While Farm Ready focuses on advice and training for managing climate variability, it should not be limited to this topic.
- There needs to be a replacement source of funding for FarmBis or a scheme similar to FarmBis, with as much width and flexibility as was previously available under that scheme.
- Funding to assist training participation should be made available at all levels to encourage a career path focus and incentive to remain in the industry. Limiting funding eligibility to management level training narrows the focus away from establishing strong basic skills, which are as equally important in farm business success.

2 Introduction

Australian Pork Limited (APL) welcomes the opportunity for comment on the DRAFT Report of the Productivity Commission (PC) Inquiry into Government Drought Support published in November 2008. Further to APL's first submission to this PC Inquiry, this second submission will mainly elaborate on the recommendations in the PC's DRAFT report as well as on key recommendations made by the Expert Social Panel in its final report *It's about people: Changing perspectives on dryness*.

Drought assistance programs need to be improved, and a new approach is required for better drought management and preparedness. Current drought policy can impact successful farmers and does not promote self-reliance of primary producers. There are inequalities in the access to welfare payments and APL supports the review of current measures. This review is particularly important in the context of upcoming policy instruments of an emissions trading scheme.

According to the Expert Social Panel, Australian farmers have already made production and efficiency gains via advances in agricultural science and technology and in the process become the least dependent on government support of any in the world. Producer support estimates to Australian agriculture is the lowest in the OECD.

The Australian pork industry is internationally competitive but still faces price competition from subsidised production from Canada, the United States and Denmark. Furthermore, Australia's export markets such as Korea and Japan have significant tariff barriers, which impact on profitability in these important markets. It is important then to sustain the industry in times of drought so as to maintain productive and sustain international market share in the medium to long term.

The comments and recommendations made in this submission are intended to assist government with adapting drought assistance measures to the current environment of climate variability and change.

3 APL's comments on the PC's draft recommendations

3.1 Exceptional circumstances relief payments (ECRP)

PC 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 current EC relief payment scheme should conclude by June 2010.

APL supports the termination of Exceptional Circumstances (EC) relief payments as long as producers in financial hardship have access to an alternative form of temporary income support and appropriate systems are in place to deliver the recommended action of the PC. While drought preparedness is essential and self-reliance should be the aim of all good managers, it is essential that some form of financial assistance be available as a welfare

safety net. The proposed temporary income support scheme is one possible form of producer assistance. Specific comments on this proposal are outlined in Section 3.7.

Australian pork producers are severely impacted by drought; yet in the last drought, most were unable to access assistance due to restrictive EC eligibility criteria. As outlined in APL's first submission, not only the EC eligibility criteria but also the involved paperwork and the extended timeframe for processing EC applications did not mesh well with the timing and cost imperatives of high cash flow enterprises such as the Australian pork industry. At best, the exceptional circumstances relief payments have been largely ineffective and have not provided the necessary and appropriate financial adjustment for pork producers. These issues need to be considered by government during the development of any new assistance scheme to create an effective assistance measure.

3.2 Interest rate subsidies (ECIRS)

PC 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.

APL supports in principle the termination of EC interest rate subsidies. As outlined in APL's first submission, Section 6.2.6, uptake of interest rate subsidies has been low. Less than five per cent of the estimated 1,500 pork producers remaining in Australia receive this form of interest rate subsidy assistance. Discussions with Queensland Rural Adjustment Authority (QRAA) indicate a similar usage pattern primarily for interest rate subsidy in that state.

3.3 Transaction-based subsidies

PC DRAFT RECOMMENDATION 6.3

EC Exit Package should not be continued after applications close in 2009.

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

APL in principle supports the PC's recommendation to remove the current EC Exit Package. However, where there is little prospect of a pork farm returning to viability due to ongoing drought, there needs to be a suite of assistance measures to ease the transition into a non-farming future. Consequently APL endorses the PC's recommendation that *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 (DRAFT Recommendation 9.1)*. However, APL recommends that in order to reduce regulatory burden and create a level playing field for producers in different states available programs and assistance measures should be consistent across states.

As stated in the PC's Draft Report, as of September 2008 only 75 farmers across Australia had used the exit package. Centrelink confirmed that currently no pork producers have

made an application for farm exit grants either in the pre-assessment phase or in the post sale phase of exit grant applications^{3,4}.

APL strongly supports the PC's recommendation to terminate transaction-based subsidies by 30 June 2010. Certain forms of state assistance such as transport subsidies create perverse outcomes for pork producers. Current fodder and feed grain freight subsidies only serve to increase the price of grain to the extent of the freight subsidy conferring little or no benefit to pork producers in drought areas but conferring benefit to sheep and beef producers with freight subsidy access to scarce grain supplies.

Existing state drought assistance schemes vary in criteria, delivery method and organisations responsible for administration. Each state instigates its own drought assistance schemes, which vary in criteria and delivery method. Modern day farming operations extend beyond council and state borders as companies seek to mitigate operational risk by operating in different geographic areas. Existing differences in jurisdiction and availability of support measures between states represent major impediments for farmers to access drought assistance, creating additional bureaucratic barriers and contributing to the complexity and prolonged timeframe of the assessment process.

Recommendations

- Adequate programs need to be in place to assist those producers considering leaving farming, including counselling, training suited to earning off farm income and the recognition of prior learning.
- Assets testing policies should consider that piggeries have high values of specialised on-farm assets, which unevenly restrict access to current assistance measures based on assets testing. These assets represent sunk cost i.e. in case the producer exits the industry these assets have no market value or, worst case, create costs for recycling.
- There needs to be harmonisation of drought relief packages across state jurisdictions to create a consistent system of drought assistance across all states providing the same outcomes for pig producers regardless of where production is based.
- Any assistance measures provided to any one industry must not competitively disadvantage another.

³ Warwick Yates & Associated, 2008, Drought Assistance Availability and Impacts on the Australian Pig Industry, prepared for Australian Pork Limited

⁴ A key impediment for pork producers' accessing Farm Exit Grants is high volumes of on-farm assets, which effectively restrict pork producers' access to this form of transitional assistance.

3.4 Australia's Farming Future initiative

PC DRAFT RECOMMENDATION 7.1

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.

APL supports the recommended revision and expansion of the scope of Australia's Farming Future initiative to assist with on-farm preparedness for climate change and improving self-reliance of primary producers.

As indicated in APL's first submission, pork producers have adopted a self-help approach to managing drought risk, as government programs have proven to be a poor fit to pork production. APL has been actively monitoring the impacts of the current drought on the Australian pork industry and has been advising its members on various strategies to mitigate drought impacts, particularly in the areas of feed and water management. Self-reliance through preparedness and risk management is encouraged.

Adaptive capacity

Increasing cost of production due to the ongoing drought and low returns for producers have significantly reduced the adaptive capacity of pork producers to cope with effects of climate change. As outlined by ABARE⁵, agriculture's capacity for adaption to climate change via cost effective and efficient adaptation strategies is dependent on a wide range of factors. At a national level, the factors that influence adaptive capacity include the level of national income, technological advancement, and relevant infrastructure. At the farm level, the factors that influence adaptive capacity include farmer education, diversity of on- and off-farm income sources, and levels of income. In particular, a lack of diversity of income sources is one of the critical factors constraining adaptation, resulting in high levels of vulnerability to external shocks.

Pork producers often operate specialized farms and thus already have a reduced adaptive capacity to deal with climate change due to lack of diversified income streams. This situation is further exacerbated by lower farm income due to reduced profit margins and increased pressure from import competition from countries with highly substituted pork production such as the US, Canada and the EU.

Over the last ten years pork production has become vertically integrated with increasing specialisation and producer focus on niche markets. This is not reflected in the ABARE study that states, "Australia exhibits many of the characteristics necessary to ensure a high level of adaptive capacity in response to climate change." From a pork industry perspective, the

⁵ ABARE (2007), Adapting to climate change - issues and challenges in the agriculture sector, available at http://www.abareconomics.com/interactive/ac_mar07/htm/a2.htm

proposed Carbon Pollution Reduction System (CPRS) will clearly penalise the adaptive capacity of the industry since it is a low margin business and farm income is likely to be further reduced in the short to medium term, limiting producers' ability to undertake investments into climate change adaption. This impact is even more severe because of existing import competition from countries that not only provide significant subsidies to primary producers; but also have no stated intention to cover emissions from agriculture under any form of emission trading scheme with associated impacts on cost of production. Both are key factors, which improve the competitiveness of these industries compared to the Australian pork industry both domestically and internationally. This highlights the need for specific government support to offset the adverse effect on competitiveness until this situation is remedied.

APL knows firsthand that farm families are particularly vulnerable to financial hardship. Therefore, APL supports the need for the initiative to recognise the special circumstances of pork producers. Pork production is a cash flow intensive, low margin business. There are inherent differences in production systems and management strategies employed by intensive industries to cope with drought, compared to broad acre farming. For example:

- The impact on intensive industries is predominantly on costs of production rather than immediate income effects, as farmers will continue to produce to service debt given the high capital outlay. For example, broad acre farmers are able to ride out a couple of drought years with the income of one good harvest. On the other hand, a pork producer needs to provide housing and feed for his pigs every day, creating an ongoing cost of production stream.
- Intensive livestock producers such as pork producers cannot simply de-stock to reduce production cost because the re-entry costs and timeframes are prohibitive and regaining market access and contracts is difficult if not impossible.

Recommendations

- It is important that the Government recognise that the pork industry is different in terms of its adaptive capacity compared to other agricultural industries.
- Significant government funding should be provided via Australia's Farming Future initiative to assist primary producers to adapt and adjust to the impacts of climate variability and climate change.
- APL strongly supports Farm Ready (Australia's Farming Future initiative) funding including other opportunities for training and development for agricultural industries, that is, not limited to adapting to climate change.
- There needs to be a replacement source of funding for FarmBis or a scheme similar to FarmBis, with as much width and flexibility as was previously available under that scheme (as mentioned in PC DRAFT RECOMMENDATION 8.3).

3.5 Building capacity to manage drought

Re-direction of public funding

PC DRAFT RECOMMENDATION 8.1

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.

Rural financial counsellors

PC DRAFT RECOMMENDATION 8.2

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.*

Continuous learning programs

PC 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 the balance.

APL supports the PC's recommendation to increase public funding into building capacity to manage climate variability and change. As outlined in APL's first submission significant funding and government investment directed at research, development and preparedness for climate variability and change is required to maintain a competitive primary production sector.

Research & development

We agree with NFF that a coordinated suite of research & development and extension for both livestock and plant-based industries to understand sources of nitrous oxide and improve management and mitigation options is vital. Failure to create a comprehensive understanding of the impact of climate change on agriculture and the role of the various sectors could put at risk long-term sustainability of Australia's food production and related export industries.

It is also important that farmers and farm businesses have available user-friendly, reliable and up-to-date information specific to their location regarding climatic conditions and future climate variability. Further co-ordinated investment is required to improve the understanding of climate change and the delivery of this information to farmers.

Staff training

In addition to the training programs described in APL's first submission, the pork industry is aiming to create nationally recognised training opportunities at stockperson, supervisor and management levels. Funding to assist training participation should be made available at all levels to encourage a career path focus and incentive to remain in the industry. Limiting funding eligibility to management level training narrows the focus away from establishing strong basic skills, which are as equally important in farm business success.

All aspects of business management, including well-trained operational staff, are imperative to business success and this approach should be encouraged through any funding opportunity. Subsidies covering a proportion of training costs with the recipient contributing the balance are appealing as they encourage ownership of training participation while helping to eliminate cost as a prohibitive factor.

During extended periods of dryness, many young people move away from rural communities to pursue other employment, further straining the need for employees when favourable farm conditions return. There must be training programs available in rural and regional Australia to further enhance skills and knowledge for applied use in the agricultural sector when good conditions for farming are once again available.

Stakeholder training

As described in APL's first submission, stakeholder knowledge needs to be improved to remove existing barriers in the drought assistance application process of pork producers. All pork industry support agencies in Government, the finance industry and the professional services industry need to be trained in the basics of pork production. This increased understanding would enable them to correctly assess the individual situation and provide targeted assistance. For the very same reasons, these stakeholders need to be familiar with APL's suite of risk management tools as described in APL's first submission, Section 8.

Information Campaign

A joint APL / Federal & State government communication program to clarify producers' eligibility to drought assistance programs is necessary to overcome the wide held industry perception that pork producers are ineligible for drought assistance programs. Communication programs, however, must be sophisticated in their design, with their development, delivery mechanism and information exchange specifically designed to target different size, form and production systems.

For example, the few large integrated pork production businesses in Australia have a comprehensive understanding of their viability and effectively manage their production risk. This compares to a large number of small to medium scale producers, which often combine excellent production knowledge with a lack of understanding in terms of risk assessment and management, farm economics and government bureaucracy.

Raising awareness for, and increasing levels of producer self-reliance needs to be an essential part of the strategy to improve efficiency of available government drought assistance.

Recommendations

- A coordinated suit of research & development and extension for both livestock and plant-based industries is vital to understand sources of nitrous oxide and improve management and mitigation options.
- Farmers and farm businesses must have available user-friendly, reliable and up-to-date information specific to their location regarding climatic conditions and future climate variability.
- Further co-ordinated investment is required to improve the understanding of climate change.
- Funding to assist training participation should be made available at all levels to encourage a career path focus and incentive to remain in the industry. Limiting funding eligibility to management level training narrows the focus away from establishing strong basic skills, which are as equally important in farm business success.
- While Farm Ready focuses on advice and training for managing climate variability, it should not be limited to this topic.
- There must be training programs available in rural and regional Australia to further enhance skills and knowledge for applied use in the agricultural sector when good conditions for farming are once again available.
- All support agencies in Government, the finance industry and the professional services industry relevant to pork producers need to be trained in the basics of pork production to improve their understanding and remove existing barriers in the drought assistance application process of pork producers. This includes stakeholder training in APL's suite of risk management tools.
- Pork producers need to be subject of joint APL / federal and state government communication programs to clarify pork producers' eligibility to drought assistance programs.

3.6 Preparing financially for drought

Farm Management Deposit (FMD) scheme

PC 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.

APL supports the continued policy of Farm Management Deposits (FMD) as a valuable risk management strategy for pork producers. Farm Management Deposits offer a mechanism where viable famers can mitigate drought impacts using effective tax strategies averaging incomes between years. FMD's are a relevant tool to manage a producers' drought risk.

However, as stated in APL's first submission, FMD's are only available to individual primary producers; companies or other entities are not eligible⁶. This is a potential cause for the relatively low uptake of this measure, i.e. only about 13 per cent of pork farmers have funds

⁶ Department of Agriculture, Fisheries and Forestry, Review of Farm Management Deposits Scheme 2006 , April 2007

in farm management deposits. Current eligibility criteria do not reflect modern day farming practices and business structures.

Recommendation

- Eligibility requirements for FMD's should be widened to make this risk management tool available for modern day farming businesses, such as companies, other farm entities (e.g. Trust structures) and enterprises, to support those producers who are deemed competitive and viable in the long term.

3.7 Temporary income support

PC 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, 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.

APL supports the development of a new temporary income support scheme for farmers in financial hardship and termination of Exceptional Circumstances (EC) relief payments. APL also welcomes the recommendation to tie financial assistance to independent financial advice on business viability.

However, APL does not support the recommendation to limit scheme assistance to a maximum claim of three years out of seven. The BoM-CSIRO report⁷ stated that extent and frequency of exceptionally hot years are projected to increase, with exceptionally hot years likely to occur every 1-2 years. In certain areas, this may lead to severe drought conditions over a long period of time and despite adapting and improving self-reliance, farmers may need financial assistance as a safety welfare net. Given that access to funding should be tied to a 6 month review cycle; the key assessment criteria for eligibility should be steady

⁷ CSIRO, BOM July 2008, An assessment of the impact of climate change on the nature and frequency of exceptional climatic events, available at http://www.daff.gov.au/agriculture-food/drought/national_review_of_drought_policy/climatic_assessment

progress in self-reliance rather than a mere preset timeframe. Thus, producers have a real incentive for ongoing improvement of on-farm preparedness and self-reliance compared to doing business as usual.

The Drought Policy Review Expert Social Panel in its final report⁸ has stated that current government policy and support has been implemented within a crisis-framed response. APL supports the report, which states that policy must be designed in such a way that addresses the social wellbeing needs of farm families, rural businesses and communities in ways, which do not inhibit the efficiency of agricultural organisations. Government policy should be focused on early intervention to counteract the worst effects of dryness and to provide incentives in better times, which encourage commercially and environmentally responsible management under variable seasonal conditions.

As described in APL's first submission the general EC eligibility criteria and assessment procedures are essentially designed on the requirements of broad acre farmers. They fail to cater for the inherent differences in production systems and management strategies employed by intensive industries to cope with drought. In order to develop a support scheme that not only creates an effective welfare safety net for producers in financial hardship, but also is efficient in terms of administration and use of government money, certain key issues must be reflected by the scheme design.

Recommendations

- The temporary income support scheme must be designed to reflect the key characteristics of different agricultural industries, broad acre farming as well as intensive livestock industries.
- Harmonisation of state and federal regulations in relation to drought assistance is a key requirement to remove bottlenecks for producers and farm enterprises applying for assistance.
- Policies that recognise the nature of a farm enterprise spanning state and jurisdictional borders are an essential component.
- The necessary paperwork for the assessment process and the turnover time from lodgement to response of applications need to be streamlined.
- The eligibility criteria of a company should be assessed as a whole, rather than assessing every director of a company.
- The information flow between applicants and the executing agency needs to be improved to increase transparency of the system. The same applies to communication between government and agencies responsible for administering drought assistance.
- Assets testing should reflect the fact that piggeries have high values of specialised on-farm assets. These assets represent sunk cost i.e. in case of a liquidation of the farm they have no value for the producer or, worst case, create costs for recycling. Despite these often considerable on-farm assets, pork producers may be in financial hardship and eligible for immediate income assistance to continue their operation.

⁸ It's About People: Changing Perspectives on Dryness, A Report to Government by an Expert Social Panel – September 2008, available at http://www.daff.gov.au/agriculture-food/drought/national_review_of_drought_policy/social_assessment

- The income testing under the new scheme must reflect that the land on the production site is unsuitable for alternative cropping or livestock farming and that it does not directly or indirectly contribute to farm income.
- Access to funding should be tied to a 6 month review cycle: the key assessment criteria for eligibility should be progress in self-reliance rather than a mere preset timeframe such as three years out of seven. This creates a real incentive for producers for ongoing improvement of on-farm preparedness and self-reliance.

3.8 Exceptionally Circumstances (EC) declaration process

PC 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.

APL fully endorses the recommendation by the PC to terminate the EC declaration process. In the context of climate change, the EC declaration process with its associated assistance packages is no longer the most appropriate approach to assist primary producers.

4 APL's comments on key recommendations of the expert social panel

4.1 Training delivery methods for adult training

Expert Social Panel Recommendation 25

There must be more flexible training delivery methods for adult learning (using adult learning principles), including providing outreach training, for farm families and people in rural communities who find it difficult because of dryness to attend training opportunities.

This could be achieved by:

25.1 vocational education and training programs aimed at assisting farm families with up-skilling or re-skilling, including recognition of prior learning, to broaden opportunities to earn off-farm income;

25.2 funding for vocational education institutions to help farm families and people in rural communities more readily access further education opportunities.

25.3 careful consideration of the timing and appropriateness and potential effectiveness of delivering education and training programs during times of stress, such as dryness.

APL in principle agrees with the recommendations of the expert social panel that adult learning delivery methods must be more flexible. APL is working towards enhancing industry capability through various ongoing programs, looking at identifying gaps in training delivery and accessibility issues, and assessing options for filling those gaps. Accessibility may well be achieved through regionally based training providers or central providers using other delivery mechanisms, e.g. online, distance learning, etc.

The pork industry predominantly uses industry-based trainers with a sound understanding of on-farm issues and empathy for their audience. As a consequence, they are well placed to provide effective training, taking into account timing and appropriateness of training programs.

Recommendation

- Funding opportunities, be it Farm Ready, New Apprenticeships, etc., aimed at encouraging accessible training, should be non-restrictive and made available at all levels.

4.2 Addressing skill shortages

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Governments, along with the education and industry sectors, must develop policies and initiatives to address trade and other professional skills shortages in farm families and rural communities. These policies and initiatives must be underpinned by regional-specific research on the location, extent and impact of skill shortages.

Policy and initiatives should:

28.1 recognise that training and education of people in rural settings leads to greater retention of that skill base in rural communities;

28.2 recognise the important role rural universities play in educating and training skilled workers for rural areas;

28.3 promote rural-bonded scholarships as a means of addressing agriculture and rural trade and other professional skills shortages.

The pork industry and other primary industries, are experiencing a significant shortage of skilled workers. APL agrees with the expert social panel's recommendation to improve regional training and education. The revised *Model Code of Practice for the Welfare of Animals – Pigs* incorporates a strong theme of stockperson competency, thus encouraging the pork industry to focus on improving the competency of those responsible for caring for welfare of pigs. While this process will assist with regulatory compliance, it also encourages the industry to address the underpinning skills and knowledge required of its workforce and lead to greater retention of competent stockpeople.

Both APL and the Pork CRC offer tertiary scholarships to attract new entrants to the industry and retain expertise and innovation. APL's Undergraduate and Postgraduate Research and Industry Placement Scholarships, as well as the Pork CRC's Honours and Postgraduate/Post-doctorate Scholarships provide opportunities for universities to work in conjunction with industry partners to deliver highly skilled people capable of contributing to the industry and rural community. In particular, APL's Undergraduate Industry Scholarships enable students to undertake work experience on a piggery or with a service company, and are therefore highly geared toward rural placement.

5 Conclusion and recommendations

Pork producers value add grain, therefore ongoing drought conditions have significantly affected the industry and has changed the way pigs are farmed in Australia. On the other hand, pork producers have adopted a self-help approach to managing drought risk, as government programs have proven to be inappropriate to pork production.

Impacts of increasing climate variability as described in the joint BoM-CSIRO report⁹ and the prospects of operating in a carbon constraint economy with emission trading are likely to impact the sustainability of Australian pork farmers. Based only on a self-help approach, operating under such adverse market conditions is simply impossible long-term.

It is vital that primary producers are prepared to deal with adverse effects of climate change and manage their production risk proactively. Pork producers' adaptive capacity is already reduced due to increasing cost of production and competition from cheap subsidised imports reducing producer returns, therefore access to government assistance is a key requirement.

The current review of existing government drought assistance and the recommendations made by the Productivity Commission are welcomed and supported in principle by APL.

APL's key recommendations to the PC's DRAFT report on government drought assistance in a climate change environment are:

Assistance programs

- The temporary income support scheme must be designed to reflect the key characteristics of different agricultural industries, broad acre farming as well as intensive livestock industries.
- Access to funding should be tied to a 6 month review cycle: the key assessment criteria for eligibility should be progress in self-reliance rather than a mere preset timeframe such as three years out of seven. This creates a real incentive for producers for ongoing improvement of on-farm preparedness and self-reliance.
- Adequate programs need to be in place to assist those producers considering leaving farming, including counselling, training suited to earning off farm income and the recognition of prior learning.

Eligibility

- Eligibility requirements for FMD's should be widened to make this risk management tool available for modern day farming businesses, such as companies, other farm entities (e.g. Trust structures) and enterprises, to support those producers who are deemed competitive and viable in the long term.
- Assets testing policies should consider that piggeries have high values of specialised on-farm assets, which unevenly restrict access to current assistance measures based on assets testing. These assets represent sunk cost i.e. in case the producer exits the industry these assets have no market value or, worst case, create costs for recycling.

⁹ CSIRO, BOM July 2008, An assessment of the impact of climate change on the nature and frequency of exceptional climatic events, available at http://www.daff.gov.au/agriculture-food/drought/national_review_of_drought_policy/climatic_assessment

- The eligibility criteria of a company should be assessed as a whole, rather than assessing every director of a company.
- The income testing under the new scheme must reflect that the land on the production site is unsuitable for alternative cropping or livestock farming and that it does not directly or indirectly contribute to farm income.

Harmonisation

- Harmonisation of state and federal regulations in relation to drought assistance is a key requirement to remove bottlenecks for producers and farm enterprises applying for assistance.
- Policies that recognise the nature of a farm enterprise spanning state and jurisdictional borders are an essential component.
- Any assistance measures provided to any one industry must not competitively disadvantage another.

Administration

- It is important that the Government recognise that the pork industry is different in terms of its adaptive capacity compared to other agricultural industries.
- All support agencies in Government, the finance industry and the professional services industry relevant to pork producers need to be trained in the basics of pork production to improve their understanding and remove existing barriers in the drought assistance application process of pork producers. This includes stakeholder training in APL's suite of risk management tools.
- Pork producers need to be subject of joint APL / federal and state government communication programs to clarify pork producers' eligibility to drought assistance programs.
- The necessary paperwork for the assessment process and the turnover time from lodgement to response of applications need to be streamlined.
- The information flow between applicants and the executing agency needs to be improved to increase transparency of the system. The same applies to communication between government and agencies responsible for administering drought assistance.

Research, Development and Extension

- Significant government funding should be provided via Australia's Farming Future initiative to assist primary producers to adapt and adjust to the impacts of climate variability and climate change.
- A coordinated suite of research & development and extension for both livestock and plant-based industries is vital to understand sources of nitrous oxide and improve management and mitigation options.
- Farmers and farm businesses must have available user-friendly, reliable and up-to-date information specific to their location regarding climatic conditions and future climate variability.
- Further co-ordinated investment is required to improve the understanding of climate change.

Training

- There must be training programs available in rural and regional Australia to further enhance skills and knowledge for applied use in the agricultural sector when good conditions for farming are once again available.
- Funding opportunities, be it Farm Ready, New Apprenticeships, etc., aimed at encouraging accessible training, should be non-restrictive and made available at all levels.
- APL strongly supports Farm Ready (Australia's Farming Future initiative) funding including other opportunities for training and development for agricultural industries.
- While Farm Ready focuses on advice and training for managing climate variability, it should not be limited to this topic.
- There needs to be a replacement source of funding for FarmBis or a scheme similar to FarmBis, with as much width and flexibility as was previously available under that scheme.
- Funding to assist training participation should be made available at all levels to encourage a career path focus and incentive to remain in the industry. Limiting funding eligibility to management level training narrows the focus away from establishing strong basic skills, which are as equally important in farm business success.