SOUTH AUSTRALIAN ADVISORY BOARD OF AGRICULTURE (ABA) RESPONSE TO DRAFT PRODUCTIVITY COMMISSION RECOMMENDATIONS – INQUIRY INTO GOVERNMENT DROUGHT SUPPORT

GENERAL COMMENTS

It can be seen from our comments below that, while the ABA either supports or accepts most of the Commission's draft recommendations, our concerns are largely about the possible impacts on farm businesses should the current arrangements cease without appropriate alternative arrangements being in place. While some of the Commission's recommendations provide a broad idea as to what these future arrangements may be, they are (understandably, given the nature of the report) not detailed enough for the Board to be assured that they will be an improvement on or a satisfactory replacement for current arrangements, given the timeframes suggested.

It is essential therefore that, if these draft recommendations are accepted by government, that they not be implemented until the detail of replacement arrangements/measures are resolved and a reasonable time is given for businesses to transition from current to future arrangements.

If the present EC support mechanisms are to be concluded by 30 June 2010, the proposed levels and mechanisms of support need to be developed and promoted with sufficient time for rural producers to transition to the new programs. A period of transition may also be advantageous (while the new and old programs are accessible)

SPECIFIC COMMENTS

Recommendation 6.1

> This recommendation is supported, but only on the proviso that suitable alternative temporary income support measures are put in place, for farmers facing hardship due to drought. We understand that such alternative support measures are those envisaged in draft recommendation 9.1 and refer the Commission to our comments on that recommendation.

Recommendation 6.2

> This recommendation is seen as a reasonable goal to aim for in the longer term. The ABA does have some concerns however on the recommended date suggested for termination of interest rate subsidies There are three general sets of circumstances which are of concern to the Board which will make it very difficult for many farm businesses to be ready for a world without this sort of support by June 2010.:

1. Many businesses / enterprises in South Australia presently relying on Interest Rate Subsidies (IRS) will not necessarily be in a self – reliant

position by 2010, even if seasonal and market conditions allow for more profitable production. For example, to re-stock livestock enterprises in grazing regions will be expensive (due to lack of available and suitable stock) and the time taken to breed self-replacement stock.

Grain producers' profitability and thus ability to support themselves is being challenged by the vagaries of input costs (fuel and fertiliser) and commodity prices being paid and influenced by worldwide demand and the impacts of exchange rates.

Permanent horticulture plantings will take time to re-establish and are also strongly influenced by input costs and variable returns as for grain producers.

2. It is understood that some enterprises are currently only being supplied carry-on finance by their financial institution because they are getting IRS. The removal of IRS could lead to foreclosure on these enterprises. They need to be given a reasonable opportunity to either recover (i.e. be in a position to be self – reliant) or make the decision to exit the industry.

3. Due to the continuation of poor seasons in South Australia, many primary producers not previously qualifying for IRS will be increasingly eligible and in need of this type of support as their own resources and drought proofing measures have "dried up".

The removal of IRS would also further reduce the money circulating in some rural communities that have been most affected by the current drought, having further detrimental affects on the already struggling local businesses and community organisations, support groups and sporting bodies.

As a means of facilitating the necessary exit of some producers from the industry, the ABA believes that IRS could be usefully employed in the short term to support those producers seeking to stay in the industry and become self reliant where property amalgamation/expansion by acquiring additional land from willing sellers is a necessary part of their strategy.

Recommendation 6.3

As South Australian based rural enterprise operators we agree with this recommendation.

Recommendation 7.1

We support the objectives as outlined in this recommendation. However, we await the detail as to how these objectives are to be achieved and a clear, unambiguous commitment from Government that they will provide adequate resources to assist primary producers to realise these objectives and sources of support for producers to access the proposed changes. Government assistance to adapt and adjust to climate variability and change is extremely important since many primary producers own resources have been greatly diminished.

We further recommend that the objectives reflect the imperative for the long term sustainability of food production in Australia, both in an economic and environmental sense.

Recommendation 8.1

We strongly support this recommendation but note that this flies in the face of current and proposed reductions in research and extension by both state and commonwealth governments. Such reductions need to be reconsidered and reversed and the need for additional research, development and extension given due weight if this recommendation is to be realised**.**

Earlier this year the ABA hosted a Think Tank on “Farming in Lower Rainfall Areas” with representatives from many facets of agriculture. R & D and Extension were identified as essential components for success in food production.

Recommendation 8.2

We support this recommendation.

We do not believe however that the issues outlined in the recommendation are the most important ones regarding Rural Financial Counselling Services. From the ABA’s point of view, the ability of producers to access the service is the major concern. The number of available counsellors in some regions means there is often a stressful wait for an appointment, to be followed by a stressful wait for the outcome of any applications etc. made for support. The availability / access to Rural Financial Counselling services in a producer’s own community / service centre would, for some, be advantageous as it would save travel time and costs attending regional centres.

The review suggested by this recommendation, along with other recommendations made by the Expert Social Panel into the Social Impacts of Drought, may well support the suggestion of a title change for Rural Financial Counsellors.

Recommendation 8.3

We support this recommendation.

We do however ask that careful consideration be given to eligibility criteria for access to support of the kind envisaged in this recommendation. We understand that the present Climate Change Adjustment training program is means-tested (assets and income) and its financial limits (i.e. less than $1.5 million total net farm assets and less than $39,000 estimated farm income plus net non farm income and a market value of non farm assets less non farm debt to be less than $243,500) exclude a lot of producers who would benefit from the training, thus better enabling them to achieve the objectives outlined in recommendation 7.1. We feel the total assets limit and the range of assets considered in the means test need to be reviewed.

If Government is serious about supporting food production in Australia in the face of climate change, we need more food producers to be eligible for support, and need assistance far greater than $5000. The ABA has been successful in gaining $100,000 grant from Caring for Our Country funding to run a series of “Responding to Climate Variability and Change at a Local Level” early next year with, but with 1600 members in our constituent Agricultural Bureaus, the funding won’t stretch far. This is an example of the sort of program that needs much greater support from government than it currently receives.

Recommendation 8.4

We support the retention of the Farm Management Deposits scheme (and we believe they should be strongly promoted as a Drought Proofing mechanism) but believe the recommendations relating to limits and eligibility should be reviewed.

The “one size fits all” cap of $400, 000 in FMD’s is a limiting factor for some producers whose annual operational expenses for their enterprise is greater than the present limit, and thus a higher limit would help. We encourage investigation of alternative processes to set the limit for FMD’s. Alternatives to be considered include:

a. On the basis of a percentage of total assets (farm and off-farm)
b. On the basis of a percentage of the five year average gross farm income
c. Variations in commodity market prices may also be included as a factor in the setting of limits.

As a means of supporting the survival of rural communities, the expansion of the FMD scheme to allow access by defined businesses strongly dependent on the agricultural sector (i.e. machinery retailers and service / repairers, produce processors etc.) needs consideration.

The development of an independent scheme for such businesses may be an alternative.

Recommendation 9.1

The general thrust of this recommendation is supported. As outlined in our comments on recommendation 6.1 we believe it is essential that suitable alternative temporary income support measures are put in place, if the current system of EC relief payments is to be terminated.

However, we ask that the following points be considered:

1. Overall asset cap. While the proposed range of $2 - $3 million will include most producers, there will be a significant number in certain industries / parts of Australia whose total farm assets (i.e. required to run the farm as an ongoing business and thus not easily converted to cash) will easily exceed the proposed cap. This will disadvantage such producers who may be facing genuine hardship at the time, due to inability to produce an adequate cash flow.
2. Liquid assets sub - cap. The $20, 000 limit will be too low for some producers in certain enterprises / parts of Australia whose seasonal cash flow and operational expenses reflects the financial outlays required during their production cycle.
3. Requirement for Independent financial advice. With the proposed changes to the services provided by RFC and recognising their present skills, we suggest that RFC's could perform this function.

The recommendation to limit access to the scheme to a maximum three years out of seven raises a number of questions.

In recent times, many regions in this state have experienced more poor seasons than the stated limit and we ask "what happens then?" These regions can have a longer term positive production ratio so these criteria may need further consideration and expansion to accommodate the seasonal variability.

Would the starting date for this new support scheme (presumably 1 July 2010; if recommendation 6.1 is considered) be considered a "new beginning" in terms of judging how many years out of seven a business has been receiving income support or will the preceding seasons (i.e. the current drought) be taken into consideration? A transition period of up to two years may be needed before moving into the new Scheme and associated time frames.

While the draft recommendation relating to "Governments should ensure that there are adequate programs to assist those considering leaving farming …………………" does not specifically refer to Exit Grants, we believe they should be a part of future programs to assist exit and submit the following comments on the current scheme, which we believe discourage people from taking it up.

The present “Exit Grants” :

- Are not quarantined from creditors (and as such, monies are more likely to go to secured creditors such as financial institutions than to local unsecured creditors).
- can under some circumstances be taxable

The time taken to process applications can leave producers in “limbo” across several months. Do they prepare for the next production cycle or prepare to leave the property?

The sale of properties during times of depressed market prices, poor seasonal conditions and declining farm equity is often difficult.

Financial family support transition – what happens when the recipient is no longer a farmer and becomes a client of Centrelink on general community terms and conditions.

Additional considerations for small irrigators “exiting” are:

- what happens to the land post-removal of plantings and infrastructure
- how will the infrastructure (poly pipe and treated pine posts) be disposed of within environmental limits
- what price will be paid for the water sold to the Government?
- Sale of water entitlements can be subject to Capital Gains Tax; some small growers would have a large CGT liability if they did sell their entitlement t his time.
- employment opportunities for ex-irrigators are limited by industry downturns and increasing numbers of job seekers within some communities

In addition to the granting of “Exit Grants” we feel a need for support of producers who make a long term commitment to primary production. Regions where such support would be beneficial are:

1. where climatic and economic factors demand a change in production, e.g. from large scale opportunistic cropping reverting to sustainable grazing
2. to lessen the cost burden of farm build up where “small’ properties are amalgamated to create a supposedly more sustainable production unit. (We have some doubts if “bigger is always better” but accept that some property amalgamation may be necessary to compensate changes in production and marketing.

   Recognition of “off-farm” income as part of the business structure of some producers, big and small.

Recommendation 10.1

We support the termination of EC declarations on regional basis. We do however express concerns about whether individual landowners will face increased complexity and costs when applying for support due to seasonal hardship in the future.