



Victorian Farmers
Federation

REPORT COMMENTING ON THE DRAFT REPORT
OF THE PRODUCTIVITY COMMISSION'S INQUIRY
INTO DROUGHT REFORM

DECEMBER 2008

THE VICTORIAN FARMERS FEDERATION

The Victorian Farmers Federation (VFF), Australia's largest state farmer organisation and the only recognised, consistent voice on issues affecting rural Victoria. The Victorian Farmer's Federation (VFF) welcomes the Productivity Commission's draft report and has responded accordingly.

The VFF represents 17,000 farmer members across 15,000 farm enterprises. Victoria is home to 25 per cent of the nation's farms. They attract neither government export subsidies nor tariff support.

Despite farming on only three per cent of Australia's available agricultural land, Victorians produce 30 per cent of the nation's agricultural product. The VFF represents the interests of our State's dairy, livestock, grains, horticulture, chicken meat, pigs and egg producers.

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1 FOREWORD

The Victorian Farmers Federation (VFF) as a matter of principle supports an emphasis to be placed on drought preparedness rather than on drought response.

The VFF supports the Commission's recommendation to expand the objectives of the Australia's Farming Future initiative and in particular to emphasise the need to assist primary producers to adjust and adapt to climate variability and climate change.

The VFF does not support the hard deadline of 2009-2010 to end the current Exceptional Circumstances (EC) programs, unless the current EC event has ended and farm incomes have had an opportunity to return to normal or near normal levels. To do so will undo much of the effort that has been expended over the past seven years and may lead to a forced exodus of many farms in a relatively short period, which will create additional problems and negative public benefits.

A sudden increase in exits due to the ending of the support programs will cause a dramatic social adjustment in rural communities. The loss of a few families in small communities can have substantial impacts on service provision, school enrolments, community cohesiveness and community viability.

It may also create additional problems for other farmers. A large number of farms coming onto the market in a short period of time could be expected to depress land prices. While this may be a positive outcome for those farmers wishing to expand operations a reduction in land prices will reduce equity levels reducing the capacity to borrow and the confidence lenders have with existing loans.

The VFF is a strong supporter of a well funded and directed research and development and extension effort. Australian producers have managed to successfully and sustainably farm a harsh and diverse climate in an agronomic sense. A major component of this success has been the innovative approach by farmers supported by a history of well funded and effective research and development bodies.

The VFF would also highlight the importance and benefits provided by the Rural Financial Counseling services and the Farm Biz program. Some adjustments to the operations of these services to reflect the broader policy direction may be warranted.

The provision of support for families in hardship is an essential responsibility of a Government. The VFF agrees with the Productivity Commission's (the Commission) recommendation for the continuation of income relief for farm families. However, the asset thresholds as recommended do not sufficiently take into consideration the particular circumstances of modern agriculture.

The impacts of climate change particularly through any increase in climate variability will pose significant challenges for agricultural systems on a regional and sectoral basis. To increase the resilience of agriculture on these levels, a well supported and activated adjustment will bring positive benefits.

2 INTRODUCTION

Farming is a business and farmers actually wish to make a profit and be as efficient and as viable as possible. There are global and economic policy factors which have impacted on farmers' ability to remain profitable - such as tariff reduction and the importing of cheap (and not altogether quality) produce from cost competitive countries. As an example, the citrus industry has to compete with frozen concentrated orange juice from Brazil. The impact of tariff reduction policy on the citrus industry has seen farming sizes increase and grower numbers reduce substantially over a twenty year period. Whilst these economic policies were recommended with the best intentions, the reality is that Australian farmers' terms of trade continue to trend downwards, not upwards, even though we have some of the most efficient farming systems in the world and a quality product to sell.

Drought has had a significant impact on water availability for irrigation over the last two years and different State water policies have impacted on citrus growers' ability to access water for permanent plantings.

In the haste to end a system that is widely acknowledged to be imperfect, the VFF contends that the Commission recommendation of 18 months transition has already increased the stresses on farm families and, if accepted by Government, would jeopardise the successful introduction of any new policy framework. The VFF consider that a meaningful transition phase is crucial to successfully implementing change. The Commission has advised a transition period of 18 months in which Government must:

- Respond to the three drought reviews;
- Consultatively develop an alternative policy framework;
- Comprehensively communicate the new policy to farmers;
- Allow farmers time to consider and weigh their options under the new policy, to understand how they will be impacted in the future, and to make adequate preparations and obtain professional advice;
- Train government staff and have them available to answer questions about the operation of the framework and to process applications; and
- Implement the new policy measures to ensure delivery of services and payments on 30 June 2010.

This timeline is extremely ambitious. While there exists an urgent need for an alternative drought policy, it is imperative that Government gets the policy framework exactly right and communicate it effectively. The VFF believes a comprehensive communication plan to inform industry members of the changes, implications and opportunities is a vital part of any implementation process.

It is not only the financial implications that need to be taken into account with this review, but the Government needs to encompass the social needs of the rural community as a whole as well. There are factors such as multiplier effects in the rural economy that support the community as a whole. To severely limit the funding to the community would have huge ramifications, therefore as the Commission has tried to address, the transition period is of paramount importance.

The VFF fully support a more cohesive approach across the States and Territories of Australia.

In this submission, the VFF will respond to the draft report, but also expand on points that were raised in the public hearing that was attended on 9 December 2008.

- Household relief payments
- Extension services
- Three out of seven cliff face
- Lending institutions' concerns
- Drought may continue
- Stewardship payments
- Clarity of funding
- Conservative approach in terms of merits in business planning due to uncertain weather patterns
- Case managed viability assessment of farms

3 EXCEPTIONAL CIRCUMSTANCES ASSISTANCE

The VFF understand that the initial findings were that all assistance in the EC realm is to be terminated 2009-2010. The VFF also notes that an interim program will be introduced to smooth that transition from July 2009 through to the end of the last EC assistance circumstance. The VFF has concerns in that the current drought may continue for some time, and farmers faced with the proposed stopping of assistance may put further pressure on them. However, the VFF is also pleased that Minister Burke and State agriculture Ministers have openly stated that they intend to keep the EC assistance available until that EC has finished as it is currently defined. The VFF believe that all existing support should remain.

3.1 EXCEPTIONAL CIRCUMSTANCES RELIEF PAYMENTS

The VFF believe that the exceptional circumstances relief payments should remain, as they are effective at ensuring that families have support in times of need.

3.2 EXCEPTIONAL CIRCUMSTANCES INTEREST RATE SUBSIDIES

The VFF do not agree with the initial findings that the interest rate subsidies should be terminated. The VFF also want to highlight that because of the proposed changes, banks may choose to not lend to farmers, as their perceptions of how able the farmer is to pay back the money has changed.

3.3 STATES AND TERRITORIES TRANSACTIONS SUBSIDIES

The VFF maintains that the Victorian programs should remain until the current drought is over.

4 AUSTRALIA'S FUTURE FARMING INITIATIVE

The VFF is very supportive of the proposal to take the best of Australia's Future Farming and fine-tune it so as to make a positive program better.

Significant public funding should be directed to a continuous learning program, incorporating the successful elements of 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 that covers a portion of the cost of training, with the recipient contributing the balance.

4.1 PRIMARY PRODUCERS' ASSISTANCE

Assisting primary producers to adapt and adjust to the impacts of climate variability and climate change is an approach the VFF supports. This will help farmers deal effectively with climatic change and the flow-on effects they and their communities encounter.

4.2 SELF-RELIANCE OF PRODUCERS

Encouraging primary producers to adopt self-reliant approaches to managing risks is a message that the VFF has been taking to its members.

4.3 INCOME SUPPORT

The VFF maintain that ensuring that farm families in hardship have temporary access to a modified version of income support that recognises the special circumstances of farmers is of paramount importance.

4.4 STEWARDSHIP PAYMENTS

The VFF is supportive of stewardship payments, as it has long been acknowledged that farmers are active in environmental care. This care has benefits for the greater good. Further, this would provide another income stream for struggling families that would not differ greatly from year to year. By investing in rural stewardship programs, this would further help keep rural workers employed in the rural areas.

5 PUBLIC FUNDING FOR RESEARCH

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.

6 RURAL FINANCE COUNSELORS

The VFF is very supportive of the role that rural financial counselors play in developing greater farmer self-reliance. The VFF understands that the Commission wishes to further explore the following points.

6.1 CASE MANAGEMENT

The VFF is supportive of case management. It sees that there should be a case management model that provides for referrals to other relevant services in a timely manner. Ideally, the rural communities can take advantage of social programs that are available to provide an integrated approach for farmers and their families. Further, the VFF support a case management approach that targets those farmers that are most vulnerable that would most benefit an objective view of their farm operations strategies to ascertain viability.

6.2 BETTER TARGETING OF SERVICES

The VFF sees that services might be better targeted to instances where the alternatives are not available. However, there needs to be special attention paid to the unique circumstances that apply in regional areas. A number of problems have been highlighted that need to be considered in the broader context:

- unreliable telecommunications;

- mail services are not necessarily daily; and
- slow and interrupted internet access.

Further, there are perceived social problems with running a farm such as that of human isolation of farm working families, long hours of work and in some instances feeling helpless. As examples of the isolation; rural counselors, financial advisers and Centrelink may be the only human contact stressed farmers may have with 'normal society'.

7 FARM MANAGEMENT DEPOSITS

The VFF agree that Farm Management deposits (FMDs) should be retained, however, the VFF do not agree with a cap. If a cap needs to exist, it should be more in keeping with the development of progressively larger farms. The VFF believe that the FMD should be related to the income of the property and be in keeping with one year's normal income. As an alternative, a limit on annual deposits could be imposed, which should relate to property size.

8 FARMERS FACING HARDSHIP

All farmers facing hardship should have access to temporary income support designed for farm circumstances. Providing income at Newstart levels is appropriate for struggling families. However, the VFF takes umbrage with some of the criteria that the Commission is proposing to impose.

8.1 ASSET CAP

The overall asset cap, inclusive of the value of the farm house, beginning at \$2m with a taper to \$3m is too low. Most farms these days are getting larger in order to obtain economies of scale. Therefore, the VFF support exempting the farm assets from the proposed asset cap.

8.2 LIQUID SUB-CAP

The liquid sub-cap of \$20 000 (inclusive of bank balances and FMD balances) is far too low. It must be noted that most farm businesses do not run separate bank accounts to differentiate between farm working capital and private funds used to run the household. Most monies held by the farm are channeled back in time of need to allow the business to continue to function. A better way to approach this may be to say that after consideration for total of normal farm operating costs that a ceiling be placed on the level of liquid funds to qualify for EC payments.

The VFF maintain a more effective sub-cap would be \$50 000 and to exclude the FMDs.

8.3 APPLICANT CONDITIONS

The VFF recognise and support mutual obligation of ascertaining viability for financial assistance for farmers and their families. The Commission has suggested the following conditions; that of seeking independent financial advice on the viability of the business; and developing and carrying out as plan of action to improve self-reliance.

8.4 REVIEW PERIOD

The VFF agrees with a regular review of a farmer's eligibility being reviewed, payments acquitted and plans updated.

8.5 MAXIMUM CLAIM

The VFF agrees with a time limited support to prevent welfare dependency but are interested in the Commission's reasoning for a three out of seven year approach. Further, the VFF want to highlight that in times of stress, the right decisions are often not made. Therefore, the VFF would like to suggest that there is three years of full funding, with a taper downwards of another two years. This takes away from the 'cliff face' type of approach and the wrong decisions being made in times of stress.

8.6 TRAINING PROGRAMS FOR FARMING EXITS

The VFF maintain that governments should ensure that there are adequate programs to assist those considering leaving farming, including counseling, training suited to earning off-farm income and the recognition of prior learning. Currently, if a farmer is making the decision to maybe leave the property, without an objective viewpoint, (s)he may choose to stay farming although their business is unviable. Having this support will facilitate the 'right' decision.

Further, the VFF support the initial National Farmers' Federation overall strategy of Innovate, Advance and Secure. The VFF's model of this strategy is below.

Innovate

- R & D
- This comprises professional advice grants, innovation grants and risk management deposits

Preparedness

- Examples such as further fodder manufacture and retention
- Water supply efficiencies
- Farm exit grant should be seen as increasing industry and community capacity to manage risk by facilitating a decision to exit by those who are not likely to be in a position to implement appropriate risk management strategies.

Response

- The safety net of assistance if needs be; this should be available without a specific time frame
- Eg some farmers may not be able to move towards a preparedness response if they have recently purchased a property.

9 CONCLUSION

The VFF want to highlight that although the Exceptional Circumstances paradigm is not regarded as appropriate with current climatic changes, it has helped farmers continue farming under harsh conditions. The VFF would like to reiterate that support needs to continue while there is the change from EC to the preparedness model, while the government gets the model and system exactly right.

The VFF also emphasises the need to support farmers in the push for preparedness, particularly in light of the impact the current drought has had on the financial and emotional capacity of the farm sector. As the current drought ends there will be many conflicting demands on farm incomes as they recover. These pressures will include essential but deferred farm maintenance; health needs; family and educational needs; restocking and replacing farm machinery.

In these circumstances, the provision of grants and other measures that direct investments and farm strategies which improve preparedness will leverage significant funds into these areas, regardless of the competing calls on farm incomes. The Stock Containment program operated in Victoria is the example of how Government support can direct investments into management, community, and environmentally beneficial directions. This is despite significant financial pressures on the farm.

It is important that an approach to preparedness moves to quickly increase the capacity of the farm community to manage drought and other adverse events. The capacity to do so has been seriously depleted from the prolonged period of poor seasons and drought. There is no guarantee that a similar event will not reoccur with a relatively short period and a rapid build-up of preparedness capacity is important to the future prosperity of Australia's rural sector and food security.