



INQUIRY INTO GOVERNMENT DROUGHT SUPPORT

SUBMISSION

To

Productivity Commission

Prepared by:-

Organisation: The Western Australian Farmers Federation (Inc)

President: Mr Mike Norton

Address: Ground Floor
28 Thorogood Street
BURSWOOD WA 6100

Postal Address: PO Box 6291
EAST PERTH WA 6892

Phone: (08) 9486 2100

Facsimile: (08) 9361 3544

Email: alanhill@wafarmers.com.au

Contact Name: Alan Hill

Title: Director of Policy

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Background

The Western Australian Farmers Federation (Inc) (WAFarmers) is WA's largest and most influential rural lobby and service organisation.

WAFarmers represents approximately 4,000 Western Australian farmers from a range of primary industries including grain growers, meat and wool producers, horticulturalists, dairy farmers, commercial egg producers and beekeepers.

It is estimated that collectively our members are major contributors to the \$5.9 billion gross value of production (2005/06 – ABS, WA Agri-Food Industry Outlook – December 2007) that agriculture in its various forms contributes to Western Australia's economy.

Additionally, through differing forms of land tenure, our members own, control and capably manage many millions of hectares of the State's land mass and as such are responsible for maintaining the productive capacity and environmental well being of that land.

Introduction

WAFarmers welcomes the opportunity to provide comment on the Productivity Commission's Draft Inquiry Report; Inquiry into Government Drought Support. WAFarmers appeared at the Productivity Commission's Public Hearing held in Perth on 25th November 2008, and prior to that provided submissions to the related Inquiry into Government Drought Support's Issues Paper and to the Drought Policy Review's Expert Social Panel. WAFarmers has appreciated the opportunity to participate on behalf of its members in this important process.

In our submission to the Productivity Commission's Inquiry into Government Drought Support Issues Paper (August 2008) WAFarmers commented that:

With some reservations, WAFarmers supports the view of Australian Minister's for primary industries "that current approaches to drought and exceptional circumstances are no longer the most appropriate in the context of a changing climate.....that drought policy must be improved to create an environment of self-reliance and preparedness and to encourage the adoption of appropriate climate change practices'.

WAFarmers reservations are that there will always be a place for government financial assistance mechanisms to assist farmers their families and associated communities during times of adverse seasonal and economic conditions and that self-reliance and drought preparedness to encourage the adoption of appropriate climate change practices cannot simply be training programs.

In this submission, WAFarmers will expand this position, within the specific recommendations contained in the Inquiry into Government Drought Support report, and our discussions at the November public hearing.

Submission

WAFarmers notes the Productivity Commission's Draft Inquiry Report (referred to in this submission as the draft report, and referenced by page number) states 'looking to the future, most agricultural regions need to prepare for higher temperatures and for some, more frequent periods of exceptionally low rainfall (Page XX)'. The draft report's accompanying Draft Report at a Glance summary publication has an even more dire forecast when it states 'drought has always been a part of Australia's agricultural landscape, but there appears to be worse ahead'.

In Western Australia, the current climate change data and modelling scenarios indicate a 90% confidence that a significant area of Western Australian agricultural regions will increasingly be

affected by a trend of decreasing rainfall and increasing temperature patterns (IPCC 2007). The Western Australian agricultural regions identified as being at risk include; the Northern, Northeastern, and Eastern wheatbelt (Kingwell 2008).

WAFarmers believes that the expected changes to current weather patterns significantly heightens the need for the introduction and ongoing delivery of an effective support and information package which facilitates farmers' capacity to manage their identified needs in 'self reliance, preparedness and climate change management' (Page XX).

WAFarmers believes that if this is to be achieved then a long-term bi-partisan approach by government is required. The draft report identifies that 'research, development, extension, professional advice and training to improve business management skills' can help build these' (Page XX). Given the broad spectrum of topics which are required to assist farmers prepare for a climate change affected future, this process cannot afford to be altered with successive government's policy. The very nature of rural and remote communities mean that farmers must have a broad range of skills gained through life long learning, often in a non-traditional learning environment. As such WAFarmers feels that industry needs to have a greater influence in determining educational objectives and outcomes in dealing with climate change. This is particularly true when the audience is considered as it's generally accepted that the average age of farmer principals is increasing to between 55 and 60 years, which needs consideration when developing and delivering learning material.

A bi-partisan approach will also assist with addressing the continual erosion of state-based extension services. Currently, the dissemination of information to farmers is affected by the number of research and information providers, which contributes to a perception of information overload among clients, and this can contribute to a weakening of the consistency of delivery of the program's core principles.

One example of the gradual erosion of information and services is found in the annual agricultural census (Ag-Census), which for over 100 years has played a vital role in measuring the variability and increase in crop yields over time. Financial constraints in the Australian Bureau of Statistics (ABS) led to the Ag-census being reduced to 1 in 5 years in 1997. The promised "sample survey" data which was to be provided between census years was subsequently discontinued at a shire level in 2002, resulting in a gap of direct regional measurement of the impact of the 2002, 2006 and 2007 national droughts (as 2005 was last census). Currently it is proposed by ABS that divisional (sub-state) data will be discontinued and only State level data will be released four years out of five. The loss of this information has had a large impact on how industry and government agencies are able to prepare for, and manage climate variability, and works against the very notion of improving self-reliance of farming communities.

A program of increased capacity building however cannot replace financial support, and this is critical to enable both the climatic and non-climatic impacts of climate change to be addressed. Whilst the current Exceptional Circumstances program has its shortcomings, the concept of direct assistance should be retained for rural businesses and for rural communities. WAFarmers notes that the number of drought assistance recipients in Exceptional Circumstance declared areas (percentage of the eligible dairy and broad acre farmers claiming Exceptional Circumstance) increased markedly from 2002/03 (17%) to 2006/07 (50%), culminating in 2007/08 where Exceptional Circumstance support exceeded \$1 billion (Page XXVI). As significant variability in the rural landscape can occur within a short period of time, WAFarmers does not view that a support program like the Exceptional Circumstance process is building a mentality of reliance on welfare support, but rather that it is a necessary support mechanism for climate related impacts on farm businesses.

Finally WAFarmers notes the diversity of opinion in the draft report (Page 192) on income support and calls for any future program to have in place the capacity to ensure that the ongoing education

of farmers' children should not be compromised, and that it provide an assessment of land values and farming enterprises which allows the property owners the opportunity to exit the industry with a property price which is fair and equitable to market value.

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.**

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.**

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.**

WAFarmers believes that this review provides an opportunity to initiate a new level of capacity and reliance amongst agricultural producers, which will result in more robust and prepared businesses however this should not be at the expense of financial assistance, nor should significant changes be introduced until the required support programs are in place.

WAFarmers is supportive of the phase out of the Exceptional Circumstances declaration process provided that, prior to June 20th 2010, a complete understanding of the timing, structure and content of alternate financial, and continuous learning, programs are provided to industry, and that no business currently receiving Exceptional Circumstances assistance receive a lower level of support under the proposed system, beyond that date.

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.**

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.**

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.**

WAFarmers notes that the draft report states 'The National Drought Policy should be replaced by an expansion of the objectives of the *Australia's Farming Future* initiative, to clearly place the responsibility for managing climate variability and other risks with farmers and farm-dependent businesses' and that 'governments should play a supporting role that addresses impediments to effective risk management and assists individuals and communities cope with change' (Page 155).

As such, WAFarmers calls for meaningful levels of support to foster the required knowledge and capacity building amongst farmers and in rural communities. Two of these draft recommendations (8.1 and 8.3) call for the expenditure of 'significant public funding' although no detail is provided on these. It would be an unacceptable outcome if farmers were delivered the responsibility of risk management without being supplied with the appropriate level of knowledge with which to prepare.

Farmers have and continue to demonstrate remarkable capacity, with the Draft Report at a Glance noting that 'agriculture has achieved annual productivity growth of 1.8 per cent over the last three decades' under already highly variable conditions. WAFarmers believes that this figure is an underestimate, and should be 2.45%. Irrespective of the actual figure, this ongoing process must be given the significant public funding recommended in the draft report in order to continue. WAFarmers notes that 'climate change in Australia is projected to occur as a series of intermittent extreme events alternating between severe droughts, heavy storm rain events and a diminishing frequency of favourable seasons' (IPCC 2007). Further, the Draft Report at a Glance identifies that in June 2008 more than half of Australia's agricultural land was Exceptional Circumstance declared, with some having been that way for 13 of the past 16 years. WAFarmers believes that this is a very difficult environment within which to be developing meaningful training programs.

Complicating this is the acceptance of the future conditions by farmers. There is ongoing debate within the farming community about the likely impact of future change. Future farm management programs will need to consider whether they are targeting an extension of the localised climatic variability that farmers are already responding to, or a markedly different environment. The continuation of existing farming systems may be suitable in one location however other regions may require very different management practices. Future programs should also recognise that farmers' time may be a limiting factor in their participation in ongoing continuous learning programs.

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.

WAFarmers believes that the Farm Management Deposits scheme's cap of \$400 000 should be increased, to ensure suitable levels of funds are held for future periods of 'climate change' induced stress on farm productivity.

Whilst the draft report notes that the current average level of deposited funds per Farm Management Deposit is well below the cap, WAFarmers believes that this should not be justification to keep the cap at the current limit, as we note that farmers 'did not know enough about the scheme' and that there 'was insufficient surplus cash' were listed as significant factors in farmers not holding greater amounts of funds in Farm Management Deposits (Page 323). WAFarmers believes that these limiting factors should not impact upon the capacity of individual businesses to make sizable deposits, given this will assist in their preparedness for, and recovery from, unexpected hardship.

WAFarmers notes the draft report comments 'it is likely that for some individuals, \$400 000 might be an insufficient financial buffer to completely offset losses in a bad year' (Page 326). It stands to reason that for these, and for an even wider group, the scheme is not capable of providing support over a multi-year period. WAFarmers commented at their Perth hearing that for a large number of Western Australian producers the cost of putting in one-year's crop would comfortably exceed \$400 000, and that we felt that the option to put additional funds into Farm Management Deposits should be available to those growers that wished to do so.

The 2006 review of the scheme recommended that the upper limit of Farm Management Deposits needed to be increased to maintain their real value, and that this occurred, with an increase from \$350 000 to \$400 000. Total deposits by Western Australian growers have remained fairly constant over the last four years, at about \$400 million. If there has been no drop in numbers of participants, the value of these funds have effectively decreased. WAFarmers believes that as well as an immediate increase of the current cap, further indexed increases in the cap should occur periodically in future years to ensure that the real value of funds is not eroded over time.

WAFarmers also believes that there would be a significant community benefit by developing a scheme where Farm Management Deposit-type tax incentives were provided to farmers to assist in the capital purchase of infrastructure to propagate and manage climate change. WAFarmers believes that, like Farm Management Deposits a scheme could be developed which would provide tax deductible deposits in the year of expenditure on specific-approved items, an example of potential expenditure is in the development or upgrade of on-property water storage and transfer. This initiative would encourage investment in specific and measurable climate change preparedness, unlike Farm Management Deposits which is 'largely viewed as a tax minimisation program' (Page 323), would have the immediate benefit of stimulating expenditure in rural supply and service industries and would be fairly inexpensive to manage. In essence this is a step beyond accelerated depreciation, although could incorporate many of the basic principles.

Multi Peril Cropping Insurance (MPCI)

WAFarmers believes that the review should again consider a broad-based crop insurance product which would encourage growers to better manage their risk. Considered through previous studies as being 'not be viable without significant government assistance' (Page 106), MPCI type programs exist in a range of countries, and although there are considerable differences in coverage and public sector involvement, these are examples of governments putting systems in place to support the viable continuation of food production.

The view has been broadly put in the draft report that Exceptional Circumstance payments have been made as a series of emergency payments to a minority of farmers in hardship and to stressed farm businesses, rather than in fulfilling its objectives. WAFarmers believes that when implemented with government funding support, MPCI encourages growers to invest funds in preparation for when climate induced hardship occurs. WAFarmers recognises that a high level of demand would be needed from farmers before any commercial insurer would consider developing a product however we contend that a nation-wide approach, implemented at a federal level covering as broad a spectrum of crops and varieties as possible to reduce rates would give MPCI the greatest chance of success.

If one of the problems with Exceptional Circumstance for government as it stands is the uncertainty in budgeting for declarations and its associated expenditure, MPCI will deliver greater budgetary certainty through the allocation of a constant figure to assist in underwriting the scheme until such time as a premium bank is created which removes the need for substantial government investment.

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.

As we noted earlier in this submission, WAFarmers is supportive of the phase out of the Exceptional Circumstances declaration process and in its place the introduction of a broader temporary income support scheme based on hardship, to sustain agriculture and rural communities when unanticipated contingencies occur although we have some reservation on the specifics of the proposed program with regard to the Western Australian farming environment. These are:

1. Overall asset cap

WAFarmers believes that the proposed overall asset cap is insufficient for the majority of Western Australian broad-acre producers. ABARE (2008) comments support this position when they found that 'A feature of farm financial performance in the South West (of Western Australia) in recent years has been the substantial increases in land values. This has led to very high rates of return including capital appreciation. Average land values for broad-acre farms in the South West have increased by 275 per cent since 2000, a much larger increase than that recorded in land values for similar high rainfall zone regions in all other states. Increases in land values in the inland cropping zone of Western Australia where there are few non-agricultural influences on land values have been much more modest, averaging around 50 per cent since 2000'. Additionally they also note the larger average size of Western Australian farms compared with broad-acre farms nationally.

It is generally supported that farmers will use financial reserves to ensure the continuation of their business during droughts and economic downturns, and that these assets are an integral part of long term planning. The draft report notes that farmers in Exceptional Circumstance declared areas who did not receive financial support shared several characteristics, being that they were generating higher farm net cash incomes, had higher off farm investment income to draw on and were earning more off farm wage and salary income (Page XXVI). In commenting on the size of the overall asset cap, WAFarmers supports the concept of a sliding scale of payments however wishes also to have recognised that the program must balance the capacity to pre-plan with that which provides assistance in periods of hardship, which are likely to be more frequent in future years.

2. Limiting claims to a maximum of three years out of seven.

WAFarmers has already noted that in June 2008 more than half of Australia's agricultural land was Exceptional Circumstance declared, with some having been that way for 13 of the past 16 years. WAFarmers believes that provided that the business being assessed was meeting the listed criteria, including business and financial planning requirements, then there should be no need to restrict payment on a prescribed basis, but rather that this process should assess the economic viability of the business, to determine if ongoing farming in what may become a marginal area is sustainable. Income support would therefore not be unconditional and would be assisting farmers to understand their options and improve their situation, a process subject to a greater level of scrutiny than under the current system.

Other Information

The draft report comments that ‘policies relating to water, natural resource management and climate change all impact on farm businesses and local communities and need to be better integrated’ (Page XX). WAFarmers supports this however we note that there is little in the report which initiates integration between these processes, and therefore we welcome any future discussion on these areas that may result after viewing of this submission.

At the November 25th hearing in Perth, WAFarmers representatives referenced a presentation made by Mike Norton, WAFarmers President to the Western Australia Regional Infrastructure Group on November 26th 2008. The presentation, entitled ‘The Implications of Poorly Planned and Coordinated Export Infrastructure on the Agricultural and Food Industries of Western Australia’ has background material to issues discussed at the hearing including, pivotally the profitability of Western Australian farmers. WAFarmers core business is in keeping farmers profitable and on the land, and in order for this to occur, farmers need government investment in infrastructure and information delivery to remain viable, and linkages to assistance programs in years when there are unexpected downturns. These issues are included in the presentation, which is attached for the Commission’s information, as are comments on farmers’ productivity and costs.

References

ABARE 2008. Commodity outlook and financial performance of key agricultural industries in South West Western Australia. ABARE conference paper 08.9. Presented at the Bunbury Regional Outlook Conference, 23 July 2008, Bunbury, WA

Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report 2007 Contribution of Working Group II to the Third Assessment Report of the Intergovernmental Panel on Climate Change [Parry, Martin L., Canziani, Osvaldo F., Palutikof, Jean P., van der Linden, Paul J. & Hanson, Clair E. (eds.)]. Cambridge University Press, Cambridge, United Kingdom.

Kingwell, R. 2008, *The vulnerability of farm businesses to climate change: a regional case study*. Climate Adaptation Project 4. Agricultural Research. Department of Agriculture and Food WA.

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