

PRODUCTIVITY COMMISSION INQUIRY INTO  
GOVERNMENT DROUGHT SUPPORT DRAFT  
REPORT

# Tasmanian Government Response to Draft Report

<b>CONTENTS</b>	<b>Page</b>
Introduction	3-4
Summary of Tasmanian Government Response	5-6
Tasmanian Government Responses to Productivity Commission Recommendations	7-13
Additional Comments	14-16
References	17

## Introduction

The dynamics of drought continue to challenge primary producers, farming families, rural businesses, communities and governments. As noted by the Productivity Commission, a range of interventions, programs and policies are required to build a more self-reliant and innovative agricultural sector prepared to meet the challenges, both current and future, imposed by changing and variable climatic conditions.

The Tasmanian Government's response to severe drought is underpinned by three critical factors:

- the importance of agriculture to the Tasmanian economy;
- that the agricultural industry is custodian to approximately one third of the Tasmanian landmass; and
- the need to sustain rural communities.

The State's major agricultural enterprises include red meat, wool, vegetables, dairying, horticulture and grain, and the sector accounts for around 4.7 per cent of Tasmanian Gross State Product (GSP).

Although vegetable cropping and dairying are buffered to some extent from the impacts of severe drought because of access to irrigation, low rainfall has affected the productivity of these industries. Over the last two years, the drought has had a major impact on Tasmania's red meat, wool and grain farming industries, most of which are located in areas of the State declared under the exceptional circumstance provisions – the Central Midlands, and North East and Flinders Island.

With Tasmanian agriculture dominated by small family-owned businesses, and most produce being sold interstate and overseas, the sector is particularly sensitive to world market fluctuations, both in terms of product prices received and the cost of essential farming inputs such as fuel and fertiliser.

The latest rainfall map released by the Bureau of Meteorology indicates that over the last two years, rainfall in most of Tasmania's agricultural areas has been within the lowest 20 per cent of totals on record. Long range forecasts indicate that severely

depleted soil and surface storage reserves stand little chance of being replenished before next winter.

Tasmania's Department of Primary Industries and Water (DPIW) submitted its views on the effectiveness and efficiency of current drought support measures to the Productivity Commission in August 2008 and DPIW representatives attended the Commission's public hearing following the release of the Draft Report. The following represents Tasmania's whole of Government response to the recommendations contained in the *Inquiry into Government Drought Support: Productivity Commission Draft Inquiry Report*.

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## Summary of the Tasmanian Government Response

Item	Productivity Commission Draft Report Recommendations	Response Recommendation
6.1	Exceptional Circumstances relief payments should be terminated, with the last year of eligibility for those in EC areas being 2009-2010.	Partly Agree
6.2	Exceptional Circumstances interest rate subsidies should be terminated, with the last year of eligibility for those in EC areas being 2009-2010.	Partly Agree
6.3	States and territories should, as previously agreed, terminate transaction-based subsidies, effective by 30 June 2010.	Agree in principle.
7.1	The objectives of Australia's Farming Future (AFF) initiative should be revised and expanded to the following: <ul style="list-style-type: none"> <li>assist primary producers to adapt and adjust to the impacts of climate variability and climate change</li> <li>encourage primary producers to adopt self-reliant approaches to managing risks</li> <li>ensure that farm families in hardship have temporary access to a modified version of income support that recognises the special circumstances of farmers.</li> </ul>	Agree in principle.
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.	Agree
8.2	The contribution of rural financial counsellors to greater farmer reliance should be reviewed <ul style="list-style-type: none"> <li>the institutional barriers to the provision of private sector financial advice services in rural and remote regions</li> <li>the extent to which the scheme's case-management provides for referrals to other relevant services in a timely manner</li> <li>how services might be better targeted to instances where alternatives are not available.</li> </ul>	Partly Agree
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.	Agree in principle
8.4	The Farm Management Deposits Scheme should be retained with its current cap of	Agree

	\$400,000 and no widening of its eligibility criteria.	
9.1	<p>All farmers facing hardship should have access to temporary income support designed for farm circumstances. It would provide income at Newstart levels, subject to:</p> <ul style="list-style-type: none"> <li>• an overall asset cap, inclusive of the value of the farm house, beginning at \$2 million with a taper to \$3 million;</li> <li>• a liquid asset sub-cap of \$20,000 (inclusive of bank balances and Farm Management Deposit balances);</li> </ul> <p>and be conditional on the applicant:</p> <ul style="list-style-type: none"> <li>• seeking independent financial advice on the viability of the business;</li> <li>• developing and carrying out a plan of action to improve self-reliance;</li> </ul> <p>and on eligibility being reviewed, payments acquitted and plans updated every six months.</p> <p>The scheme should be limited to a maximum claim of three years out of seven. It should commence on 1 July 2009.</p> <p>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.</p>	Agree in principle.
10.1	<p>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.</p>	Partly Agree

## TASMANIAN GOVERNMENT RESPONSES TO THE RECOMMENDATIONS CONTAINED IN THE PRODUCTIVITY COMMISSION DRAFT REPORT

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**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.*

### **Response to Recommendation 6.1: Partly Agree**

While the Tasmanian Government supports the Productivity Commission's recommendation regarding EC relief payments, the termination date should not be locked in at June 2010. Existing areas should only fall under the proposed new guidelines once the National Rural Advisory Council (NRAC) determines that the current EC declaration no longer applies. Measures should be taken to ensure that no drought-affected area is worse off under the proposed changes, and the transition to a temporary income scheme is facilitated quickly.

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**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.*

### **Response to Recommendation 6.2: Partly Agree**

The Tasmanian Government supports the Productivity Commission's recommendation regarding EC interest rate subsidies, however, the termination date should not be locked in at June 2010. While the proposed shift in business support from emergency payments to drought preparedness strategies is supported, existing EC areas should only fall under the proposed new guidelines once the National Rural Advisory Council (NRAC) determines that the current declaration no longer applies. Measures should be taken to ensure that no drought-affected area is worse off under the proposed changes and that the transition to new arrangements is facilitated quickly.

**DRAFT RECOMMENDATION 6.3:** *States and territories, should, as previously agreed, terminate transactions-based subsidies, effective by 30 June 2010.*

**Response to Recommendation 6.3: Agree in principle**

The Tasmanian Government supports the Productivity Commission recommendation *in principle*.

Emergency responses should be guided by the need for recovery and rebuilding rather than reactive transaction based subsidies that may have unintended consequences – for example, maintaining excessive stock through fodder subsidies rather than destocking. Should the Commission’s proposed Intergovernmental Agreement go ahead, critical emergency response guidelines could be incorporated into the Agreement as part of a national, holistic approach to the hardships imposed by climate variability and change.

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**DRAFT RECOMMENDATION 7.1:** *The objectives of Australia’s Farming Future (AFF) 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.*

**Response to Recommendation 7.1: Agree in principle**

The Tasmanian Government supports the Productivity Commission’s recommendation, however, more details on levels of cooperation and funding arrangements will be required by State and Territory governments.

Support is provided for those that are eligible under Australian Government programs such as *Farm Ready* and *Australia’s Farming Future*. If the Australian Government advocates a broader risk management approach to farming issues, the support should be expanded to include those producers in drought affected areas that do not qualify for income support measures under current eligibility measures.



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**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.*

**Response to Recommendation 8.1: Agree**

The Tasmanian Government supports the Productivity Commission's recommendation regarding research, development and extension (RD&E), although this support would be subject to State Government priorities and budget constraints. Tasmania proposes that appropriate RD&E partnerships be established across the whole of the industry value chain. As climate is just one variable among many, preparedness programs need to take into consideration other risk management issues such as market variability, pests, and diseases. Importantly, the role of government should focus on support and facilitation of RD&E rather than delivery. RD&E funding priorities should also be determined in the context of the current volatile financial environment.

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**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.*

**Response to Recommendation 8.2: Partly Agree**

While the Tasmanian Government supports a review of the Rural Financial Counselling Service, it should occur six months prior to the expiry of the existing service.

Additional time is required to establish the level of success (or otherwise) of the scheme's case management approach for referrals to other relevant services. An extensive review of the RFCS scheme was completed relatively recently (2005) and the case management approach was implemented only a short time ago. As such, an immediate review may not provide an accurate picture of the impacts and effectiveness of current arrangements.

While counsellors do not always possess the skills to assist farmers with agriculture production planning, these plans are central to managing risk and determining long term viability. Consequently, it is important that the counsellors be aware of the necessity of production plans in the case management context, and refer clients to suitably qualified services when required.

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**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.*

**Response to Recommendation 8.3: Agree in principle**

The Tasmanian Government supports the Productivity Commission's recommendation. It is unclear, however, what the State Government's roles and responsibilities would be in a revised program. The Productivity Commission has noted that funding needs to be commensurate with any expanded scope or change in delivery mechanisms, although no clear objectives are articulated.

Should a program be established that incorporates the successful elements of FarmBis within the Farm Ready platform, then an appropriate study should be conducted to review and compare market rates charged by training providers (pre- and post-introduction) under the previous FarmBis. Suitable and cost effective service delivery mechanisms should then be established to ensure that training is driven by needs and set at appropriately subsidised levels. Any training provided under the Farm Ready program should also include the broader elements of risk management in farm enterprises.

The Tasmanian Government found the following elements of the FarmBis program particularly successful and would like to see them incorporated into the Farm Ready program:

- The State Planning Group comprising primary stakeholder representatives who possess the capacity and knowledge to recommend subsidised training appropriate to Tasmania-specific needs. It is critical that regional needs be identified on a context-specific basis and developed according to local knowledge and local needs;
- the FarmBis subsidy arrangements, with out-of-pocket costs providing the necessary impetus for participation; and
- training providers meeting the guidelines for service provision to ensure costs remain reasonable.

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**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.*

**Response to Recommendation 8.4: Agree**

The Tasmanian Government supports the Productivity Commission's recommendation as it reduces the need for farmers to apply for government assistance and represents sound risk management practice.

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**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 \$2million with a taper to \$3million.*
- *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.*

### **Response to Recommendation 9.1: Agree in principle**

The Tasmanian Government supports the Productivity Commission's recommendation to remove EC boundaries and broaden the scope of hardship assistance beyond that of drought. Although Primary Industries Ministers have agreed on the principles of mutual responsibility, there are a number of outstanding issues and questions regarding contractual obligations and the roles and responsibilities of all levels of government that will need to be resolved.

The Tasmanian Government concurs with the Commission's recommendation regarding tapering of the asset test for income support. Most long term viable farms would have an asset value greater than \$2 – 3 million. For various reasons, however, farms may have limited cash flow because of unforeseen events such as a significant market downturn or severe weather. Farm equity can only support cash flow if the farming enterprise is able to borrow, and can demonstrate viability and capacity to service the loan. If a farming business is excluded because of the asset test, hardship will continue because there may be no other household income stream.

Tasmania's Department of Health and Human Services Mental Health Services supports the development of a range of well-coordinated programs and services designed to improve the resilience and coping skills of farmers and their families and raise awareness about the range of mental health issues that arise because of hardship. Identification and coordination of referral pathways for treatment and advice is also strongly supported, and should be implemented in concert with financial support measures.

**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.*

**Response to Recommendation 10.1: Partly Agree**

The Tasmanian Government supports the Productivity Commission's recommendation, however, as raised in the Tasmanian Government's response to Recommendations 6.1 and 6.2, issues remain regarding the proposed termination date of 30 June 2010 and the need to honour existing EC declarations.

For ECIRS support under the existing arrangements, no new declarations should be established after June 2010, or until all governments have agreed on a new national policy framework. Existing EC declared areas and arrangements should, however, continue until otherwise determined by NRAC.

The Tasmanian Government concurs that temporary income support programs designed for farming businesses experiencing the types of hardship described in the Draft Report (including, but not limited to drought) should commence on 1 July 2009. This will ensure there is no implementation gap during the transition from current to new programs.

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**ADDITIONAL COMMENTS:**

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- The **roles and responsibilities** of Commonwealth, State and Territory jurisdictions will need to be established as a precursor to development of a national policy framework addressing hardship support for farmers and farming businesses.
- The Draft Report refers to **'recovery' from drought**. In light of climate change and variability and the Expert Social Panel's discussion on moving away from the term 'drought', it might be preferable to use terms such as **'adaptation'** rather than **'recovery'** in the Commission's final report. 'Recovery' implies a return to pre-drought conditions and this may not occur. Ideally, research, training, development and extension should focus on increasing farmers' capacity to adapt to risk management approaches tailored to changing and variable climatic conditions.
- Further, the agricultural sector will need to **adapt and adjust to a changing policy landscape** that includes the economic impacts of an emissions trading scheme, transition from transaction subsidies and exceptional circumstances provisions, and mutual responsibilities for financial and other support. This needs to be achieved without an erosion of trust between farmers, rural communities and government at all jurisdictional levels.
- With the Draft Report's recommendation for a shift from drought-specific support measures to those that encompass other forms of hardship experienced by farmers and farming businesses, the term **'hardship'** may need to be clearly (although not rigidly) described or defined in the proposed new national policy framework.
- In relation to the above point on **'hardship'**, a number of potential influences may compound the hardships experienced by the agricultural sector and increase demands for financial support and assistance programs:
  - potential changes in key climate variables in Australia are projected to result in a loss of agricultural productivity, declines in pasture growth, crop yields and livestock production returns and a rise in agricultural production relative to what would otherwise occur (Gunaskera et al 2008);

- climate change will have a significantly greater impact in Australia than in other countries, leading to a loss in competitiveness and overall outputs relative to what would otherwise occur (Gunaskera et al 2008);
  - Climate change will potentially impact on long-term global economic activity through: (i) market impacts; (ii) non-market impacts (e.g. environmental); and (iii) catastrophic events (e.g. cyclones) (Stern 2006);
  - Because of the potential climate changes, ABARE modelling results (Gunaskera et al 2007) indicate that Australia's production of key agricultural products is likely to decline relative to what would otherwise be – for example, sheep meat is estimated to decline by 15 per cent by 2030, and 21 per cent by 2050 (Gunaskera et al 2008);
  - The slowdown in economic activity combined with declines in productivity resulting from potential changes in climate will also have major implications for agricultural commodity exports and trade (Gunaskera et al 2008).
- Hardship may also be exacerbated by the introduction of the **Carbon Pollution Reduction Scheme** (CPRS) in Australia.
  - There are no adjustment/compensation measures proposed for agriculture, and this, combined with increases in the general cost of living in regional areas (Keogh 2008), could exacerbate the hardships experienced by some farmers, thereby increasing demand for support services.
  - Adding to the potential economic impacts of an emissions trading scheme is the limited offset options for agriculture; indeed, on-farm forestry may be the only offset available under the CPRS if farmers elect to opt in. Kyoto accounting rules focus on forestry as a carbon sink option, and alternative commercially viable abatement options are limited. The push of forestry onto productive agricultural land is also compounded by the tax rewards of managed investment schemes and current carbon sink forest legislation in some jurisdictions (Leach 2008).
  - These variables need to be taken into account in the development of a new national policy framework addressing the impacts of climate change and variability on Australia's agricultural sector, along with careful consideration of

terminology and definitions of what will be covered, by whom (cost bearing and administration), why (justification) and when.



## References

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