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22 December 2008

Government Drought Support Inquiry  
Productivity Commission  
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Dear Productivity Commission

**Re: Inquiry into Government Drought Support**

Please find attached the NSW Farmers' Association submission to the Productivity Commission in response to the draft inquiry report into Government Drought Support.

Thank you for your consideration of our submission and I look forward to the release of the results of this Inquiry

Yours sincerely

Jock Laurie  
**PRESIDENT**



**Submission to  
The Productivity Commission**

**~ Inquiry into Government Drought Support  
Draft Inquiry Report ~**

**December 2008**

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## 1. Introduction

The NSW Farmers' Association (the 'Association') is Australia's largest state farming organisation representing the interests of the majority of commercial farm operations throughout the farming community in NSW. Through its commercial, policy and apolitical lobbying activities it provides a powerful and positive link between farmers, the Government and the general public.

The Association provided a submission to the Inquiry into Government Drought Support in August 2008. The comments and recommendations contained in the earlier submission are still relevant. In this submission the Association addresses comments made in the Productivity Commission draft report.

A number of environmental and economic circumstances have changed since the original submission was lodged in August and the Association believes that these provide a more critical context for the ongoing discussion on national drought policy. The financial crisis and the food crisis have direct and indirect effects on Australia's agricultural sector and are intrinsically related to national drought policy.

Agriculture plays an important role in the Australian economy. In 2008 the gross value added by agriculture was \$23.77 billion. Over one of the driest periods in recorded history from 2001-02 to 2007-08 the total gross value added for agriculture was \$169.644 billion<sup>1</sup>. In comparison the total value of Commonwealth business and household drought support was \$4.36 billion or 2.5 percent of the gross value added. Furthermore Australian farmers receive one of the lowest levels of support from Government of any OECD country providing benefits to local consumers and also promoting a highly competitive export earning income.

## 2. Australian Farming Future

As the Association outlined in its original submission, drought policy needs to be considered within the context of a whole suite of government policies. Water, climate, taxation and a range of other policy areas all impact on agriculture and the business of farming. As such the development of a farming policy for the promotion of preparedness and self reliance as the Government intends must accommodate all the possibilities that arise from the various interactions between policy areas.

In assessing the national drought policy the Commission has placed a strong emphasis on the first objective of encouraging farmers to adopt self reliant approaches. The Association supports such a view, however believes it must be balanced. Self reliance and preparedness can be achieved when resources are available to conduct such activities. However when the resources are not available, such as during the current drought, alternative measures need to be accessed to ensure viable businesses remain in operation. As such any drought policy needs to accommodate self-reliance and preparedness measures to promote and support the development of sustainable businesses and, allow for provisions so that when exceptional circumstances occur that are beyond the risk minimisation that can be expected in preparedness, assistance is provided to the farming enterprises.

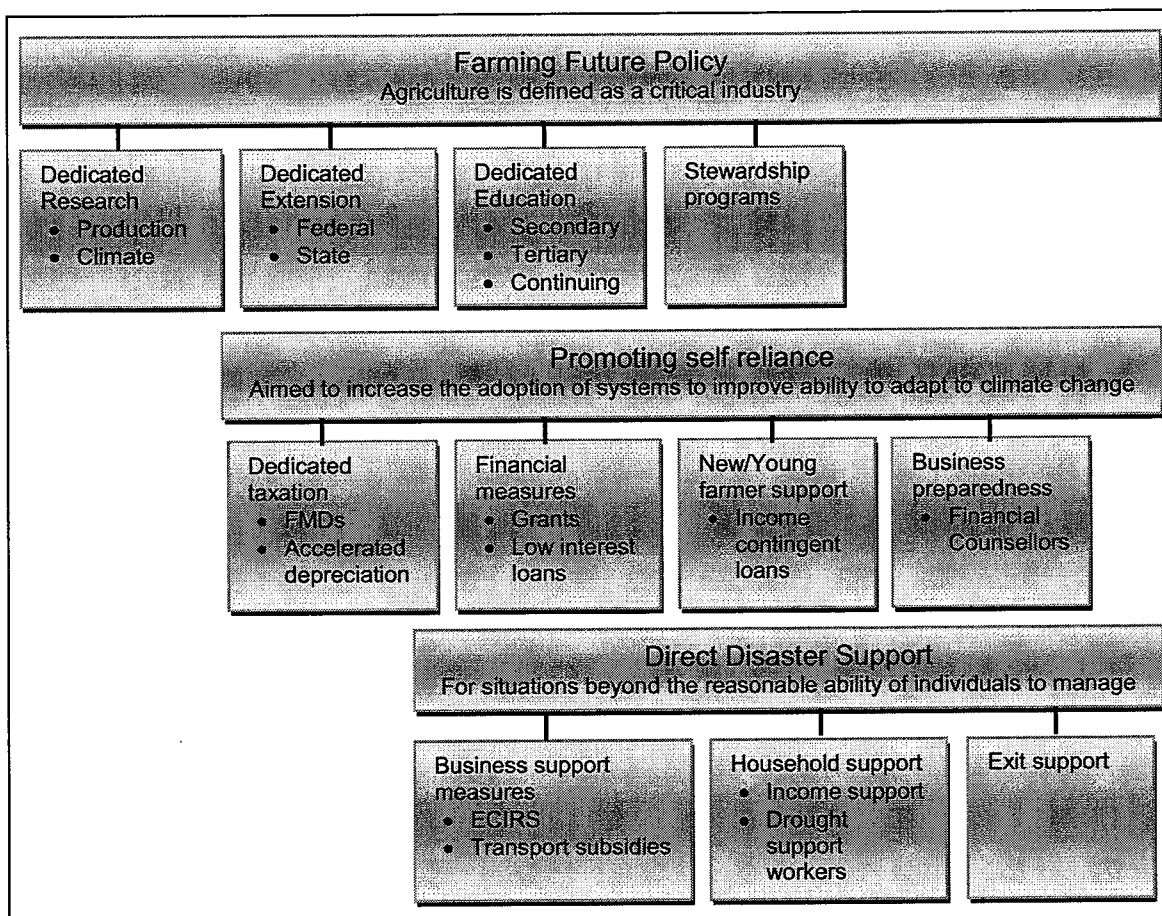
In line with the National Farmers Federation ('NFF') proposal and the Commission's recommendation of a three part program, the Association believes that any future farming policy must include the following components:

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<sup>1</sup> Australian Bureau of Statistics (2008) *Australian National Accounts: National Income, Expenditure and Product*, cat number 5206.0

1. Extension, R&D, and education (at all levels) to improve skills and sustainable productivity. Such measures should extend beyond farmers to rural families to support regional communities;
2. Measures to encourage self reliance and preparedness including low interest loans, taxation measures, young farmer schemes; and
3. Operational support during times of disasters that cannot be planned for including Exceptional Circumstance Interest Rates Subsidies (ECIRS), freight subsidies and grants.

By considering these components it is possible to develop a comprehensive policy. These could be graphically represented in the following form.



The Association believes that support for new farmers, young farmers or innovative farmers is a critical component to supporting the development of the industry. The ability for farmers to increase their economies of scale through growth is essential to improving efficiencies, profitability and also to facilitate succession. Any assessment process should consist of an understanding of where a business is heading with a capacity for new farmers, young farmers and innovators to be given more latitude. Measures such as the income contingent loans or low interest loans could be provided in these situation where access to finance is limited,

In addition to a future farming policy the Association would also encourage the development of a rural and regional development policy. Given the interactions between the two areas of farming businesses and rural economies they would have to be closely aligned but such a

policy would recognise the importance of such communities. It would also assist in developing the critical mass of people to provide supporting services to the farming community.

Despite the value of the industry to the economy as outlined above there is little recognition of the self reliance and preparedness measures that agriculture has already implemented. The Association believes the Commission has taken a fairly narrow view of the previous 5-7 years in assessing farming's ability to adapt and prepare for drought. Even during this time farmers have made adjustments and instigated practices to improve their sustainability. These on farm changes and those that occurred in previous good seasons need to be recognised and the assessment of farmers' capabilities must not be restricted to actions that have occurred during one of the worst droughts on record.

Furthermore as is stated by the Commission, "of the current suite of major NDP programs, none directly target the area of self reliance" (p.103). The Association supports this statement and believes that if preparedness and self reliance are to be achieved, Government policies must be actioned during productive times and not simply during drought times. Farmers have undertaken a large amount of preparedness measures of their own accord. Increasing the scale of properties from the original soldier settlement size blocks, introducing irrigation, developing minimum tillage practices, improving genetics, utilising weather forecasting, and seeking financial risk minimisation strategies are some of the many practices implemented by farmers with little or no Government intervention. If the Government wishes to encourage self reliance it must be proactive in these and other measures continuously not just confined to drought years.

Farmers as stewards of the land have introduced environmental measures to secure their sustainability. In NSW farmers occupy and manage over 80 percent of the land mass<sup>2</sup>. The Commission noted that "NDP does not have strong program setting to 'maintain and protect' the environmental resources base" (p.127). As outlined above, as part of any farming future policy, the role of farmers as custodians of the landscape needs to be acknowledged and the environmental benefits that the greater public derives from such activities must be recognised. These added roles that farmers play also illustrates the need for a comprehensive policy that encapsulates all areas of agricultural policy.

## 2 Declaration Process

The Association supports the Commission's comments "the entire EC process lacks transparency" (p.120). Association Members are often confused as to the role of the different bodies that operate within the drought policy sphere. With Rural Lands Protection Boards, State Department of Primary Industries, the Federal Department of Agriculture and NRAC it is difficult to know who makes what decision. Furthermore the feedback provided to individuals and industry bodies regarding a decision is little to non existent. Individual farmers who have prepared information for NRAC to consider receive no response other than the final decision. Authorities preparing information often do not have clear guidelines or feedback on what information needs to be collected. For any declaration process to remain credible it needs to exhibit transparency and accountability.

The Association also agrees that the Exceptional Circumstance (EC) declaration process and lines on maps is divisive. The Association is regularly contacted by farmers who are on the "wrong side of the line" and while they have experienced the same conditions as their neighbour, the decision on a boundary rules them out of accessing any EC support.

<sup>2</sup> Australian Bureau of Statistics (2008) *Agricultural State Profile, New South Wales, 2006-07*, cat number 7123.1.55.001

Removing the area declarations and assessing intervals on a case by case basis would provide a more accurate assessment of people in need.

The Association raised the concern about intensive agricultural industries being able to access support measures in its original submission. The Commission did not touch on this area in the draft report. The Association is not aware of a reference point for irrigators or other intensive industries to be EC-declared. Furthermore these industries experience similar impacts to other agricultural industries during times of drought and should therefore have the same opportunity to access the same programs.

### **3 Household Support**

The Association supports the Commission's recommendation that the Exceptional Circumstance Relief Payments (ECRP) be extended beyond a drought measure and be available to farm households irrespective of whether the hardship is a result of drought. The Association also welcomes the Commission's consideration of the peculiarities of farming businesses and farming families and the need to recognise these in the modification of the Newstart scheme to increase its relevance to farming families.

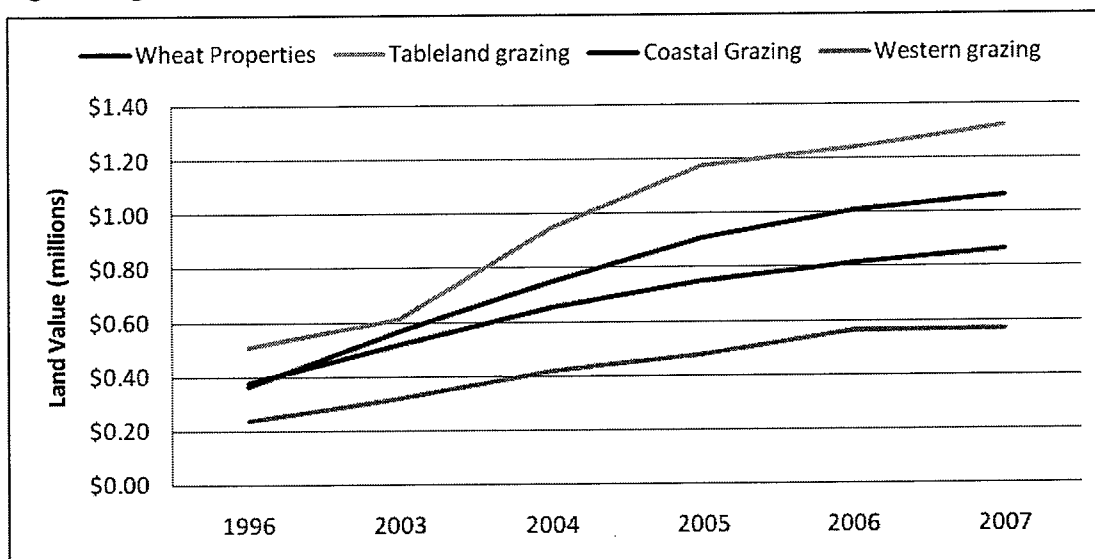
The Association has significant concerns about the recommendation to include an overall asset test, including farm business assets beginning at \$2 million. A general social safety net applied to farm families, such as is provided by ECRP, must take into consideration the two structures that operate within a farming operation, the farm business and farm family. Farm assets should be considered in their income earning capacity to the farming business and therefore should not be included in any asset assessment for income support. The household is separate from farm assets apart from the indirect capacity of those assets to generate an income for the family. Such income would be considered under any income criteria. As such farm assets should be excluded from the provisions to access income support. Furthermore inclusion of farm assets under such a cap would increase inequities and discriminate against possibly more viable, larger farms.

Information obtained from Centrelink illustrates that the \$1.5 million total asset threshold is restricting the ability of farmers to access the current program. In late November 2008 approximately 450 claims for the Climate Change Adjustment program had been processed. Of these approximately 57 percent had been rejected with the main reasons being failure to supply documentation, customer withdrawal application (possibly due to realisation of thresholds, inability to access the program, or reestablishment of EC status), and liquid assets above the threshold. These figures demonstrate that a total asset threshold of \$1.5 million severely limits the ability of farmers to access such a program.

Land values obtained from the NSW Department of Lands<sup>3</sup> demonstrate the increase in land values over the previous 10 years and the lack of correlation with agricultural productivity. Figure 1 illustrates the average land values for representative properties in the different regions of the State. The land value illustrated excludes any calculation for improvements such as fences, clearing, sheds or other structures and is simply a valuation of the land. As Figure 1 illustrates properties in the Tableland grazing category are approaching \$1.5 million. Adding normal assets associated with such properties would push the value of the farm asset beyond the \$2 million threshold as identified by the Commission.

<sup>3</sup> NSW Department of Lands [http://www.lands.nsw.gov.au/valuation/nsw\\_land\\_values](http://www.lands.nsw.gov.au/valuation/nsw_land_values) [accessed on 15 December 2008]

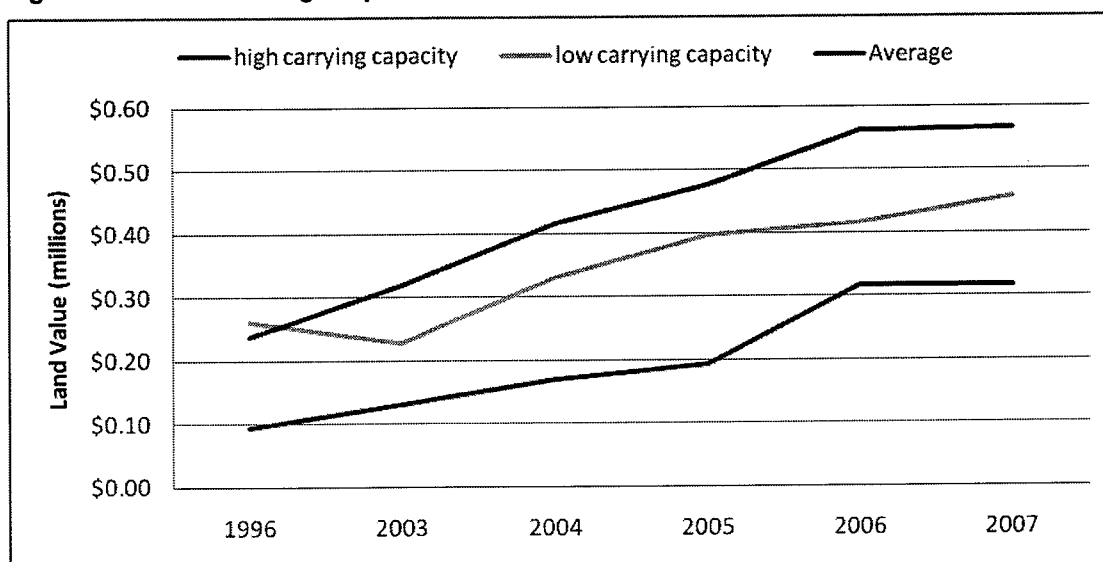
**Figure 1 Agricultural Properties**



Asset values of farm properties are influenced by factors external to the farm business. Many locations in coastal and regional parts of the State have experienced large increases in land values over the last 20 years. These increases have been due to the increased demand for the land and do not reflect the agricultural income earning potential of the land. As such, farms of the same size conducting the same business activities may have greatly different land values depending on their location.

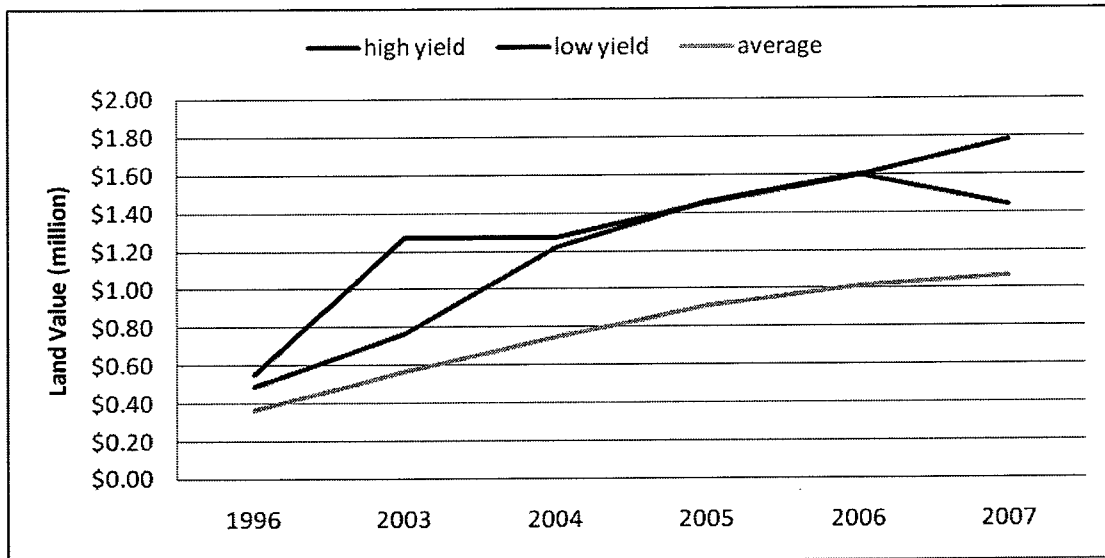
Figure 2 and Figure 3 illustrate how property values are not reflective of the agricultural capacity and therefore income earning capability of the property. In Figure 2 the larger property with a higher carrying capacity has a lower value than the smaller property with a lower carrying capacity. Similarly in Figure 3 the property yielding a higher tonnes per hectare has a similar value to the lower yielding property.

**Figure 2 Western Grazing Properties**





**Figure 3 Wheat Properties**



The above graphs also demonstrate the large increase in property values that have occurred in the last 10 years despite the ongoing drought. If the decision is made to adopt a threshold for farm assets the Association would strongly recommend that it be indexed in some way to reflect the increases in property values which in some cases have increased by more than 230 percent.

The Association questions the statement made by the Commission on page 138 regarding the absence of regular reconciliation for the ECRP program. The Association understands that all recipients currently receiving the ECRP are required to conduct a review of their situation every 6 months. The Association requests that this be acknowledged in the report.

The comments on page 126 with regards to implications for the environment and referencing stocking numbers of dairy farms needs to recognise the context of the situation. The Association would challenge that the majority of dairy farms accessing ECIRS and ECRP are located in the inland areas that have experienced longer and more severe drought periods. These farms are generally more intensive and larger than more traditional dairy farms located in the coastal regions. This would be reflected in stocking rates for dairy farms in EC and non EC areas and not necessarily have any causal relationship to accessing assistance. Furthermore the intensive nature of these operations mean that cattle are often fed mixed rations with fodder sourced off farm and therefore stocking numbers would have no bearing on the environmental situation on the property. The Association requests that these circumstances be recognised in the report or that the Commission identify another situation to use as an example.

#### **4 Business Support**

The Association strongly believes that provisions must be made to afford business support measures to farming businesses during exceptionally dry periods. While the Commission in the draft report states that "Interest rate subsidies are inappropriate, ineffective and inefficient" (p.145), the Association argues that they are serving a purpose of maintaining farm businesses in an operational manner until such time that the seasons improve and income generated can repay the debt, and enable the ongoing occupancy in the farm businesses.

In endorsing the ECIRS program the Association acknowledges there are components of the program that could be improved to support the objective of self reliance and sustainability. These include re-assessing the current thresholds so they do not penalise those operations that have taken measures to overcome the risk of drought such as finding off-farm income or investing in drought mitigation capital works. Indeed it may even be suggested that such risk mitigation measures should be rewarded in accessing such business support.

The Association believes that the thresholds should be considered in the context of the applicant for such support. Expanding or establishing businesses with the intention of establishing or growing a viable enterprise may have taken on debt levels sustainable in the long term however due to the cash flow shortage of compounded negative or low incomes need assistance in the short term. Such businesses have the propensity to form the profitable farming operations of the future and assistance measures need to reflect these opportunities.

The Association suggests that further work be conducted to better understand the full consequences of ECIRS including the local economic community impacts. While the ECIRS affords the partial repayment of interest it makes available other funds for expenditure on other essential items. To gain a clear picture of the cost of ECIRS a cost benefit analysis should be conducted with the additional cash flow circulated in the local community included. Furthermore a quantitative assessment should be conducted of the possible structural change that might occur if business support were removed.

Transport subsidies remain a valuable tool to assist farmers in decision making for animal welfare. The sheer quantum of the support provided in transport subsidies demonstrates the value that farmers place in being able to access this program. NSW Department of Primary Industries routinely collects 250 applications for subsidies per week demonstrating the ongoing demand for this support.

The Association outlined in its original submission the concern that the transport subsidy program limits the ability to claim for stock cartage to those situations where the stock are in a poor condition. Such requirements do not support best management practices and encourage farmers to retain stock and sell them in a poorer state. Such restrictions should be lifted.

## **5 Other Measures**

The Association outlined in its original submission a number of alternative options that should be considered as part of a comprehensive drought package. These included income contingent loans to provide cash flow for businesses, tax reform to allow for accelerated depreciation for drought mitigation assets, and insurance particularly for drought protection of crop production. Each of these was considered as a co-contribution program designed to reduce the exposure of Governments and demonstrate a commitment from agricultural businesses to long term sustainability. The Association believes these options should be pursued in more detail with models developed to consider the operations and effectiveness of each. The Association has held further discussions reviewing the alternatives including a possible superannuation structure where compulsory co-contributions are invested into a fund that can be drawn down in times of exceptional circumstance or on retirement.

Given the individuality of farming businesses and the various stages of development the Association believes that a suite of alternatives should be made available to farmers for business support during exceptional circumstances. Rather than a one size fits all approach, to remove some of the inequities of the current system a number of alternatives could be

provided to support a business to a predetermined level. For example a business that has borrowed heavily may chose ECIRS, another that is in the early stages of development may require an income contingent loan, another with low debt levels but low cash reserves may prefer a low interest loan, and a livestock operation may prefer accelerated depreciation to support investment in fodder storage facilities. Such options could be provided on the basis of a business plan.

The Association believes the use of accelerated depreciation can encourage investment in drought mitigation measures such as storage sheds and silos. Investment in such infrastructure will provide farmers with the capability to better manage dry conditions. Currently the depreciation schedule for a silo allows for five percent per year for a steel silo or two percent for a concrete silo. Increasing these rates would provide added incentive to invest in such assets.

The establishment of the high level working group by the Primary Industries Ministerial Council to consider in particular the business and transitional measures is reassuring and the Association encourages such a group to pursue all alternatives with a view to identifying efficient and effective measures for Australian farmers. Without sufficiently developing the model and costing it out it is difficult to assess the suitability of such a scheme.

The Association strongly supports the Commission's recommendation for the need for Governments to invest in research, development and extension services. It is noted that recent decision in the state of NSW have seen a reduction in the commitment by the State Government to Research, Development and Extension (R, D&E) in the agricultural industry.

Independent R, D&E such as that provided by Government funded sources is essential to retain integrity in the system and provide users with confidence. Research and development have the ability to extend benefits beyond the farmgate through improved production techniques that can lead to lower food prices, increased availability of products, and improved environmental outcomes for the whole community. Providing a national assessment and coordinated targeting of R, D&E to ensure that services are retained is vital for improving the profitability and competitiveness of Australian agriculture.

The Association also supports comments made about the provision of training and advice. Programs such as FarmBis and now Farm Ready are important tools to encourage farmers to undertake training. Furthermore independent financial assessment and support such as that provided by Rural Financial Counsellors and Drought Support Workers are vital in rural communities. The Association supports the maintenance of these programs and services with an undertaking that the tenure and security be improved to allow businesses greater scope in their planning.

Grants for education and training would be further utilised if measures were made available to implement the new information and technologies. The Association often receives comments from Members that they do not need more training or information but rather need the means to implement them. Identifying the issues, skilling the community and providing the resources provide the complete package to delivering the program.

The Association welcomes the recommendation that Farm Management Deposits be retained. However the Association would oppose the suggestion that FMDs not be extended to companies and trusts. The Association would suggest that not providing access creates a distortion in itself and that all farming structures should have the opportunity to access the same arrangements. The Association believes that the Australian Taxation Office would have

the ability to review past distribution and income data for trusts and companies if they were uncomfortable with the operation of such a system.

The Association recognises that there is a need for services to support farmers leaving farms however is cognisant of the low uptake of the exit grants program and would suggest that such services are combined into other farming programs to ensure their effectiveness.

## 6 Transitional Arrangements

The Association is extremely concerned about the proposed transitional timeframe proposed by the Commission in the draft report. While acknowledging that *"transitioning from the current arrangements needs to be fair and not unnecessarily protracted"*(p.214), the Association supports the comment that, *"there should be no sudden change to the arrangements in EC declared areas that would leave people worse off"*(p.214). The proposed timeframe of June 2010 for the cessation of many of the assistance programs is unreasonable and totally out of touch with the agronomic calendar.

A deadline of June 2010 would only allow cropping operations one more opportunity to recover an income and livestock operations one season to rebuild their herds which is impossible. Experience from previous drought suggests that it takes at least two good cropping seasons and five years for livestock operations to rebuild businesses. As such no farming businesses in NSW would be in a strong position to undertake preparedness or other measures by 2010. The statement *"no area should remain in EC declaration after 30 June 2010"* (p.214) will change the goal posts half way through the game and not provide any opportunity under normal conditions for farming businesses to change their operations to adjust to any new system.

The Association advocates that any changes to the drought assistance system needs to be conducted at a time when there is no or minimal area in Australia under EC declarations, or that areas have been out of EC declaration for at least two years. If the focus of the new national drought policy is on self reliance and preparedness the Association argues that no farming business will be in a position to take any new policy measures if they remain in drought.

## 7 Conclusion

The Association would support a policy designed to improve self reliance and preparedness. Through such measures Australian agriculture can further its position as a world leader in the efficient production and marketing of high quality agricultural products. However the Association is also cognisant that due to Australia having one of the driest and most variable climates on the planet there will be situations where farming businesses, even with the best management cannot protect themselves from exceptional circumstances. Such uncertainty and in the absence of commercial market operations the Association believes there is a necessary role for Government.

Despite the National Drought Policy, the various organisations involved with assistance and mitigation have not been very efficient and effective in coordinating their activities to develop a unified and streamlined policy framework for drought support. Drought, Climate Change, Water Management and Environmental Sustainability are intrinsically linked. Given the interconnectedness of these policy issues, it is suggested that a special institution should be established to ensure that there is no conflict between drought, climate change and water policies.

Five points have been identified in the draft report to improve self reliance and preparedness:

1. Remove measures such as ECIRS to encourage incentive for the development of private arrangements for risk sharing;
2. Removing the drought trigger business support to signal to farmers to take responsibility for managing risks associated with climate variability;
3. Retaining farm management deposits as a risk management tool;
4. Strengthening of the FarmReady scheme; and
5. Provide public funding for agricultural research, development and extension.

The Association does not believe that removing measures such as ECIRS and the drought trigger support would lead to a greater level of self reliance or preparedness. Drought and climate variability are risks associated with the business of farming and as such farmers will naturally take measures to minimise this risk. The Association believes that in making such a recommendation the Commission does not recognise the self reliant and preparedness measures that farmers have implemented to be able to survive the current drought.

The Association proposes that policy should create a framework that promotes and supports the principals of self reliance by:

- Ensuring adequate research and development in production and climate variability
- Ensuring adequate extension and professional support to bring that research into the productive arena
- Ensuring adequate access to education in rural and regional communities in agriculture, at school, tertiary and vocational levels
- The development of stewardship programs that recognise farmers contribution to the environmental asset base.
- Ensuring specified taxation incentives and measures for primary production are retained and enhanced to provide primary producers with increased ability and the financial tools to sustain periods without income

It should be noted that such measures are most beneficial during times when resources are available. During a drought, self-reliance and preparedness are secondary to survival and there needs to be a second tranche of measures available to support such situations. Not making such support mechanisms such as ECIRS during times of prolonged or exceptional circumstance would cause exceptional hardship for the industry and lead to the winding up of many farm businesses.

NSW agriculture is in a strong position and despite one of the worst drought periods on record the state's farmers continue to contribute over \$7.7 billion in gross value of agricultural production and over \$1 billion in exports to the state's economy. Farmers will continue to develop and improve their farm businesses to cope with the challenges of the industry and improve their profitability. The national review of drought policy provides a positive opportunity to develop meaningful policy that will assist the industry to grow into the future.