Ref: AB 0976-08

TO THE GOVERNMENT DROUGHT SUPPORT INQUIRY

SUBMISSION BY WESTERN AUSTRALIA TO THE PRODUCTIVITY COMMISSION DRAFT RECOMMENDATIONS – DECEMBER 2008

Previous submissions by the Department of Agriculture and Food and the Rural Business Development Corporation to the Commission have highlighted the reform required and the transition needed to a preparedness model. The realities of administering the previous scheme and the suggestions for a new policy approach, presented in these papers, articulate the Western Australian (WA) perspective.

The recommendations as presented in the draft report from the Productivity Commission have captured the majority of the points expressed in these Western Australian submissions.

It is however recognised that some important aspects of the Western Australian government agencies' submissions are not embodied in these recommendations and this supplementary submission seeks to highlight these aspects for your further consideration.

In its review of drought policy the Productivity Commission noted:

"Most farmers are sufficiently self-reliant to manage climate variability."

"Even in drought declared areas, most farmers manage without assistance. For instance, from 2002-03 to 2006-07, on average, more than 70% of dairy and broadacre farms in drought areas received no drought assistance."

"In 2005-06, the largest 30 percent of farms generated 82 percent of the total value of agricultural operations, while the smallest 50 percent of farms generated 7 percent."

As a group, the bottom 25 percent of broadacre farms have not made a profit in any year from 1988-89 to 2006-07."

I would like to emphasise further to these findings of the Commission that WA broadacre farms are larger than their national counterparts and so are more likely to benefit from a policy that underpins their business performance and protects the social resilience of their farming region.

From a Western Australian perspective, we believe the following three key elements require further consideration:

The differing needs of our stakeholders

The new policy approach must recognize the differing needs of the stakeholders in agriculture. For example, the 30 percent of farm businesses responsible for the bulk of agricultural gross value of production require policies to facilitate (and not impede) their business development. These businesses require access to reliable, cost-efficient infrastructure and information. They require access to research products and innovation to underpin their competitiveness. By contrast, at the other end of the scale businesses that are struggling financially will have a different set of business parameters and issues that will require a policy approach that incorporates and reflects these characteristics.

By targeting appropriate and different policies to groups with different needs the policy outcome of encouraging preparedness and resilience in rural industries and regions is likely to be cost-effectively achieved. The traditional "hand-out" policy is no longer feasible. It is both expensive and ineffectual as it impedes preparedness, resilience and is divisive in communities and regions through its tendency to favour a few select individuals within the community or region rather than an all encompassing collective strategy.

Collectively the money spent, over the past decade on Exceptional Circumstance(EC) and other dry season initiatives could have, arguably, been better spent on bolstering public sector research and development, and building farm business and financial management capacity to lift agriculture's declining productivity rate and to assist farmers to better manage risk.

Regional assessment, analysis and solutions

The new policy approach must allow for a regional focus in order to capture the unique nature of regional environments and recognise the differing needs of the stakeholders in these regions.

The new policy direction is participatory inasmuch as evidence of structural need should be both science-based and linked to community views of a region's business impediments and extent of social and managerial needs.

The North Eastern Agricultural Region (NEAR) Strategy developed for one region in Western Australia, as presented in previous Western Australian submissions, provides an example of how to address the regional focus and deliver on regional assessment, analysis and solutions. It is inclusive of the regional players/stakeholders who become actively involved in driving the assessment, analysis and solutions for their respective regions.

Access to social support

The recommendation 9.1 which states *"an overall asset cap, inclusive of the value of the farm house, beginning at $2Million with a taper $3 Million dollars"*, does not adequately address the scale of farming structures in Western Australia. These differences in comparison with other States will present difficulties associated with access to social support for "asset rich cash poor" farmers in Western Australia.

If we look at Western Australia's North Eastern Agricultural Region and look at total business asset levels, you will note the financial position of the bottom 25% is poor with equity of only 51% as presented in table 6 below.

This is where the overall proposed asset taper, from $2 million to the cap of $3 million, may preclude those who are most vulnerable and most at risk who will require social support during adverse seasonal conditions. These conclusions are applicable to most EC recipients across the State. I would therefore respectfully suggest an asset taper, from $3 million to $4 million.

Table 6. NEAR farm financial positions

	Top 25%	Group Average	Bottom 25%
Farm Size (Eff ha)	5,684	4,801	4,165
Land & Improvements	$4,211,173	$2,889,997	$1,836,981
Plant	$1,116,795	$917,700	$686,707
Cash Accounts	$299,736	$121,890	$9,570
Total Farm Assets	**$6,607,722**	**$4,513,125**	**$2,851,952**
Farm Debt	$1,011,390	$1,117,021	$1,148,817
Hire Purchase Debt	$183,756	$152,612	$161,717
Total Farm Liabilities	**$1,195,146**	**$1,269,633**	**$1,310,534**
Farm Equity ($)	$5,412,576	$3,243,492	$1,541,418
Farm Equity (%)	81%	68%	52%
Net Off-farm Assets	$2,209,251	$1,065,748	$168,097
Total Business Assets	**$8,816,973**	**$5,578,873**	**$3,020,049**
Business Equity (%)	**84%**	**70%**	**51%**
Debt to Income (2008 Budget)	0.79	1.25	1.90

Source: Planfarm, 2008

In conclusion I would like to refer to the 2008 National Drought Forum and the outcome delivered by Minister Burke which indicated that the new approach will need to focus on a specific set of influences that are key to agricultural productivity growth including:

- the regulatory framework
- research and development and access to technologies
- water management
- training and education
- skills and labour supply, including retaining and attracting young people
- biosecurity
- infrastructure
- scale of production
- land use intensity.

I concur with the importance of taking these influences into account and believe the new approach must incorporate the need for productivity improvement through supporting improved business management, delivering research and development innovation and supporting infrastructure needs. This needs to be achieved while remaining cognisant of the need to maintain the protection of natural resources and the provision of essential social support structures.

19/12/08

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