
SUBMISSION

**PRODUCTIVITY COMMISSION
DRAFT INQUIRY REPORT
INTO GOVERNMENT
DROUGHT SUPPORT**

**NATIONAL FARMERS'
FEDERATION**

ABN 77 097 140 166

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Executive Summary

This submission is NFF's response to the Productivity Commission Draft Report into Government Drought Support. This submission should be read in conjunction with the PC report for context.

- **Australian farmers are adaptive to nature by nature.**
- **The support of successive governments and the non-partisan nature of drought support have helped farmers through periods of unforeseen hardship and natural disaster. This has allowed many farmers to remain producers and contribute to society in a number of ways.**
- **Looking forward to farming's future, the importance of providing farmers with a suite of effective tools to manage risks, continual innovation incentives and disaster support is crucial to not just the viability of farmers, but in the ability for farming to continue to feed and clothe the world as it adapts to climate variability.**
- **Australian farmers compete in the most globally distorted marketplace for goods, while making positive contributions to the environment, regional sustainability, and providing food, clothing and shelter for humanity.**
- **Compared to our international competitors, farmers ask and receive very little from their Government. During a drought, many farmers do expect their Government to assist them through an extreme event. In many ways, farmers see this as the Government's mutual obligation and a way for society to give back to farmers when in need.**
- **Previous drought policy has been historically appropriate to the time and situation.**

- **Even the very best farmers cannot plan for a seven to ten year drought of the severity presently being encountered.**
- **A significant proportion of criticism over the existing EC welfare support and Interest Rate Subsidies comes from eligibility guidelines and criteria rather than over the program or support measure itself.**
- **Having said that, NFF believes a new approach is needed, contingent on it being effective and on running it alongside existing measures until the conclusion of the existing drought event when a full transition can occur.**
- **The Government has a role to support farmers and rural business with the same basic safety-net that is available to all Australians.**
- **Regarding business support, ECIRS could only be phased out as the drought ends if an effective suite of replacement programs can be delivered, consistent with a commensurate level of funding towards risk management tools, sustainability and recovery from drought - coupled with assistance through extreme events. Within guidelines, these measures should be available to all farmers, not just those within the current EC declared area.**
- **For any Government to cease existing drought support to farmers while in a drought event would be completely unacceptable.**
- **The NFF supports the principles of mutual obligation. Farmers receiving household income support should be required (just as other members of society are required) to demonstrate a commitment to continue farming in a sustainable and self-sufficient manner in normal non-drought periods.**
- **An individual assessment would remove the need for lines-on-map, state and commonwealth differences, and reflect the differing types of farm business exposure to climate variability.**

- **Ongoing monitoring of individual applicants will also assist in transition measures out of drought that reflect that particular farm business ability to transition and better aligned to the production cycle.**
- **Structural adjustment through exit packages needs to be considerate of non-monetary reasons (location of family home, closeness of family, lack of formal skill recognition, etc), for farmers wishing to stay as farmers and work collaboratively with the market mechanisms.**
- **A focus on a new management and preparedness model is required that embraces:**
 - **Seasonal and interannual forecasts**
 - **Research, development and extension services**
 - **Improved business management skills through the continuation of the Rural Financial Counsellors and subsidised education and training programs**
 - **Expanded financial management skills through an improved Farm Management Deposit system**
 - **Expanding the stewardship program to reflect society's desire for farmers to protect the environment and provide public-good.**
 - **A new preparedness grant**
 - **Income Contingent Loans**
 - **Assistance with risk management tools including the development of insurance markets.**
- **Preparedness is more than just spending money on infrastructure. Preparedness is about building an understanding of the working environment and utilising skill, knowledge and experience to best manage that environment.**

1. INTRODUCTION

The National Farmers' Federation (NFF) is the peak farming lobby group representing producers of all major commodities in relation to issues affecting more than one State or commodity. The NFF's membership comprises State farm and commodity organisations with individual farmer members.

Australian farming has many success stories that can be attributed to the bringing down of trade barriers and responding to international competitive pressures.

These successes would not have been possible without the necessary innovation to farming systems that have concurrently occurred.

Equally, the support of successive governments and the non-partisan nature of drought support have helped farmers through periods of unforeseen hardship and natural disaster. This has allowed them to remain producers and contribute to society in a number of ways.

Indeed, looking forward to farming's future, the importance of continual innovation and disaster support is crucial to not just the viability of farmers, but in the ability for farming to continue to feed and clothe the world as it adapts to climate variability.

Australian farmers contribute to the public-good of Australia on a daily basis. They feed, clothe, provide shelter, and manage the land and its natural resources for the good of all.

Australian farmers do a lot to benefit and support society. In times of distress, society needs to help farmers continue to help them.

The rationale for continued government support for the farm sector through drought support and broader measures in borne out by its contribution to:

- Community Public Good
- Terms of Trade and Australia's Balance of Payments

- Environment
- Regional sustainability
- Food, clothing and shelter

These are the key reasons and justifications for the Australian Government to support the efforts of farmers to survive drought and assist it manage future climate variability.

These are explained in greater detail within the Introduction Section of this submission immediately below.

Section 2 of this submission and beyond mirrors the chapters of the productivity Commission Draft Report and provides the NFF's views in response.

1.1 COMMUNITY PUBLIC GOOD

The wealth of this country allows us to help others when in need. This has been the basis of our civilisation and defines the character of Australia amongst other nations.

All Australians have responsibility for managing and caring for the land mass that is Australia.

Australian farmers overwhelmingly shoulder that burden in both good times and poor.

The investment in maintaining our biodiversity, reduced soil erosion, fewer diseases and water-saving efficiencies, has public-good benefits for all Australians.

Australian farmers are a key element in maintaining a population across the width and breadth of our land mass.

Australian farmers ensure Australians enjoy the freshest and highest quality food and fibre in the world.

Australian farmers are intricately linked to our society and support it in so many ways.

That is why when farmers are in need the wealth and society that is Australia, will and should, provide help when most needed.

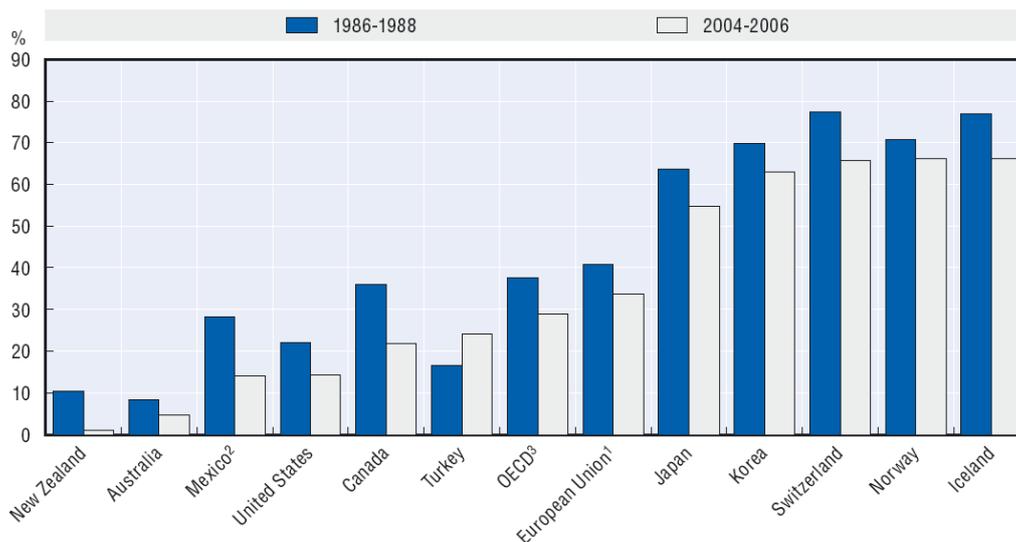
1.2 GLOBAL TRADE DISTORTION

Australian farming is overwhelmingly export-oriented. A massive 98% of Australia's wool and cotton is exported. Two-thirds of our beef and three-quarters of our wheat heads overseas. Some 80% of our sugar and over half of our dairy production is destined for world consumer markets.

This drive to be globally competitive without hiding behind the cover of protective barriers has driven average productivity growth of 2.8% during the past two decades and delivered an industry that **effectively competes within one of the global market's most distorted sectors.**

Government support for Australian farms represents just 6% of farming income. By comparison, according to the Organisation for Economic Cooperation and Development (OECD)¹, in Korea it's 63%, Japan 53%, in the European Union it's 32%, in Canada it's 23%, and in the United States it's 11%. The below graph from the OECD sets out producer support estimates by country.

¹ OECD, Agricultural Policies in OECD Countries: Monitoring and Evaluation 2007



Note: Countries are ranked according to 2004-06 levels. For more detail, see Annex Table III.1.

1. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.

2. For Mexico, 1986-88 is replaced by 1991-93.

3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states.

Source: OECD, PSE/CSE database, 2007.

To make the point clear, **Australian farmers are the least protected in the world** (Australia is now the second least protected to New Zealand).

Farming is a mainstay of Australian ingenuity, adaptability and enterprise. Giving up on farming is not an option any of us can afford to contemplate.

Productivity gains have enabled Australian agriculture to be internationally competitive and achieve their goal of self-reliance, while delivering the highest-quality food and fibre anywhere in the world.

This has been achieved in spite of the distortions in global trade markets.

To put the approx \$700 million drought support measures into perspective, the European Union provided \$AU4,342 million² in its export subsidy budget for 2006. This is an ongoing financial support mechanism for their farmers. The Australian drought support measures are prefaced on assisting farmers through a natural disaster and extinguish at the conclusion of that event.

² AgraEurope, December 23, 2005, "EU Summit, WTO Ministerial point way ahead for CAP"

The farm sector has a strong case to receive Government support and ensure the ongoing viability of the farm sector to produce food, protect the environment and sustain regions.

1.3 OUR CLIMATE AND ENVIRONMENT

The importance of reviewing Australia’s drought support measures is heightened by the prevailing drought and future predictions³ of temperature volatility accompanying climate change.

Farmers, who occupy and manage 60% of Australia’s landmass, know only too well that their future is inextricably linked to sound environmental management. That is why, according to the Australian Bureau of Statistics, farmers spent \$3.3 billion on NRM in 2004-05 alone – over \$1.1 billion on weed prevention and management and \$900 million on land and soil-related activities.

In fact, it is little recognised that Australian farmers plant over 20 million trees for conservation reasons each year. NRM practices are in place on 86% of Australian farms, with 92% of farmers undertaking activity to prevent or manage natural resource issues.

Farmers recognise environmentally-sustainable farm practices are essential and have been engaged in developing and planting drought-resistant crop varieties and pioneering new irrigation systems that target water where and when it is needed, as well as a raft of eco-friendly farm practices.

Instead of ploughing four or five times a year, more and more farmers now use conservation tillage techniques to protect the soil structure, harness soil moisture and minimise erosion.

³ Hennessy, K., Fawcett, R., Kirono, D., Mpelasoka, F., Jones, D., Bathios, J., Stafford Smith, M., Mitchell, C., and Plummer, N. 2008, “An assessment of the impact of climate change on the nature and frequency of exceptional climatic events”, Bureau of Meteorology and CSIRO, July.

Farmers also play a strong role in the control, management, and eradication of native pests, weeds, animals and disease.

Without farmers productively occupying this land mass, significantly larger sums of Government money would be spent in pest and weed management.

Australia is a harsh continent. It always has been and always will be.

Our climate has always been a challenge, but one that farmers have always met.

The worst drought on record presents new challenges and pressures, especially on the back of several years of drought. Even the best farm management practices cannot fend-off the ravages of drought under the current circumstances.

1.4 REGIONAL SUSTAINABILITY

The Productivity Commission rightly demonstrates the importance of agriculture to regional, rural and remote Australia.

Despite the significant reduction in farm employment during this drought, farming and agriculture still provides a significant proportion of non-metropolitan jobs. It is also the generator of cash inflows into towns and regional centres, thus driving spending through the system and ensuring regional sustainability.

One area that the Productivity Commission did not identify was the role agriculture plays through the supply chain and the whole economy.

Australian agriculture has important linkages with other sectors of the economy and, therefore, contributes to these flow-on industries. Agriculture supports the jobs of 1.6 million⁴ Australians, in farming and related industries, across our cities and regions – accounting for 17.2% of the national workforce.

⁴ Modelling by Econtech, Australia's Farm Dependent Economy Report, 2005

50.7% of these 1.6 million jobs are located in Australia's six capital cities. A significant proportion of the employment generated in the six capital cities is associated with the farm-output sector – such as food retailing, accommodation, cafes and restaurants, and various food processing industries.

1.5 FOOD, CLOTHING AND SHELTER

Australian farmers provide the very essentials for life and continued human existence; food, fibre (through cotton, wool, hemp) and shelter⁵(through wood).

As exporters, we not only feed and clothe Australia, but the world. And the world population is growing and moving into middle-class nutritional habits, therefore increasing consumption of meat and dairy produce.

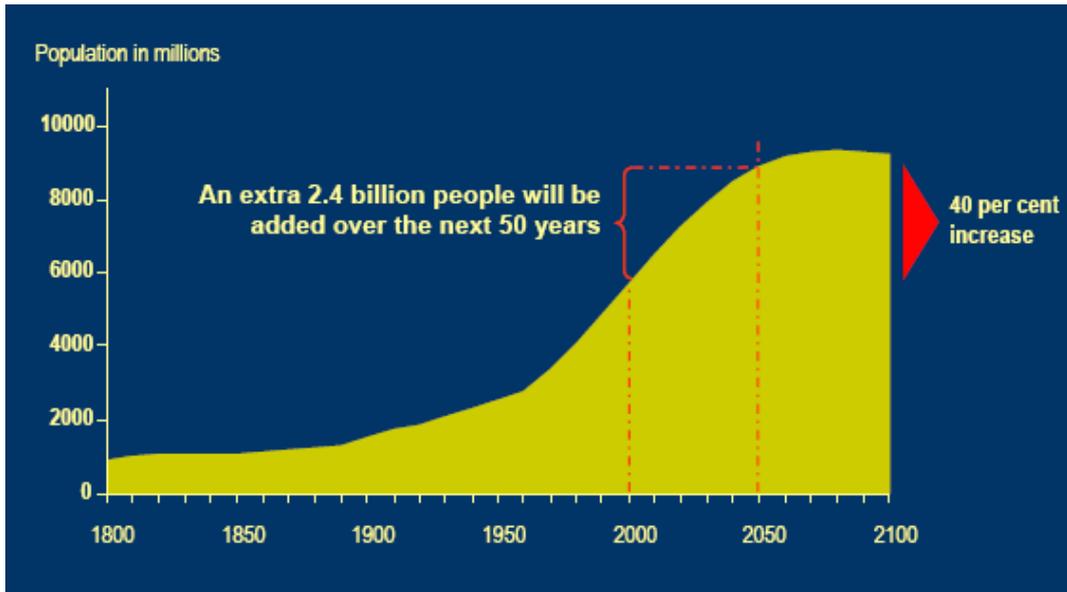
As the following graph⁶ illustrates, the next 50 years will see the world population swell by an additional 2.4 billion.

Australian farmers are part of solving the world food shortage and will need to do “more with less”. Less labour, less water, less land, less fertiliser, less pesticide. More food.

Failing to support Australian farmers through periods of natural disaster will have significant repercussions in meeting the basics of human survival. We have already seen riots in several countries due to food shortages.

⁵ A.H. Maslow, A Theory of Human Motivation, Psychological Review 50 (1943):370-96.

⁶ Dr Andrew Stoeckel, Centre for International Economics, Canberra and Sydney, 2008



As ‘real’ global prices approach 25-year highs for staples such as rice, beef and grain crops, the international community must urgently address dwindling food supplies. This comes at the same time as the world’s population grows by 100 million people per year.

In June 2008, recognising the need for an improved understanding about the drivers of the prevailing global food crisis, the NFF – through the Rural Industries Research and Development Corporation (RIRDC) – commissioned the Centre for International Economics (CIE) to undertake analysis of the issue.

The report titled, ‘*High Food Prices – Causes, Implications and Solutions*’, provides a clear picture of the confluence of events and major drivers precipitating the worldwide inability to meet growing demand for food.

The sheer magnitude of the problem is increasingly demanding the global community, in concert, address this crisis.

Indeed, the underlying causes include:⁷

⁷ CIE 2008, *High Food Prices – Causes, Implications and Solutions*. Report commissioned by RIRDC

- Weak growth in production relative to demand;
- Agricultural input prices have been increasing;
- Below average harvests in major growing and exporting regions;
- Stocks have been run down and are at low levels;
- Impact of government restrictions and subsidies;
- Rising global populations;
- This population has been increasingly well-fed;
- Rapid rises in incomes; and
- Demand for biofuels.

For example, booming Asian economies are driving massive changes in economic and consumption habits. As Asian peoples become more affluent they are having more children – with population growth rapidly encroaching on arable lands, meaning they can produce less food to feed their growing numbers.

Meanwhile, this increasing affluence is also leading to shifts in Asian diets – away from cereal and rice-based diets towards beef, dairy and a host of other commodities. This is placing added strain on world stocks of those commodities attracting new and greater demand.

Further, the growth in biofuel production is emerging as a major competitor for traditional food stuffs, including wheat, canola and sugar. Australia's drought, and droughts across the globe, have seen many world food stocks slump to historic lows.

The coexistence of all these factors – which will be 'the norm' for the foreseeable future – mean failure to act will lead to an escalation of the economic, social, environmental and political ramifications.

The Australian farm sector has a vital role to play, globally, in alleviating these problems. However, doing so will require a concerted fiscal injection in combination with complementary policies that enable Australian farmers to build on their substantial and proud record of leading productivity growth.

Maintaining productive farmers on the land during a drought period, place Australia in a strong position to answer the international call for greater food security.

1.5 FARMING INNOVATION

Agriculture, more than most sectors of the economy, has been forced to rationalise and increase its economies of scale in order to combat declining terms of trade.

The Australian Productivity Commission report, Trends in Australian Agriculture (2005), demonstrates that productivity growth in agriculture has more than doubled over the past 14 years, consistently outperforming other sectors. In the past two decades, the Australian farm sector has averaged annual productivity growth of 2.8% a year. Improvements over the past 30 years have resulted in a national ‘productivity dividend’ of more than \$170 billion.

Such productivity growth has allowed farmers to remain internationally competitive and sustain their businesses and incomes in the face of agricultural terms of trade declining 4.8% in the five years ending 2005-06. In addition, it has allowed Australian farmers to remain competitive in what is the most distorted sector of trade in goods.

The last seven years have been a challenging period for Australian farmers with widespread and prolonged drought leading to a severe reduction in farm production and a resultant 40% escalation in farm debt levels. In addition, the strength of the Australian dollar (particularly against the US dollar), has had a dampening effect on farm export returns, while costs of key farm inputs such as fuel and fertiliser have risen exponentially on the back of shortening global supplies.

However, despite the frustrations for Australian farmers, the international market for agricultural commodities has been very strong, with the Westpac-NFF Commodity Index (measuring the weighted average price of key global agricultural commodity prices) reaching record highs in late 2007.

This has been brought about by surging global demand for biofuels, strong economic growth in developing countries, global population growth leading to urban encroachment on arable land and widespread drought in key agriculture production nations.

The underlying fundamentals for Australian agriculture remain extremely strong and are expected to remain so over the medium to long term.

Unfortunately, the present drought has made it difficult to take advantage of such positive trade conditions.

Capitalising and taking advantage of these fundamentals is inherently linked to maintaining and supporting farmers during periods of drought and adverse challenges.

In order to capitalise on these opportunities, Australian farmers, with the assistance and partnership of the Australian Government, must focus on areas for which they can realistically manage outcomes.

Meaningful adaptation to climate change and seasonal variability, building better and more efficient capacity in areas such as transport and labour, and boosting our efforts in gaining access to key global markets are just a few areas that must be resourced effectively.

Ensuring farmers survive the present drought will allow agriculture, and importantly, Australia, to leverage-up and capitalise on the positive predictions for continued growth in world demand for food and fibre.

2. AGRICULTURE AND ADJUSTMENT

From this point forward, this submission mirrors the chapters of the Productivity Commission Draft Report and provides the NFF's response. This submission should be read in conjunction with the PC report for context.

FARM ENTRIES AND EXITS

The NFF supports the views of the Rural Financial Counselling Service NSW-Central West with many farmers waiting until drought conditions 'break' before deciding to sell. This is done in the belief that they will attract a more favourable sale price for their land.

NFF submits that this is an area that further academic research and modelling should be done. It is likely that the running down of stock, equipment, and farm assets during a drought period and the associated poor income-generation is unlikely to be compensated with a higher sale price in a return to non-drought conditions. This information would be valuable in either confirming or denying the existing beliefs of farmers and the opportune selling time of a farm during or after a drought event.

Further 'tools' are separately discussed in this report.

Adjustment is something that generally takes place in the good times rather than the adverse from previous experience.

Farmers will recognise changes, challenges and opportunities that face them both now and in the future.

Being in a position to resolve and make decisions following this recognition is crucially important to a post-drought tempered decision to sell or a decision to adjust business skills, business operations, and risk management options.

FARM INCOME AND RETURNS IN A VARIABLE CLIMATE

The difficulty with extracting data sets on farm profitability and income levels across a longitudinal time-series and meaningfully attributing it to climate adaption and business success has been the corresponding causal effects of a decline in the terms of trade for agricultural produce.

As the farm sector terms of trade have declined, it has been forced through innovation and productivity improvements to maintain a level of profitability.

While the time series data demonstrates the ability of the top 25% of producers to make a profit during drought periods, the significant proportion of farmers have never had the opportunity to really consolidate profit and enact drought preparedness measures due to the day-to-day struggle for farm survival.

This is evidenced by large parts of Australia having been in EC declared areas for 13 years out of the last 16. For many farmers, the 90s drought never ended.

They have never really had a chance to get “ahead of the curve”.

It is also important that these farmers have the opportunity to contribute again to society. To do so, they require assistance to get out of the present drought and get themselves ‘ahead of the curve’ to better prepare for climate variability.

It would be simplistic to assume that the bottom 25% of farmers who are not producing an income or a profit should be ‘cut-free’ from drought support.

It would be a monumental failure of good government policy for these farmers to be cut-free, especially if they are new entrants and yet to produce a profit. These farmers still generate through-chain activity and employment. They also

contribute to society and the government drought assistance provides a multiplier effect through rural and regional Australia.

They may have entered the farm business with intentions to better manage climate variability or diversify risk, but are hit in their first year with an extreme drought such as is presently being felt. They are most deserving of support to see them through the drought as they are the type of farmer who will ensure the future of modern farming.

The above example demonstrates the importance of non-aggregation of drought support measures and the need for individual circumstance recognition.

Capital appreciation (principally through land value) has certainly been the saviour of farm enterprises in the last decade, allowing them to generate a rate of return equivalent to that of most commercial family-business operations.

If land values are excluded, then the picture is far-from-rosy, especially during drought years which produced negative levels of profitability.

It is important to note that farm land value has been intrinsically tied to drought policy in the recent decade.

Interest-rate subsidies, EC support, and other assistance measures have buffeted and placed a ‘floor’ under land value.

Wholesale changes to drought support measures must be considered in the context of changes to potential land values of rural industry.

EDUCATION AND TRAINING

Farmers, as a collective, are quite different to other sectors of the Australian economy.

As primary producers located in rural Australia, with predominately family ownership structures, it can easily be said that farming starts from a poor position in terms of equity and access to education, training and skills.

The seasonal nature, the distance from learning institutions, and the lack of access to equitable ICT hinder the ability of the farm sector to reach its education potential.

This is reflected in several statistics, surveys and studies in addition to those cited by the Productivity Commission in its draft report:

- The Productivity Commission (2005) estimates that agriculture requires approximately 2,200 graduates a year.
- The Australian Council of Deans of Agriculture⁸ indicates that higher educational institutions are delivering a total of 990 agriculture and related studies graduates per year (includes agriculture science and technology, agribusiness, horticulture/viticulture graduates, wine science, animal science, agricultural economics graduates)
- The Productivity Commission estimates that **only 7% of the agricultural workforce hold university qualifications (compared to 22% for all industries)**.
- The National Centre of Science, Information and Communication Technology, and Mathematics Education for Rural and Regional Australia (<http://www.une.edu.au/simerr/>) research has demonstrated **significantly lower results in maths, science and problem solving for rural Australian students than metropolitan students**, even after socio-demographic corrections.
- The NCVER shows **agriculture having 62.5% of its workforce having no post-school qualifications (compared with 45.3% for all industries)**

⁸ JE Pratley and L Copeland, Graduate Completions in Agriculture and Related Degrees from Australian Universities, 2001-2006, 2007

- In 1996, in most SLAs in Australia at least **55% of farmers were 14-16 years old when they completed their formal education**⁹. Whilst ABARE survey data paints a slightly more positive picture, with most ‘young farmers’ being more likely to have post-secondary education than older farmers.

These statistics indicate that the farm sector has had very few new entrants into the industry in the last several years (probably owing to drought), has low turnover, and has a mature workforce that is most likely experienced but not formally recognised as well-educated, trained or skilled.

It also indicates that improvements to the formal education and training of farmers is tied to making improvements to education and training delivery throughout life – from early childhood, through school, and into higher education and lifelong learning.

Farmers hold very few formal qualifications as the above data shows. **This does not mean that they are lacking intelligence or have no skills. It is simply an indication that farmers are not engaged with the formal training system and have a particular learning style that does not conform to traditional institutional learning systems.**

Whilst remembering that a piece of paper does not mean you are a good farmer, these figures do highlight that the farm sector needs to make a significant investment in its human capital if it is to remain competitive. **Training delivery must match the training style preferred by farmers.**

The highly successful and well supported FarmBis program operated by the federal Department of Agriculture, Forestry and Fisheries, was well tailored to the short-course, seasonally appropriate nature of farm businesses.

⁹ Australian Bureau of Statistics (ABS) 1996 Population and Housing Census

While this program has been altered by the Australian Government as it moves to a focus on climate adaptability, there is a significant opportunity to review the FarmBis program and expand it into a much wider, broader and more encompassing approach to agricultural education and training. Such a focus would reflect regional and rural training needs with:

- A drive to online learning
- Funding of training that reflects the higher costs and time for regional delivery of training
- An improved **Recognition of Prior Learning system** that formally recognises the skills and education level of farmers.
- Specific training tailored to commodity group areas
- Farmer friendly language on education and training programs
- Support funding of skill sets and encourage greater flexibility in delivery
- Development of a ‘skills passport’ that cooperatively works with other industries or commodities to resolve single employment issues. Such a passport could be utilised to match skills, plan work schedules and coordinate labour supply originating domestically or abroad.
- Promotion of farming and its attractiveness as an industry and career path

The NFF has been engaged in improving the education and training outcomes for rural Australia and for farmers. This has been across the entire spectrum of delivery.

Improving the education and training delivery systems will improve the human capital of farming and assist with agriculture meeting its future challenges and capitalising on its opportunities.

In many of these areas, it has been industry who has taken the lead, rather than Government.

Several examples include:

- The creation of Rural Skills Australia to develop rural specific engagement with the apprenticeship/VET system. They have also developed a world-class RPL and online learning system
- Promotional websites and television programs highlighting careers in agriculture and links to the education and training system such as Agrifood Careers <http://agrifoodcareers.com.au> and SkillsOne <http://skillsone.com.au>
- The establishment of the *Primary Industries Education Foundation* to drive an understanding of agriculture across the school curriculum.

Higher skill levels

The agricultural sector is in the midst of pervasive changes in terms of the approach and method in which farming is conducted. Technological and scientific developments have been increasingly pertinent to an industry facing harsher climatic conditions and striving to remain internationally competitive on global markets.

Traditionally, the skills necessary to working in the industry have been hands-on, developed through on-the-job training (this highlights the importance of effective, timely, and affordable Recognition of Prior Learning processes that farmers can have their skills recognised).

For a significant majority of occupations on farms, this continues to be how employees are trained. It should, however, be noted that the nature of farming has and continues to significantly change.

Mechanisation, automation, and technological advancements have made farming a much more highly skilled industry than ever before.

As an export competing industry, Australian farming boasts the highest productivity improvements of any other outside of Information Technology.

Farming has needed to reduce its cost inputs every year in order to remain internationally competitive. This has resulted in GPS guided tractors, soil moisture profiling, computerised drip irrigation systems, laser levelling and minimum-till farming methods replacing previously manual labour.

With the increased skill requirements to work in farming, the importance of appropriate education and training that can meet the demands of the industry and also prospective employees, has been reinforced.

Further, education and training in the agricultural sector must be wider ranging than simply focusing on employees.

By its very nature, training and education must be broadly handled and encompass all those who work on a farm including the owner/operator of a family farm business.

A sustainable farming industry requires an improvement in the skill capacity of all those who work on a farm. This adjustment in farmers' attitudes to learning is seen as a crucial step towards improving the sustainability of farming. There is a crucial need to ensure that all those involved in agriculture have high level skills and capacity to undertake work in the sector to enable the agricultural industry to remain competitive and productive in an international marketplace now and into the future.

As the majority of Vocational and Tertiary education delivery is actually at the farm owner/manager, it is imperative that the training delivery needs of this person are integral to creating a culture of learning on the farm.

Attitudinal change in the farming population is needed so that farmers and their workforce are prepared to identify their deficiencies, adapt to change, and establish risk management practices.

There are series of studies that show the educational outcomes of regional Australia are severely behind that of metropolitan Australia. A serious

coordinated effort is required to lift the educational standards of non-metropolitan Australia.

Demographics

The Productivity Commission also notes the age structure of farmers and its implications for farm adjustments.

Farming is indeed headed for significant demographic changes.

It should be noted that when age profiling farmers, it is easy to just look at the median age going from 44 to 50 in the last 20 years and assume there are a lot of old farmers still working the land.

When looking behind these figures, certainly the age of farm “owners” has increased, but separating farm “ownership” from farm “management” is a very important point of clarity. The person working the farm and making management decisions is not always the farm owner.

At present farm “ownership” is comprised of farmers who are probably considered past the ‘standard’ age for retirement. This is also the case around most boardrooms and shareholders of any company in Australia.

A large percentage of these farm owners have sought to have their children obtain a higher education and not always in the area of agriculture.

It is expected that two scenarios will occur concurrently on the farm over the next 10 years.

Those farms whose children have no interest in returning to the land to become farmers will be sold to their neighbours or farm businesses. They will benefit from economies of scale and assist with risk management. It is expected that with larger land holding, there will be a requirement for greater business skills among those remaining farmers.

Those farms that stay in family hands will likely be run by a new generation of farmers who hold wider-world views and have a stronger sense of business

purpose to their farm management. It is expected that they will corporatise their farm operations and seek to expand their land under management to bring about increased farm profitability. They may not have the ‘technical skills’ for day-to-day farm oversee, but will have stronger business skills.

RURAL-URBAN DRIFT

The NFF agrees that small rural towns are losing their populations to the expense of growth in larger regional centres.

This has been the trend across Australia for many decades and has mainly been led by better road, rail and transport infrastructure.

While noting the impact that the mining boom has had in sustaining rural town during the present drought, the NFF notes that mining booms have come and gone before, but it is farming that continues on and on in a region. There are also large parts of Australia that do not have a mining presence.

Large swathes of prime high-rainfall agricultural land has also been progressively swallowed up by coastal sea-changers whose demand for residential land has made a return from farming that same land unattractive.

This leaves farmers needing to do more with less.

REGIONAL SUSTAINABILITY

Obviously the drift from rural to regional or cities has much larger policy implications that require a whole-of-government response to. They have implications on national security, management of pests and weeds, critical mass, and population to name a few.

While the NFF agrees with the Productivity Commission that drought policy is a most imperfect instrument in dealing with regional development and sustainability, it is nevertheless an important consideration in the absence of other more perfect measures.

The NFF has long-argued for greater coordination, consolidation, and broader long-term strategies on regional sustainability and development.

However, in the absence of movement in this area, it is important to recognise that drought support does support rural communities. Changes to drought policy, **on their own and without other measures**, will have consequences for regional, rural and remote communities.

3. CLIMATE VARIABILITY AND DROUGHT

The NFF supports the view that Australia has one of the most variable climates in the world.

In comparison to Australia’s major farm competitors, we have a much lower average annual rainfall¹⁰:

Country	Average annual precipitation in mm
Netherlands	778.3
England	1219.8
Germany	699.9
Belgium	847.4
France	866.7
United States	735.5
Mexico	751.5
Brazil	1782.3
Japan	1667.9
Australia	534.5

¹⁰ Tyndall Centre for Climate Change Research, website <http://www.tyndall.ac.uk/index.shtml> accessed 5/12/08

Additionally, Australia is a drier and hotter continent leading to higher rates of evaporative loss, drying winds, and poorer soil moisture retention.

Despite these challenges, and the removal of trade barriers on agricultural produce, Australian farmers have achieved productivity growth better than any industry besides ICT and staying profitable despite sustained deterioration in its terms of trade.

Australian farmers are adaptive to nature by nature. However, without a range of effective tools at their disposal not even the best farmer can get through a natural disaster or prepare for increased volatility being predicted by the CSIRO and Bureau of Meteorology (BoM).

Farming is an advanced sector of the economy and it needs advanced science to understand its operating environment.

This variability in Australia's climate is understood by the scientific community. As noted by the Productivity Commission, the Australian climate is influenced by the El Nino-Southern Oscillation and the Indian Ocean Dipole.

Both of these are measured, modelled and predictions made.

However, these are very rudimentary 'guesses' for the most part in comparison to the climatic measurements and prediction systems available in other developed nations.

Australia, having a variable climate, needs to make a significant investment in better understanding and predicting that variability.

Our Bureau of Meteorology (BoM) needs a massive investment in its basic computer and modelling infrastructure. It requires an investment in a range of measurement and weather tracking tools. It requires an investment in its international collaborative data sharing and climate modelling.

Additionally, the BoM needs to get down to a local level with an expanding emphasis on drought preparedness.

The United States National Integrated Drought Information System (www.drought.gov) is where the Australian BoM should receive funding support to emulate.

It provides right down to local county level information on soil moisture, rainfall, run-off, stream flows, and early warning systems.

It places a priority on preparedness.

Additionally farmers need objective measurement tools in preparing their case for assistance measures.

These measurements would serve the dual purpose of contributing considerably to the wealth and store of information on the Australian climate and provide high-quality reliable data to inform decision-makers.

NFF recommendation:

- 1. The Bureau of Meteorology receives funding to invest in core infrastructure and predictive modelling software including linkages with international collaborative agencies.*
 - 2. The Bureau of Meteorology receives funding to establish and expand a range of meteorological survey instruments to allow it to emulate the US National Integrated Drought Information System. This should be developed as an expansion to NAMS.*
-

REGIONAL IMPACTS

The effect of drought on farm incomes creates a multiplier effect in local and regional communities.

Reduced employment and expenditure by farms leads to less business for agri-businesses.

In areas that are highly dependent on agriculture, this effect is more pronounced.

While noting the Productivity Commission view that the effects of drought can be ameliorated by farm household members obtaining off-farm income, it must be recognised that this cannot always be the case. Remoteness plays a factor as does the decline in rural towns providing alternate employment opportunities.

It is simplistic to assume that a farm family member should regularly travel to a large regional centre for employment during a drought. The distances involved make this impractical and also raise concerns over safety.

Certainly the impact of the drought has been masked in areas that have enjoyed the recent mining boom.

The NFF submits that this masking from a mining boom will not always be the case for future droughts.

The NFF rejects the Commission's view that droughts will have a less pronounced effect on rural and regional centres than in the past.

Certainly the growth and diversification of regional centres will inoculate them, to some extent, from agricultural drought. However, this growth has been at the expense of smaller rural towns and remote villages therefore increasing their reliance on the agricultural sector and its workforce.

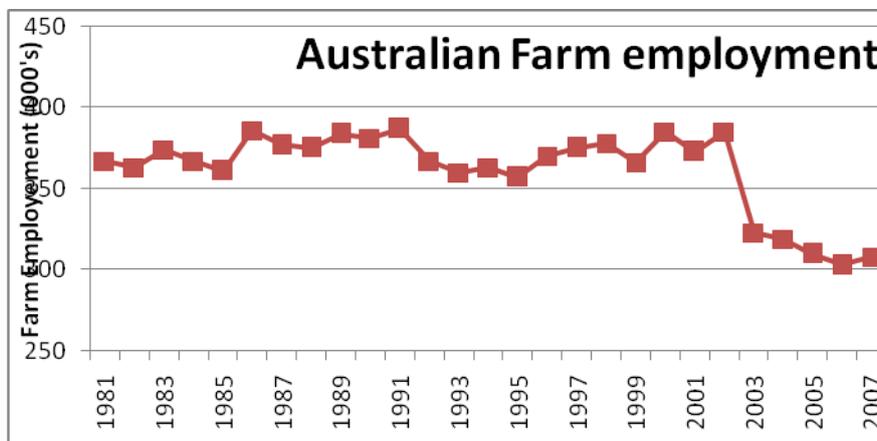
NATIONAL IMPACTS

Drought also has a significant impact on the national economic output with impacts between 1 to 1.5 GDP percentage points.

The most recent national accounts highlighted the impact the farm sector has to the national economy by keeping it out of a recession. The accounts show the national economy grew by just 0.1 per cent, seasonally adjusted in the three months to September. Farming production rose 14 percent – contributing 0.3 percent to overall growth.

The NFF also estimates that the decline in levels of employment in agriculture is up to 100,000 since 2002.

There were 412,000 people employed in agriculture at the beginning of 2002. The following graph indicates that in the two decades leading up to 2002, the sector was experiencing an overall upward trend in employment levels, notwithstanding long term productivity growth. However, the severe event in 2002-03 represents the most significant reduction in employment in the last decade, correlated significantly but not solely to total agricultural output falling by over a quarter. The 2002 decline in employment is also depicted in the graph.



At the beginning of 2007, the employment level had fallen below 330,000. Factoring in a slight increase in the final quarter of 2007, the figure stood at 308,000.

It is now estimated that demand is more accurately in the range of 80,000 - 100,000 employees, for agricultural production to approach pre-2002 levels. This range is consistent with all authoritative sources on employment levels within the sector. This also contemplates that such a return includes a return to the overall upward trends in employment in the two decades to 2001.

While the NFF agrees with the assumption that drought has an impact on aggregate (nationwide) employment during a period of tight labour market conditions enhanced by a mining boom, we reject the assumption that an additional 100,000 people added to a loose labour market, in the absence of a

mining boom, would not have a significant ramification on aggregate employment.

SOCIAL IMPACTS

The NFF rejects the Commission's views that "drought is a factor but not a dominant influence on matters to do with financial hardship, mental health, and community cohesion".

Certainly the farm sector and rural and remote Australia has and continues through a period of structural adjustment, but to place this slow long-term adjustment as the lead cause of the present high suicide, mental health problems, and community divisiveness of drought eligibility criteria is clearly going against all the evidence cited by the Commission.

Both the Australian Institute of Family Studies survey and the comprehensive Expert Social Panel's report highlight the drought was the lead causal factor.

For the parts of Australia suffering drought, it is more than just the farm business that suffers.

It is the whole community, local, regional, and national that is each impacted in some way.

For farm families, the impact may be on the ability to meet the education needs of their children. A point referenced by the Expert Social Panel.

For local community, the impact may be on the multiplier effect farm (and through-chain) spending has within the town with resultant impacts on community stability and cohesion.

For the region, the impact may be on local footy teams, employment opportunities, and demand for mental health assistance.

For the nation, the impact may be on GDP or, more simply, the Australian way of wanting to help out a mate when they are in trouble.

Farmers contribute a great deal to society as outlined in Section 1 of this submission. Society is impacted a great deal when farmers experience hardship through drought.

ENVIRONMENTAL IMPACTS

As highlighted in Section 1.1 of this submission, Australian farmers do a significant amount of unrecognised environmental stewardship.

As noted by the Productivity Commission, the National Drought Policy has an objective relating to maintaining and protecting Australia's environmental resource base and the lack of any measures in the current suite of drought support initiatives that explicitly address this objective.

The NFF has long sought recognition through an environmental stewardship program for our role as custodians of the land.

This was supported in the 2007 Australian Government budget and was recently launched in late 2008 as a component of the "Caring for our Country" suite of programs.

It is presently limited to the protection of box-gum grassy woodland in specific areas of Australia.

NFF recommendation: The funding of the stewardship program be greatly expanded and enhanced.

The Australian Conservation Foundation¹¹ claims three synergistic benefits from an enhanced stewardship program to drought policy:

¹¹ Hatfield-Dodds, S., and Proctor, W., 2008, "Delivering on the Promise of Stewardship: Issues in realising the full potential of Environmental Stewardship Payments for landholders and the land". A discussion paper prepared for the Australian Conservation Foundation, July 2008. CSIRO Sustainable Ecosystems, Canberra.

1. Widespread implementation of stewardship payments would provide a new additional income stream for farming households and enterprises, and – in principle – might support additional on-farm employment (or returns to labour) related to active conservation measures (such as weed control, or earthworks to establish or protect a wetland area). This income stream would be highly predictable from year to year, and in most circumstances would not be correlated with variations in other sources of income, such as grain or livestock prices. The independent source of income provided by stewardship payments would thus help moderate year to year variations in farm income from other sources, and may provide scope for countercyclical employment, such as where conservation works are able to be undertaken in dry years.
2. The conservation management agreements used in stewardship payments could include specific agreed ‘drought clauses’ to encourage self-management of the risks of climate change, for example. An agreement might set out that specified parts of an on-farm conservation area could be moderately grazed on a long rotation – such as at 40% of the normal stocking rate once every nine years – where this was compatible with the environmental outcomes sought. Such provisions might mimic the impacts of natural climate variation. Provisions of this kind would provide improved on-farm management of climate risk (such as by providing additional fodder), making the conservation agreement more attractive to landholders. This would be expected to reduce the price asked by landholders, allowing a given budget for stewardship payments to cover a larger area and achieve greater benefits. Whether inclusion of a drought clause is worthwhile, from a public perspective (and assuming that it can be administered), will depend on whether the reduction in payments sought by landholders outweighs any negative impact of the provisions on expected environmental outcomes.
3. There may be scope to introduce cross-compliance or cross-program funding arrangements. Future drought policy may, for example, place

more weight on preventative measures and pre-accreditation of drought management plans. Under such plans a group of landholders may agree to establish a grazing reserve that provides both a forage buffer in dry times, and long-term conservation benefits – modelled on the successful prairie “grass bank” developed by The Nature Conservancy’s (Veseth n.d., Robbins 2006, RLC 2008). In return these farmers would receive improved access to support provided through drought policy mechanisms. The same concepts could be applied to collectively held water entitlements used for both irrigation and environmental flows over different points of the climate cycle, or to the establishment of wildlife corridors to assist with salinity or pest management. In this case, appropriate design of the policy to encourage incentives for collective action should be considered.

Whilst the NFF is cautious in linking environmental conduct to other programs such as drought support or carbon capture, we do believe the merits of an environmental stewardship stand on their own two feet.

In broadening the scope of the stewardship program, the policy settings would need to have consideration for the international trade rules governing assistance payments to agricultural producers.

RECENT EXPERIENCE AND FUTURE OUTLOOK

The NFF notes the Productivity Commission’s confirmation that the existing “period from 2002 rates with the Federation Drought and the Forties Drought as the three most severe, widespread and prolonged dry periods since 1900”.

We further note the Productivity Commission finding that run-off and inflows into the Murray-Darling Basin are “easily the lowest on record”.

We therefore reject the Commission’s arguments to end drought support measures in two years time in which time, the present drought (should it continue) would be **the worst of all time.**

Removing assistance measures relied upon by farmers experiencing one of the worst droughts on record would be a rejection of the fundamentals upon which society is built.

Future outlooks indicate that Australian farmers can expect another drought at some point in time, with a greater range of climate variability generally.

With these expectations, Australia is well positioned to prepare an encompassing policy that is informed; prepared; and assisted during extreme events.

FUTURE PROJECTIONS

The NFF notes that Australian farmers need to be prepared for a hotter future and will need to adapt not only to poor rainfall but to low soil moisture.

The NFF submits that farmers have adapted in the past and with the correct government assistance measures, will adapt in the future.

A recent study conducted by Charles Sturt University¹² found that “landholders responded to the risks associated with climate variability and difficult economic times by seeking greater efficiency of production, which they achieved by expanding and intensifying their operations and investigating new technology”.

It is important that farmers, in partnership with Government, rise to meet future projections of precipitation volatility. This will require an informed and prepared farmer, that is assisted through extreme events.

Emissions Trading Scheme

It is worthwhile in this section to briefly comment on the Emissions Trading Scheme (Carbon Pollution Reduction Scheme) being proposed by the Australian Government and its impact on farming.

¹² Curtis, A., Thwaites, R., “Landholder adaptation to climate variability” .Natural Heritage Trust: Institute for Land, Water and Society, Charles Sturt University, (2007/08).

The Australian agricultural community is extremely concerned that measures designed to boost productivity improvement may be stunted or indeed reversed, by the potential penalties for increasing greenhouse gas emissions from building livestock numbers and/or continuing nitrogenous fertiliser use. It is the NFF's view that the ETS design must not inhibit productivity gains to the significant detriment of Australian agriculture and the domestic economy.

On the contrary, the NFF argues that increasing Australian agricultural production volumes is in the interest of the world community in its efforts to reduce total global emissions. Lincoln University in New Zealand specifically undertook research looking into the issue of food miles. The result of this study¹³ demonstrated that dairy produce emerging from farming systems in New Zealand are significantly less emission intensive than those from the British dairy system.

The NFF also believes that forcing reductions in nitrogenous fertiliser use by agriculture, in the absence of viable alternatives, will not have a clearly defined impact on the net carbon footprint of Australian agriculture. It must be remembered that such fertiliser use is designed to enhance vegetation growth and in doing so, boost the carbon sequestration potential from the farming system, whilst increasing the water use efficiency of the plant. Furthermore, reducing fertilizer use will potentially reduce livestock growth rates, thereby increasing livestock age at turn-off and emissions per kilogram of meat production.

The NFF believes that significant R&D funding is required to support the development of commercially viable alternatives to conventional fertilisers, such as the hybrid organic and chemical fertilisers. In the meantime, however, further Life Cycle analysis in this area is required prior to the Australian Government making any policy decisions with regard to the use of nitrogenous fertilisers in

¹³ Lincoln University, July 2006, Food Miles – Comparative Energy/Emissions Performance of New Zealand's Agriculture Industry.

Australian agriculture. Australian agriculture has a history of embracing innovation with regard to sustainable farming practices.

Government must recognise, however, that many abatement opportunities for agriculture are currently either under-developed, forbidden by current scheme rules, or not yet cost-effective. For example, while methane capture is technically available today, it is not cost-effective in the context of global competition. Genuine commercial options to abate must be provided to agriculture before penalties on agricultural emissions can be fairly imposed.

4. DROUGHT POLICY IN AUSTRALIA

The NFF submits that previous drought policy has been historically appropriate to the time and situation.

Assistance to farmers is appropriate through extreme events acknowledged as a natural disaster for which even the best farm manager and preparedness measures cannot provide.

The NFF acknowledges that existing drought policy does have a number of unintended consequences – it can be discriminatory and lead to divisiveness for example.

However, the **majority** of drought support measures have provided assistance to those in need and been relatively well targeted to those envisaged by the policy measure introduced at the time.

The overarching objectives that have accompanied drought policy through time have been supported by industry, government and the community. They are regarded as sound and well reasoned and appropriate.

The difficulty has arisen because only particular elements (especially those surrounding assistance during a drought event) have seen activism by Government. Dealing with an emergency when an emergency is happening does not always result in the most prudent policy or programs.

This “band-aid” of responses to drought has hampered the ability of the farm sector to more effectively partner with Government on preparedness measures.

It is most appropriate that the objectives of preparedness and recovery come to the fore in any new drought policy, thereby alleviating assistance measures during

future drought events and allowing such assistance measures to be better framed and rationalised.

It is also worth noting the selectiveness of present drought support measures.

Despite over half of agricultural land being EC declared, the vast majority of farmers have not made a claim for support.

A significant proportion of criticism over EC and Interest Rate Subsidies comes from where the line is drawn - be it for asset caps or lines on a map.

The NFF notes that even the very best farmers cannot plan for a seven year drought of the severity presently being encountered (let alone those experiencing drought in 13 out of the last 16 years).

When even the very best farmers in an area start seeking assistance, it is understood that the present drought is particularly severe.

It is appropriate that Government assistance is provided in such circumstances and in recognition of the assistance Australian farmers provide to the nation (as outlined in Section 1).

5. CRITERIA FOR EVALUATION

The reasons behind farmer support are outlined in Section 1 of this submission, but include:

- Protecting the productive base and breeding stock
- Protecting natural resources
- Meeting global food shortages
- Regional sustainability
- Global trade distortions

The NFF believes that farmers should be treated like all other members of society and be provided a safety-net during difficult times.

Most importantly, farmers contribute to society daily with the provision of food, fibre, and management of natural resources. These are strong justifications for society to assist farmers to continue to provide these public-good benefits.

NDP OBJECTIVES

The first focus of the National Drought Policy has been to encourage and assist Australian farmers take responsibility in managing drought and climatic variability. These principles of self-reliance and risk management remain relevant but policy measures better aligned to these principles are needed.

In the long-term farmers will make individual choices on how best and what are most appropriate measures for their farm business.

The second focus has been to provide assistance during periods of extreme climate stress.

The measures used to date have been imperfect and selective, but were appropriate and correct to the time and situation.

The third focus has been to assist with early recovery which has also been imperfect and selective.

There is a clear case for a new approach to drought policy that better aligns policy with the NDP objectives.

A new approach is highly contingent on running it alongside existing measures until the conclusion of the existing drought event when a full transition can occur.

Farmers should also have the ability and flexibility to choose the options that best suit their particular circumstances. In some cases, this may mean farmers opting out of exiting EC arrangements into a new suite of drought policy.

6. PROGRAM EVALUATION

The evolution of drought support programs and farmers currently reliant on them makes it crucial they are not abandoned during the present drought.

Instead, any new model that better aligns to the NDP objectives should be run alongside the existing support measures until the conclusion of the existing drought event.

Contrary to Productivity Commission claims, the NFF submits that despite the existing programs' focus on assisting and protecting farmers through the present drought, the drought event itself has improved farmers' preparedness for future droughts.

Living through a drought event is in itself a motivator for farmers to develop longer-term self-reliance.

Many farmers will make investment decisions during a drought to assist with present farm management and preparation for the next drought.

Farmers have sought to self-educate themselves on better stocking rates, water access, fodder storage, fuel conservation, and other risk management tools as a direct consequence of the present drought.

Farmers are investing in research and development and making capital investments (such as new technologies) in order to survive this drought, but equally to prepare for the next.

Examples of such investment include deep ground-water bores rather than irrigation from river sources. While the cost to use the deep water bores is equivalent to the temporary annual market price for water, the farmer has greater security.

Further evidence is farmers continuing use of Farm Management Deposits (FMDs) during the present drought.

However, even the very best farmers cannot plan for a seven year drought of the severity presently being encountered and Government support is necessary during this period.

EC PROCESSES AND ASSISTANCE MEASURES

The Productivity Commission has correctly identified that certain EC declarations have not closely matched the climatic and economic factors required, namely:

- Is rare – once on average over 20 to 25 year period
- Rare and severe downturn in farm income
- Cannot be planned for or managed

Difficulties have arisen due to the significant gaps in precipitation collection points, distinguishing between normal dry periods and severe drought, and the lag time of a reduction in farm income.

Regardless of approach adopted by the Productivity Commission or the Government for assistance measures, the amount of data deficiencies, time-series data, and objective information on rainfall, soil moisture, and water tables is glaring and needs significant improvement.

With a more variable and changing climate predicted for the future, is it important that a new ‘trigger’ mechanism is in place to correctly, and as objectively as possible, assess Exceptional Circumstances.

The NFF submits that there has certainly been pressure within non-EC regions to be granted EC status.

This antagonistic approach has been a direct result of the ‘lines on a map’ approach that characterises present EC declarations.

This approach is often divisive, with many farmers suffering equally difficult conditions but being unable to access assistance because of the line.

Furthermore, the differences in criteria for State-based assessment and the Commonwealth-based assessment create additional divisive pressures.

Individual applications are a better assessment method and can provide concrete evidence of financial hardship and the requisite level of assistance.

An individual assessment would remove the need for lines-on-map, State and Commonwealth differences, and reflect the differing types of farm business exposure to climate variability eg: cropping versus irrigated intensive horticulture.

For example, a dry-land application may focus on rainfall and soil profiles, while an irrigator may use water allocations to support their case for assistance.

Additionally, it would improve timeliness in accessing support. Instead of several months, significant data collection, site visits, and community meetings to prepare and consider an EC application, it could be done against a more clearly defined set of criteria to which the individual farmer can best respond.

Ongoing monitoring of individual applicants will also assist in transition measures out of drought that reflect that particular farm business ability to transition and better align to the production cycle.

For example, a citrus producer who has severely pruned or reduced tree numbers will take longer to return to productive capacity than, say, a cropping farmer who has a good season.

APPLICATION PROCESS

Individualising application processes and removing State and Commonwealth differences to program access will also reduce the burden of paperwork compliance, reporting and overall program administration.

There is clearly a need to consolidate the application processes, eligibility criteria, funding and administrative bodies.

LONG TERM USE OF ASSISTANCE

The NFF rejects the Productivity Commission assertion that “farmers have become dependent on the existence of government support, particularly in (but not limited to) times of drought”.

While noting that 10% of farmers presently receiving EC support have done so continuously since 2003, this is truly a very small number of farmers overall and is erroneous to paint all farmers with the same brush. They have received support for this period because they fit within the rules of the program. They are not necessarily bad farmers just because they have had longer-term assistance.

It must be remembered that to be declared an EC area and receive support, that area is in drought. Some parts of Australia have been in drought since 2002 (and some will tell you from the early nineties) and it would be expected that some farmers would be accessing support for the duration of the drought.

Our original submission called for mutual responsibility in welfare support and support for moves to greater self-reliance.

The NFF does highlight, however, that comparatively little attention has been given by successive governments to the first (preparedness) and third (early recovery) objectives of the National Drought Policy.

It is difficult to criticise farmers for not preparing when nearly two decades of drought policy calling for preparedness measures have been relegated as an issue to drought survival. Equally, the known market failures in farming make it difficult for farmers to individually carry this out.

Australian farmers are also the least protected in the world. This is outlined in greater detail in Section 1.1.

Against declining terms of trade, open trade walls, and a variable climate, Australian farmers have persevered and thrived.

Compared to our international competitors, farmers ask and receive very little from their Government. During a drought, many farmers do expect their

Government to assist them through an extreme event. In many ways, farmers see this as the Government's mutual obligation.

PERVERSE INCENTIVES AND CONSEQUENCES

The NFF rejects assumptions by the Productivity Commission that “programs like the EC interest rate subsidy provide an incentive for farms to structure their expenditure in order to maintain or increase debt levels”.

The ECIRS only applies for existing pre-drought debts. It does not apply to new debt created during a drought event while on ECIRS.

Farm businesses take on debt in the same way and for the same reasons as any other business does – to expand profitability, improve economies of scale and to utilise new technologies to become more productive and efficient.

Most farm debt is related to acquisition of land/water, plant/equipment and development. Overdrafts are mostly related to carry on finance. This makes the farm more productive and partly to establish a level of risk management against dry years.

Most businesses can reasonably expect to repay debt in normal trading conditions. This is factored into the loan approval processes that banks undergo.

When extreme events such as the present drought occur, the capacity for any business to repay debt under extraordinary trading conditions becomes problematic.

This is especially the case for irrigators who have significant investment in water infrastructure that must be maintained and serviced during drought periods in which their income producing potential is effectively nil from zero water allocations.

Farmers do not know when a drought is going to start or when it will end. They can only make business investment decisions based on ‘normal’ trading conditions and current known risks.

The Productivity Commission goes to great pain to highlight that most of the drought support has been in the last 2 years.

This is great testament to farmers having successively managed the first several years of drought through existing risk management.

However, as previously submitted, even the best farm managers cannot prepare for seven years of drought.

IMPLICATIONS FOR SELF-RELIANCE AND PREPAREDNESS

The NFF rejects the Productivity Commission assertion that “interest rate subsidies may be used to support debt that was inconsistent with longer term self-reliance and preparedness”.

Firstly, farm debt-to-equity ratios in comparison to other sectors of the economy are quite good. In fact ABARE’s latest research¹⁴ indicates that the average equity position of farms in 2007-08 was “good”, with “the proportion of farms with equity ratios in excess of 70 percent at its highest level in three decades”.

Secondly, the very nature of farm debt is its use to ensure a productive farm enterprise and manage risk. Most ECIRS recipients have made significant capital outlays (requiring debt) to better prepare and protect themselves from variable climate.

This is evidenced by the high proportion of irrigation and dairy properties that receive ECIRS. The debt is for on-farm infrastructure investments, usually towards more efficient water savings measures or storage facilities.

These investments have allowed these farm businesses to survive several years of drought conditions.

¹⁴ ABARE 2008, “Australian Farm Survey Results 2005-06 to 2007-08”, Canberra

However, even the most prepared farmer would struggle to service their debt obligations with zero water allocations, no farm business income or positive cashflow.

This is highlighted by the increased uptake of ECIRS in the last two years despite the drought being prevalent since 2002 in most parts of Australia.

The IRS has allowed farmers to service their debt obligations and been of tremendous assistance during a period of limited, to no, cash flow.

It additionally allows them to recover from the drought more rapidly than otherwise would be the case.

Without the Government investment in sustaining farm enterprises during hardship, we would potentially see a walking-off of the land leaving vacant entire regions, areas, and towns across Australia.

The repercussions of leaving large parts of the land untended and uncared would be quite serious and likely to be a significantly larger problem for any level of Government than supporting farm businesses survive a drought.

While noting that the ECIRS does not reward those who have maintained financial reserves and have a better debt-to-equity ratio, it must also be acknowledged that it is usually the long-term farmer who would be in this situation.

A young farmer starting out is naturally going to have higher debt-ratio and is more likely to be investing in preparedness measures and farm profitability.

An older farmer who had retired most of their debt will probably ride out a drought by taking out a loan against their farm assets. It could be equally argued that by not having debt you are encouraging farmers to remain unprofitable and not invest in preparedness.

As Benazir Bhutto said “A ship in port is safe, but that is not what ships are built for”. The same could be said for farming.

The NFF rejects the proposition that farmers knowingly higher-gear their businesses in the knowledge that ECIRS will be forthcoming. Lenders have stringent financial criteria against which loans are made.

One of the criteria attached to ECIRS is that only viable farmers with clear business plans who can demonstrate future profitability are eligible. The NFF therefore questions assertions by the Productivity Commission that such “programs may also impede adjustment by encouraging or enabling less profitable farmers to remain”.

When ECIRS was introduced, it was not targeted towards drought preparedness. ECIRS does not apply to any new debt created whilst on ECIRS which may have been expended to assist with preparedness. It only covers existing debt.

The present EC measures are principally targeted to the second objective (assistance in stress) of the NDP rather than the first (preparedness).

By way of example, however, is the case of irrigators and the “first irrigation drought”. EC measures have assisted in future preparedness through the experiences and learning from this drought. This knowledge will enable better risk management and preparedness investment decisions to be made during and after the present drought. The assistance measures have supported these farmers so they can learn from their experience.

EVALUATION OF PROGRAMS THAT SUPPORT RURAL FAMILIES

The Government has a role to support farmers and rural business with the same basic safety-net that is available to all Australians.

The NFF submits that this support should not be politicised or highlighted. Payments to farmers under EC relief often feature in news bulletins, reports, in print and are separated out in budget papers as Government support to farmers.

No other section of the Australian community is singled out and highlighted in such a manner and we urge Government to consider welfare payments to farmers in the same manner welfare payments are made to all Australians and not to draw distinctions.

We do, however, recognise that the access arrangements for farmers will need to be different to account for the particular differences of primarily producers and the rest of the community.

EC RELIEF PAYMENTS

The NFF submits that welfare support is necessary and effective in assisting families through drought and the resultant low to zero farm income.

There is always going to be contention over what level or quantum an acceptable farm and off-farm income / asset threshold is set.

This is because of the differences that exist within farming and its many manifestations, commodity characteristics, and locations.

The nature of farming being a family business hinders the ability to clearly set a threshold figure.

Many farmers who invest in off-farm income are doing so for retirement purposes. These investments are often quasi-superannuation policies reflecting the family trust and non-PAYG nature of family businesses.

Many off-farm property investments are for the farming matriarch and patriarch to retire to, so that their children may inherit the family farm and home.

It would be unfair to force a farmer to cash in their “superannuation” to survive a drought and generous asset tests are appropriate for farmers due to the nature and structure of their family business.

The NFF does support the principle of mutual obligation. Farmers receiving household income support should be required (just as other members of society

are required) to demonstrate a commitment to continue farming in a sustainable and self-sufficient manner in normal non-drought periods.

It is disturbing that only 60 percent of the longest term ECRP recipients considered themselves viable post EC and lack a business plan.

NFF submits that ECRP recipients should also be eligible for a professional advice grant that focuses on preparedness, evaluating and enhancing business viability, and assist in decision-making on taking an exit-grant.

Failing to undertake mutual responsibility leads to division within rural communities.

The NFF notes that the majority of ECRP recipients had received assistance for a period of only 1-2 years.

ECRP provides an important safety-net for farm families and should be retained. The existing problems with “lines-on-a-map” indicates a new individual trigger mechanism is required that makes ECRP available to all farmers regardless of their EC declaration.

Australian farmers are intricately linked to our society and support it in so many ways.

That is why when farmers are in need the wealth and society that is Australia, will and should, provide help when most needed.

NFF recommendation:

- 1. ECRP payments should be subject to a means test reflective of farming structures.*
 - 2. ECRP recipients should be subject to periodic reviews and evidence of meeting principles of mutual obligation.*
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3. *Mutual obligation includes regular discussion with financial counsellors including the assessment of on-going financial viability; development of farm business plans; maintenance of stock and farm assets; environmental stewardship; accessing preparedness measures/programs.*
 4. *A new “mechanism” other than EC boundaries be implemented to broaden access for all farmers requiring assistance.*
 5. *Provisions of a professional advice grant to assist farmers with their financial future.*
-

EVALUATION OF DROUGHT-TRIGGERED BUSINESS PROGRAMS

The NFF would be the first to admit that any assistance measure (no matter how carefully constructed) will always have its detractors due to eligibility criteria and equity reasons. Someone is always on the wrong side of a line.

How to provide assistance to farmers under the second NDP principle (assistance through stressful events) has been a challenge for industry and all level of Government for the better part of two decades.

By and large, the majority of business who access business support must demonstrate long-term viability.

This key tenet must be protected in any future changes to drought policy. NFF is not advocating to protect farm businesses from structural adjustment and known business risk - these circumstances often require a partnership between industry and Government.

However, it is warranted to assist farm business during a period of sustained drought that even the best preparedness measures cannot counter.

EC INTEREST RATE SUBSIDIES

It was the former National President of the NFF, Peter Corish, who authored the “Corish Report”¹⁵ which among other things, called for the phasing out of Interest Rate Subsidies and transaction-based subsidies.

At the time, the NFF rejected the setting of an arbitrary deadline for phasing out IRS during a drought event.

Similarly, we reject the Productivity Commission setting of a deadline date for IRS removal.

ECIRS should only be phased out as the drought ends if an effective suite of replacement programs can be delivered, consistent with a commensurate level of funding towards management and preparedness, risk management tools, sustainability and recovery from drought - coupled with assistance through extreme events. Within guidelines, these measures should be available to all farmers, not just those experiencing EC.

ECIRS should be maintained through the existing drought.

The NFF is concerned that the Productivity Commission is relying on subjective evidence that the present ECIRS is being accessed by non-viable farms.

The NFF contends that the vast majority of applicants are worthy and have demonstrated a sound business case for accessing ECIRS.

NFF submits that it would be appropriate to reconsider the guidelines surrounding farm business structures. Farms operating under family trust arrangements are particularly excluded from accessing assistance.

¹⁵ Agriculture and Food Policy Reference Group 2006, “Creating Our Future: Agriculture and Food Policy for the Next Generation”, Report to the Minister for Agriculture, Fisheries and Forestry, Canberra, February.

The NFF submits that the Productivity Commission is being overly restrictive in its comments that “business structures under which farms operate is a management choice”.

Often farm structures are inherited from one generation to the next – as is the case for any family business. Making changes to business structures is not easy, simple or necessary in most cases.

They can evolve slowly over time as family units coming together to work in partnership, or can change dramatically through normal family ruptures.

The warrant for assistance remains valid regardless of the type of farm business structure.

As previously submitted, debt is not bad for any business.

Forcing farmers to maintain a low debt-to-equity ratio on the possibility of a 1 in 20 to 25 year event would actually hinder investments in productivity improvements, preparedness, risk-management, diversification and self-reliance.

Those farmers with high debt, low liquid assets, and low off-farm income are usually new entrants or younger farmers who have a strong and viable future in farming.

Servicing debt by any business is done on a solid business plan, with known cash-flows estimates in normal trading conditions against known risks. Lenders would not provide loans without these principles being in place.

Servicing debt becomes impossible for even the most prepared farmer after several years of severe drought.

As previously stated, most farmers use off-farm assets as their retirement savings. Setting a level for any program should be high-enough to recognise structural and retirement arrangements of farmers.

NFF recommendation:

- 1. Conduct a review of ECIRS program processes against stated objectives to ensure consistency in delivery and interpretation.*
 - 2. The review is to consider expanding the program guidelines to more broadly encompass the range of business structures under which farmers operate.*
 - 3. ECIRS to continue through the existing drought event.*
 - 4. ECIRS should be phased out as the drought ends if an effective suite of replacement programs can be delivered, consistent with a commensurate level of funding towards management and preparedness, risk management tools, sustainability and recovery from drought - coupled with assistance through extreme events. Within guidelines, these measures should be available to all farmers, not just those experiencing EC.*
-

The final recommendation is one that the NFF wants to make very clear.

In clarifying when the present drought ends, the existing EC declaration processes should be maintained. The existing suite of support measures should continue to operate until the conclusion of the drought period.

This means that an area that comes out of EC status for, say, six months, and then goes back in, would still have access to ECIRS and other existing forms of support.

A surety of government support is necessary as farmers cope with one of the worst droughts on record.

We further note the harshness of the Productivity Commission recommendation to cease support in 2009-10. Should the existing drought continue until that time-frame, it would well and truly be the worst drought on record, eclipsing all others.

EC EXIT PACKAGE

The main reason for farmers not accessing the farm exit package is the restrictive nature of the rules governing access to the package. There would be very few farmers – who are prepared to leave – who would not hold assets over the threshold.

Additionally, most farmers want to continue farming.

They enjoy farming, it has family importance, and believe it has a solid future.

The fundamentals for growth in farming are strong.

A lot of structural adjustment occurred during the 90s drought, with a significant consolidation of properties and larger economies of scale occurring in the last two decades.

Often a farm that may be unviable for one farmer will be viable for another farmer.

Structural adjustment through exit packages needs to be considerate of non-monetary reasons (location of family home, closeness of family, lack of formal skill recognition, etc), for farmers wishing to stay as farmers and work collaboratively with the market mechanisms.

It is always perilous for Government to ‘force’ an industry to structurally adjust through exit grants. It is something that should be done in a partnership between Government and industry.

TRANSPORT SUBSIDIES

A lot of the criticism towards transport subsidies is centred on their unintended consequences and distortion on markets.

All assistance measures have their place and generally meet their objectives. Ultimately, decisions to withdraw certain forms of support should be contingent on introducing an improved support measure.

Programs that are subjectively claimed as being misused or not meeting their intended objectives are best subject to robust review and objective assessment.

EVALUATION OF PREPAREDNESS AND ADVICE PROGRAMS

Largely the objective of assisting farmers with preparedness has not received the same urgency of attention by Governments in comparison to dealing with the “here-and-now” of the present drought.

Equally, the farm sector as a whole is less willing to engage on preparedness while going through a drought.

Often you will hear the words “Let’s just get over the drought first, then we will worry about preparing for the next one”.

The NFF is committed to enhancing and focussing on preparedness measures and believe that good policy is required now while there is stakeholder attention on the drought.

Experience demonstrates that leaving policy discussions on preparedness until after the drought has broken, usually is met with a luke-warm reception as everyone is too busy making the most of the good season.

Preparedness is also about more than just spending money. Preparedness is about building an understanding of the working environment and utilising skill, knowledge and experience to best manage that environment.

The NFF commends the views of the Productivity Commission on Farm Management Deposits, grants for training and advice, and rural financial counsellors.

IRRIGATION MANAGEMENT GRANT

The NFF rejects the Productivity Commissions views on the Irrigation Management Grants. NFF contends that the Productivity Commission has failed to adequately consider the fundamental premise of the program nor has it recognised the flow on social and economic benefits of the program to drought ravaged rural businesses and communities.

To re-cap, the Grants program includes a range of eligible uses such as:

- Infrastructure associated with stock & domestic water supply;
- Fixed water charges;
- Sinking, extending or refurbishing bores;
- Pruning to minimise the impact of low water allocations;
- Reconfiguring irrigation systems, laser levelling and irrigation equipment replacement (pumps, pipes, software etc); and
- Costs associated with implementing water efficient crop options¹⁶.

These grants were primarily established to assist landholders quickly undertake actions for a range of short-term water management decisions in a time of extreme hardship. The situation for many irrigators can be encapsulated as:

- Highly geared (i.e. debt levels) and may be unable to obtain carry on and in some cases capital investment due to drought financial constraints;
- Were the last to receive widespread Exceptional Circumstances assistance; and

¹⁶ 2008, Department of Agriculture, Fisheries & Forestry, Murray Darling Basin Irrigation Grants, Policy Guidelines, available:

http://www.daff.gov.au/_data/assets/pdf_file/0009/832806/guidelines-mdb.pdf.

- Unable to access additional water supplies due to the prohibitively high costs of annual water even if this water could be delivered to farm gate.

This would contend the Productivity Commission's views that "*there is no indication that farmers are impeded in undertaking financially worthwhile irrigation infrastructure projects*".

The list above comprehensively demonstrates that the design of the grants program is to assist urgent short-term drought actions and were not restricted to irrigation infrastructure, e.g. pruning of permanent plantings to reduce water requirements and putting in alternative supply systems for stock and domestic water supply where traditional water and finance sources were no longer available.

An important flow-on benefit of the grants programs have included improved on-farm water efficiency and/or the ability to adapt to less water, given the serious nature of the current drought and the limited availability of water to even meet critical human needs¹⁷. The latter will also be an evergreen outcome in terms of future drought preparedness, as less water is required to meet the irrigation, stock and domestic needs of the farm.

NFF rejects the Productivity Commission's premise that the focus of the grants program was to improve productivity – yet many irrigators cannot improve productivity if there is little or no water to use.

The Productivity Commission raised the issue that on farm infrastructure investment will lead to negative externalities through reduced ground water recharge. This is an issue for the wider water reform agenda and is recognised in the Murray-Darling Basin as one of the interception activities. Whilst the impacts of "policy silos" have been raised by the NFF on numerous occasions, the linkage

¹⁷ In this instance, critical human needs has the same definition as contained in the Water Amendment Bill 2008, clause 86A(2).

of this issue in terms of exceptional circumstances is perhaps disingenuous as there is little or no irrigation water use from which water has been lost. Certainly, this issue will be addressed by the new policy settings of the Murray-Darling Basin Plan being established under the auspices of the Murray-Darling Basin Authority.

The very nature of the grant, i.e. one off and capped at \$20,000, is unlikely to result in impeded structural adjustment as postured by the Productivity Commission, particularly if the irrigation business is one of the larger operations. Certainly, in some situations there will be inequities between those irrigators who have implemented infrastructure works and those who did not. NFF contends that farmers face such inequities each time Governments make policy. Many irrigators would contend that the historic Exceptional Circumstances policies resulted in irrigation taking some two to three years to be recognised as legitimately impacted by the drought. In the meantime, intensive irrigation enterprises and dryland operations were able to seek assistance. It could also be stated that horticulture farms, which are generally on average 25 ha in size across the Basin, may be more advantaged by the establishment of the grants program than say a cotton grower on several thousand hectares in the northern Basin. NFF rejects this Productivity Commission position.

The Productivity Commission also contends that investment in infrastructure may increase the cost of water acquired under the Federal Government's Water for the Future program. NFF draws the attention of the Productivity Commission to an ACIL Tasman report that states that Government tenders will only achieve a modest volume of water and increase prices. Suggested changes to the strategy are a willingness to accept a higher price for acquisitions and a shift towards water savings from infrastructure. The report states that there is a prima facie case now for considering infrastructure projects to manage the risk of paying too much¹⁸. In

¹⁸ 2008 ACIL Tasman, Australia's Working Rivers: The role of infrastructure and water buybacks in recovering environmental flows, prepared for the Crane Group Ltd, May 2008.

other words, acquisition first followed by infrastructure will result in the Federal Government paying a higher average cost of water as opposed to investment in both at a similar time.

NFF accepts that markets are the mechanism to adjust water between competing uses. However, the Productivity Commission fails to note that in this drought, the water market failed. Governments have and continue to intervene to ensure that critical human needs are the highest priority use. Furthermore, water sharing plans have been suspended for some three years and are yet to be reinstated.

The Productivity Commission has also failed to recognise the additional flow on social and economic benefits that the grants program has delivered to regional and rural communities decimated by drought. The grants program allowed farmers to invest on farm; however, the service providers for these actions were beyond the farm gate. Implementation enabled rural businesses also decimated by drought to supply the infrastructure required for the farm investment. Contractors and or labourers with little or no work due to drought could also be employed to assist implement works.

NFF contends that in future, irrigation farmers are best positioned to be able to continue to provide food by ensuring that irrigation farms are as water efficient as possible. Dryland and peri-urban farms must also be as water efficient as possible. There is no doubt that if farmers were in the financial position to improve their farms, they would do so. However, with the high water costs to acquire water (if this could be delivered) combined with the financial impacts of drought, meant that the grants program alleviated the short-term grave situation faced by many.

As the grant program is due to be extinguished in the near future, the NFF supports the irrigation sector being able to access the expanded preparedness grant process outlined in Section 8 of our submission.

7. A NEW POLICY FRAMEWORK

The NFF recognises the framework developed by the Productivity Commission and is supportive of the Commission’s view that drought policy needs to be viewed broadly.

The acknowledgment of the range of complementary non-drought policies in the Commission’s new approach mirrors closely that put forward by the NFF in its National Agricultural Strategy.

In our original submission, the NFF argued that a new approach to drought policy was required based on a “partnership” between primary producers and Government.

The support role to be played by Government is to ensure the best decisions are those made by farmers towards their own self-reliance.

The NFF strongly supports the Commission’s views that Government should not play a role in dictating whether farms are too small or in the wrong location to be viable.

What may be unviable for one farmer is a business opportunity for another.

The NFF supports an expansion of income support and a new model for farmers to access a social security safety net during all periods, not just drought. We do, however, caution that having a “cliff-face” of 3 in 7 years, will undermine the good intent of the recommendation.

OTHER OBJECTIVES

The NFF disagrees that the Government does not have a role to play assisting and helping farmers through short-term difficulties.

The removal of assistance during extreme climate stress and placing the entire burden on farmers to survive an extreme drought event is just not practical or possible.

Many farmers are at different stages of their farm career and may be further down the line to survive and prepare for drought. Some may be just starting out and have a strong future.

No matter how good the farmer and how well they prepare, it is not possible to remain self-sufficient during extreme droughts, such as presently being experienced, or to immediately recover.

Maintaining and protecting Australia's agricultural and environmental resource base during periods of extreme climate stress is not just about keeping breeding stock or environmental management.

It is about assisting farmers survive an extreme event and continue to:

- Contribute to the public good
- Positively contribute to Australia's Balance of Payments
- Sustain the environment
- Maintain regional sustainability
- Provide food, clothing and shelter to the world.

8. POLICY FRAMEWORK FOR SELF-RELIANCE AND PREPAREDNESS

The NFF supports the Productivity Commission's view that farmers are best placed to manage their risks, include climate variability. They need a range of tools to be able to do so.

RESEARCH, DEVELOPMENT AND EXTENSION

SEASONAL AND INTERANNUAL CLIMATE FORECASTS

The NFF goes further in its recommendations for an expansion of research and monitoring facilities for the BoM.

These are outlined in Section 3 of this submission.

Australia is poorly resourced in comparison to the wealth of climate information our competitor nations have access to.

Arming farmers with appropriate decision-making tools will greatly assist in their decisions and risk management.

EXTENSION AND IMPLEMENTATION

The NFF agrees strongly with the Productivity Commission and its recommendation 8.1 in support of public funding towards research, development and extension.

The NFF urges caution to ensure that targeted investment in areas such as climate variability and climate change are done through existing RRDC Government agencies.

These agencies have been established, co-funded, and engage with the farm sector.

NFF opposes special pools of funding being managed by a Government Department rather than one of these RRDC agencies.

Equally, it is important that the core provider of research facilities, namely the CSIRO, is adequately resourced to allow the leveraging up of research funds and meeting its capacity demands.

BUSINESS MANAGEMENT SKILLS

RURAL FINANCIAL COUNSELLORS

The NFF supports the Commission's adoption of the Expert Panel in its 8.2 recommendation for a review of the Rural Financial Counselling Service.

The NFF supports the views of its member organisations over the support that these counselling services provide to rural business.

GRANTS OR SUBSIDIES FOR BUILDING BUSINESS MANAGEMENT SKILLS

The NFF has made separate submissions to the Australian Government concerning the guidelines governing the new FarmReady program.

Suffice to say, the emphasis was on retaining the successful elements of FarmBis.

The NFF supports the Productivity Commission Recommendation 8.3.

FINANCIAL MANAGEMENT TOOLS

FARM MANAGEMENT DEPOSITS (FMDs)

NFF is strongly supportive of FMDs and their use as risk-management tools.

Our original submission to the Productivity Commission argued for reducing restrictions on deposit size and off-farm income as a way to enhance FMDs usage.

NFF supports a review of the administrative guidelines concerning farm trusts and farm SME access to FMDs.

The additional paperwork and compliance surrounding access for beneficiaries is burdensome and could be streamlined.

Our earlier submissions on farm structures and access to the ECIRS hold true for accessing FMDs.

The NFF rejects the Commission's view that the present \$400,000 cap is sufficient because the average deposit is only \$70,000.

Presently farmers are experiencing the worst drought in memory. This is reflected in the relative flat-lining of FMD deposits over the last several years.

It is expected that as farms recover from drought the average deposit would increase commensurate with farm incomes.

The Productivity Commission states its support for FMDs as providing "effective and non distortionary form of assistance to primary producers that are being used to manage risks such as those presented by drought". Further, "FMDs have the potential to promote better and more timely resource allocation decisions". Further, "...the scheme does not generate perverse incentives".

With such praises for FMDs and no negatives cited, it is unclear the reasoning behind the Commission's support for artificial limits on FMD adoption and use through caps.

For these reasons we support the Commission's view that FMDs should be retained, but we argue that the cap to be removed.

NFF recommendations:

- 1. FMDs have no restrictions on the deposit size*
 - 2. FMDs be used at all time irrespective of drought conditions*
 - 3. Producers allowed to make FMD withdrawal of funds prior to 12 month limit and still receive taxation benefits (removal of EC requirement)*
 - 4. FMDs reviewed to allow easier access by farm Trusts and SMEs*
-

ASSISTANCE FOR INVESTING IN PREPAREDNESS

PREPAREDNESS GRANTS

The NFF is concerned that the Commission sees little value in preparedness grants.

After building a case to dismantle business support for farmers during a drought event, the Commission also rejects the preparedness option that would ameliorate the rationale for business support in a drought.

The two levels of investment countervail each other.

Infrastructure investments in preparedness measures outside of drought periods reduce the need for business support measures during drought periods.

If farmers are never assisted in making the original investments and at the same time do not receive business support through a drought event, the Commission is basically dooming them to failure.

While we agree with the Commission that any program would need to be necessarily flexible and not “pick winners” for investment, it should not preclude Government support for co-investment in farm preparedness.

The other very significant benefit of grants is that they apply to all farmers.

Preparedness grants are not simply limited to farmers who are in an EC area and receive a form of assistance. They are available to all farmers to assist during both drought and non-drought periods.

The parameters of a successful grant program would obviously need to be very carefully developed.

It is envisaged that there would be a level of mutual obligation, and public good, to any scheme.

NFF recommendation: The Australian Government develop a preparedness grant program that assists all farmers during both drought and non-drought periods.

INCOME CONTINGENT LOANS

The NFF believes that Income Contingent Loans (ICLs) do have a place among the preparedness measures available to farmers.

Significant research¹⁹ has supported the farm sector accessing ICLs to prepare and assist in periods of drought.

The general community is broadly in support of farmers having access to an ICL following the popular press coverage of the NFF’s original submission.

¹⁹ Botterill, Linda Courtenay and Bruce Chapman (2006) “Turning Grants into Loans: Income Contingent Loans for Drought Relief” in Chapman, Bruce Government as Risk Manager: Income contingent loans for social and economic progress, Routledge, London.

Operationally, ICLs would act as the opposing half to FMDs, allowing farmers to draw down in poor times and top up in the good.

During an extreme event, farmers need access to loan facilities.

ICLs warrant significant considerations amongst a suite of measures to assist farmers prepare and survive drought.

NFF recommendation: Income Contingent Loans be subject to further review and analysis with support towards a trial of a preferred model.

ASSISTANCE TO DEVELOP INSURANCE MARKETS

The Commission highlights the uneven playing ground of international trade in agricultural produce in this section of the report.

The Commission recognises that government schemes operate in Canada, USA, Brazil and Japan to protect and assist their farmers, yet does not make recommendations that the same level of support should exist in Australia.

The Commission makes recommendations to remove significant Government assistance measures for farmers during drought events, but has not offered support for any other assistance measures including those available to our competitor nations.

The “possibility” that markets will develop is a poor position for the Commission to adopt considering Australia has one of the most variable climates in the world.

Farmers around the world receive Government support through bad times and good.

These Governments recognise the contribution that agriculture plays in their national, regional, rural and remote communities.

They understand the public good, the land management, and the provision of basic human needs that farming provide.

In return, they offer assistance to farmers who must manage the unpredictability of weather.

NFF recommendation: The Australian Government provide insurance assistance similar to that which operates in other competitive major agriculture competing nations.

9. FARM INCOME AND ADJUSTMENT SUPPORT

The Productivity Commission notes the differences in farm income from broadacre and dairy farms.

The NFF submits that this is due to the different decisions taken by the farmer towards their business. The dairy farmer typically ploughs everything back into making his or her business more profitable and productive, whereas the broad-acre farmer has sought a diversification strategy to deliver income from off-farm sources including contract work. The best investment is made to secure a return.

Largely this is recognition of the risk to the type of farming. Certain parts of Australia know they will have a seasonal crop failure 3 years in 5 and have undertaken risk-mitigation through off-farm investments. Other sectors, such as dairy, locate in parts of Australia with reliable rain or irrigation to protect against risk. It is more about risk strategies being pursued relevant to the individualities of the farm.

INCOME

The NFF strongly supports the higher level income test operating under the ECRP program and rejects the Commission's views against.

The Commission clearly makes a strong case that farm business and families operate under significantly different arrangements to normal PAYG working Australians.

Tied up in this is the cross-over of negative farm income against off-farm income thresholds.

Farmers still have a primary obligation to protect their animals and manage their land and farm assets.

Imposing barriers to farmers earning off-farm income to assist with the survival of the farm business and carry out this mutual obligation is counter-productive.

ASSETS

The NFF supports the Commission's view towards a higher asset threshold for accessing welfare support.

As previously submitted, many farmers utilise off-farm assets as a form of superannuation. It would be perverse for farmers to sell off their retirement to survive a drought only to be dependent on the Government for social welfare when they retire.

Equally, we agree with the Commission that a balance needs to be struck against forcing farmers to run down their own-farm assets to comply with guidelines.

ASSET THRESHOLDS

The NFF submits that a \$2 million cap tapering to \$3 million is problematic in the same way as setting any line in the sand.

Large sections of agriculture are critical of the present cap levels and finding their applications denied.

The peculiarities of farming as depicted in the example given at the start of this Section, are common.

Couple this with urban encroachment and coastal property values.

Couple this with property values not being an indicator of earning capability.

Couple this with the continued appreciation in farm assets and the lack of a corresponding index to asset thresholds.

It all equals a very difficult line to draw.

A potential avenue to explore would be the separation of farm asset from household asset. This involves separating the ability to draw income from the farm in comparison to the indirect income that could potentially be earned by the household from farm assets.

Sub caps

The NFF supports a liquid asset cap of \$20,000 **exclusive of FMD balances**. As previously noted by the Productivity Commission, FMDs have a use beyond support through a drought event.

One such use is their crucial importance in recovery from drought. FMDs need to remain relatively high so that a farmer is able to adequately and quickly assist themselves out of a drought event, be it through purchase of seed, water, or equipment.

This recovery would be extremely impinged should they be required to draw their FMD down to \$20,000.

Mutual responsibility

NFF has made previous submissions on the need for a mutual responsibility component to welfare support and to ensure non-viable farm businesses are assisted in making a decision to leave the land.

This is outlined in detail in our recommendations in Section 6 of this report and is generally reflective of the proposals of the Productivity Commission.

REGULAR ASSESSMENT AND ADJUSTMENT

The NFF disagrees with the Productivity Commission view that the scheme be limited to a maximum claim of three years out of seven.

There is no way that an arbitrary time-frame can be imposed on a drought event or its severity.

Equally, the earlier requirements on viability, and ongoing review should predicate whether continued support is warranted.

The three years out of seven is unnecessary should the scheme operate according to its guidelines.

Using the three years out of seven to force adjustment with farmers leaving the land bears no relationship to the objective of maintaining a viable farm during a severe drought event.

The NFF urges the Commission to de-couple its thinking in this regard.

The remainder of the Commission's views on facilitating a move out of farming are accurate and supported by the NFF in our earlier submissions.

There are a significant range of interdependencies for choosing to stay on a family farm.

A holistic approach not purely focussed on financial impediments is required to overcome impediments to adjustment.

10. IMPLEMENTATION AND SUPPORTING POLICY

The Productivity Commission makes a number of worthwhile and supportive recommendations and suggested changes to support mechanisms and preparedness measures.

The NFF is, however, totally opposed to changing the existing support mechanisms during the present drought event.

This has been subject to significant analysis, reasoning, and argument throughout our submissions.

The NFF strongly advocates the need to move to a new drought policy and to emphasise preparedness in that new policy.

However, any new drought policy should be run alongside existing support measures to the conclusion of the present drought event.

Further, the NFF supports the Commission's view towards consistent and rigorous application of drought policy to ensure policy credibility and delivery of objectives.

11. CONCLUSION

Farmers provide society with a lot that is good. We contribute to the national, regional and rural economies. We manage the land mass and protect the environment. We provide food, clothing and shelter to meet basic needs.

Internationally, Governments recognise the community benefits farmers provide and offer significant assistance to their farmers making it difficult for us to compete globally in food and fibre production.

In Australia, we are calling for a focus on a new management and preparedness model is required that embraces:

- Seasonal and interannual forecasts
- Research, development and extension services
- Improved business management skills through the continuation of the Rural Financial Counsellors and subsidised education and training programs
- Expanded financial management skills through an improved Farm Management Deposit system
- Expanding the stewardship program to reflect society's desire for farmers to protect the environment and provide public-good.
- A new preparedness grant
- Income Contingent Loans
- Assistance with risk tools including insurance markets.

Respecting the unique differences across farms and between farmers will require a new management and preparedness model that provides streams suitable for farmers and their circumstances.

The NFF considers that an effective government response to these reviews will result in a comprehensive national agriculture policy framework that covers more than just drought. It is likely that the impacts of the drought on farm finances, families, health, educational opportunities and regional development will be felt for decades to come. Therefore a long-term commitment by government to partner agriculture and regional communities is needed.

The NFF looks forward to the opportunity to expand upon our policy model with government. We seek a consultative process that sees government work across portfolios engaging key stakeholders in the development of drought policy measures that genuinely position agriculture to deal with the multi-faceted challenges posed by the current drought event and long-term climate change.