

21 April 2011

Mr Mick Keogh
Drought Pilot Review Panel
GPO Box 858
Canberra ACT 2601

Dear Mr Keogh

Background

The National Farmers' Federation (NFF) was established in 1979 and is the peak national body representing farmers, and more broadly, agriculture across Australia. The NFF's membership comprises of all Australia's major agricultural commodities. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. NFF also has a number of associate members who participate in the agricultural supply chain. These organisations form the NFF.

The NFF welcomes the opportunity to contribute to the Review of the pilot of drought reform measures in Western Australia. The NFF has long called for a shift in the policy focus from 'drought relief' to 'drought management and preparedness'. This approach has underpinned the NFF's principles for drought policy reform (see Attachment 1) and has been outlined in previous submission made to government by the NFF¹. Whilst the NFF has supported the pilot of drought reform measures in Western Australia, significant concerns exist over the limited duration of the pilot, the limited scope of measures being trialled and the effectiveness of the pilot measures in providing both social support and improving drought management and preparedness. In light of these concerns, the NFF does not believe that the drought reform measures implemented under the pilot represent an appropriate alternative to the measures currently available under existing Exceptional Circumstances policy.

Terms of Reference of the Review

The NFF notes that the Review Panel Terms of Reference focus primarily on the delivery of the pilot measures. The focus on administration and delivery of services (outputs) rather than measuring and understanding change within industry (outcomes) is a weakness of the Review Terms of Reference and is not a true test of the effectiveness of the drought reform measures.

A second concern with the Review Terms of Reference is the narrow focus on measures delivered under the pilot, rather than considering or recommending alternative or complementary measures which may deliver improved support during drought and better

¹ 2008 Productivity Commission Draft Inquiry Report into Government Drought Support submissions
<http://www.nff.org.au/get/812.pdf>
<http://www.nff.org.au/get/764.pdf>

drought management and preparedness. A range of alternative measures which may assist include: tax measures; increasing flexibility around farm management deposits; lending schemes; Government involvement in establishing insurance products; improved availability of climate data as well as research and development investment on seasonal forecasting and the management of climate variability. The NFF believes that the Review Panel should consider these alternative measures and their capacity to deliver improved support and better drought management and preparedness relative to existing policy and the measures delivered under the pilot.

The NFF notes that outcomes from National drought policy reform include the management of natural resources (including water), maintaining vibrant rural communities and improved management of climate by agricultural industries, and these issues have relevance to other Government policy and programs. In this context it is important that policy and measures developed as part of drought policy reform are complementary with other areas of Government policy and programs, including policy currently under development such as the National Food Plan. It is important that the Review Panel consider this context in its deliberations.

Concerns with the Review

Exceptional Circumstances

The drought reform measures delivered through the pilot were developed to recognise that the current approach to drought policy does not address improved drought preparedness, and that problems exist with the current system of Exceptional Circumstances declarations. Given these weaknesses in the current system it is important that alternative policy measures are examined and tested.

However, it is important to recognise that the current Exceptional Circumstances policy measures, including Interest Rate Subsidies, have been of great assistance to many farmers across Australia, particularly during the intense drought experienced in recent years. Under these circumstances it is important that any new drought reform measures are an improvement over the existing arrangements. It is important that the Review evaluate the success of the drought reform measures on their merits, and not pre-empt the further roll out of the drought reform measures.

The NFF is looking to engage with the Review of the pilot to ensure that measures to provide support to those affected by drought are appropriate, but also to ensure that measures to improve drought preparedness are effective and relevant across Australian farming systems.

Focus and duration of the review

As mentioned earlier, the NFF has concerns that the focus of the Review is on the efficiency of delivering the drought pilot measures, rather than the success of the pilot measures in bringing about lasting changes in farm management and practices. Alternative measures that may be more effective than the pilot reform measures should also be considered in the Review.

The short duration of the pilot and the poor season experienced in the pilot region have led to real concerns that the drought reform measures have not been properly tested and cannot be properly evaluated. A more realistic timeframe for the evaluation of the drought reform measures would be in the order of 3 to 5 years which would allow a more informed assessment of the outcomes delivered by the pilot measures. The NFF and its members will be looking to the Review for convincing evidence that the pilot measures have been successful in achieving the outcome of improved drought management and preparedness.

Relevance for other regions in Australia

In discussion with our members, concerns have not only been raised about the relevance of the measures piloted for Western Australia but also their relevance for other regions in Australia. Particular concerns have been raised regarding the eligibility criteria for the various measures and grants, and their relevance to different types of farm enterprises in different regions. Types of business structures, the value of capital invested in farm enterprises and property values vary significantly across Australia and significant concerns exist that current eligibility criteria will not be appropriate if the pilot measures are to be rolled out further. Examples of specific concerns raised include: the potential for net asset limits of \$2,000,000 to exclude the majority of commercial farm operations on which the future of Australian agriculture most heavily depends²; the \$20,000 liquid asset test does not appear to account for proactive de-stocking decisions to maintain and support the management of natural resource assets; and the extended timeframe over which the Building Farm Business grants are delivered would appear to reduce their relevance and usefulness.

Managing in drought conditions

The poor season experienced by farmers in the pilot region, and the difficult drought conditions experienced by farmers in many regions of Australia over recent years, has led to concerns regarding the appropriateness of the pilot measures in supporting farm businesses during periods of drought. There needs to be a continued focus on measures to improve drought preparedness, but there must also be a safety-net for individuals when conditions exceed their capacity to manage and the same principle should apply for all Australians. It is not clear how useful the family support measures in the pilot have been compared to the existing package of drought assistance measures provided under Exceptional Circumstances arrangements.

² the NFF notes that recent ABARES estimates put average capital per farm (at 30 June) at \$4,005,500 for broadacre industries in 2009-10 (ABARES (2011) Australian commodities March quarter 2011, vol 18 no 1).

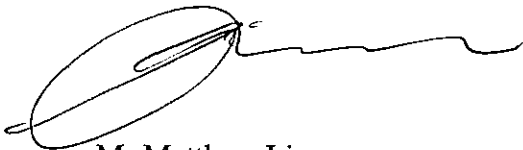
Particular concerns have been raised with NFF regarding the impact of drought on succession in farm businesses and new entrants to the agricultural industries. New entrants to the agricultural industries may not have the financial resources to manage through a drought period or to finance recovery after a drought event. The drought reform measures included in the pilot do not address this issue

In addition to questions raised by members about the success of the pilot in delivering the outcome of improved drought management and preparedness, specific questions have been raised by members regarding:

- whether it enhanced the ability for farmers to prepare for future drought events;
- the extent to which the drought reform measures made available during the pilot were able to meet the demand from within the pilot region;
- the proportion of farmers in the pilot region who have been successful in accessing the measures;
- the level of success for farmers seeking to access grants and support measures;
- the quality of training and cost and appropriateness of the training measures;
- the usefulness of the building farm business grants and the appropriateness of the payment period for the grants; and
- the relevance of the value of the building farm business grants for different types of farm enterprises in different regions.

Given the inadequacies recognised in the pilot of drought reform measures the NFF cannot support the further roll out of these measures. The NFF will continue to work with Government on drought policy reform, and we look forward to engaging with the Review Panel during the course of its work.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Matthew Linnegar', with a large, stylized initial 'M'.

Mr Matthew Linnegar
CHIEF EXECUTIVE OFFICER

Attachment 1

MEDIA RELEASE: Pilot needed to get drought reform off the ground
<http://www.nff.org.au/read/1674/pilot-needed-get-drought-reform-off.html>

16 February 2010

“DROUGHT reform has stalled in Australia,” National Farmers’ Federation (NFF) President David Crombie lamented today as he called for a pilot scheme to trial a new approach to drought management. “Overhauling drought policy has never been seriously attempted because it’s hard.

“It’s hard politically, it’s hard for farmers currently in drought and it’s hard to get the policy settings right. Yet, most agree – politicians and farmers, alike – that Australia needs to find a better way than the current drought relief model.

“Naturally, there is real anxiety among the farming community whenever drought reform is mentioned. It is vital that any change must not create additional hardships nor should they burden farmers in drought with uncertainty about support mechanisms for them. At the same time, governments are focused on the financial pressures of the current record drought and the anticipation of possible extreme weather conditions into the future.

“The proposal I put forward today addresses these issues.

“At the last federal election we pushed both sides of politics on the need to shift the policy paradigm from ‘drought relief’ to ‘drought management and preparedness’ based on mutual obligation. We said at the time, this requires “a generational shift in thinking” and that “we – as a nation – must rethink how we plan for, and deal with, drought in a changing climate”.

“Our plan is to better drought-proof Australian farms by investing upfront in on-farm climate adaptation and mitigation practices. Things we know work. This proactive investment is a forward-looking solution that, over time, would reduce the strain on farmers and taxpayers for drought relief.

“The Rudd Government, to its credit, accepted these principles when it won Government. However, to date, despite ongoing negotiations between the NFF and the Federal Agriculture Minister Tony Burke, not much has happened.

“So, today, we are calling on the Government to be bold and to put a pilot scheme in place before the next federal election that identifies an area not currently drought-declared to trial a new system based on the principles we have been discussing with the Government.

“Piloting a new scheme in a region not in drought would deliver on the management and preparedness model and drought policy reform principles. It would give farmers and the broader community a better understanding of what the future would look like under the new

arrangements and the ability to iron out teething problems and fine-tune the model before any further extension.

NFF's Seven Principles Underpinning Drought Pilot

“First and foremost, existing support for families currently in drought must not be changed while the current drought persists. Drought-stricken farm families are under immense pressure, dealing with devastating circumstances, and it would be unconscionable to pull the rug out from under them.”

With this proviso entrenched, the NFF supports the following overarching principles:

1. The NFF supports the concept of mutual obligation. To access any new scheme farmers must demonstrate a commitment to sustainable and self-sufficient farming through appropriate business and farm management planning.
2. Individual (rather than regional) assessments are needed to reflect differing farm exposure to climate and drought conditions. Different farms have different needs and, therefore, will be impacted differently. These assessments must be based on individual needs, not geographical lines on a map as is currently the case. This would overcome inequity issues within communities and between communities (those separated by an arbitrary boundary).
3. The Government must support farmers and rural business with the same basic social welfare safety-net available to all Australians, taking into account the particular nature of agricultural businesses.
4. Support for drought management and preparedness needs to be provided through options suitable to farmers and their particular circumstances. Embracing a range of measures, preparedness needs to be more than just spending money on infrastructure. It is about building an understanding of the working environment and utilising skills, knowledge and experience to best manage local environments.
5. The current Interest Rate Subsidy (IRS) is much-maligned, including by many farmers. While this measure has helped many good producers who, through no fault of their own, have been ravaged by drought, the NFF is open to replacing the IRS with a suite of programs consistent with management and preparedness – including risk management tools, sustainability and recovery from drought applicable to the needs of the farm sector. NFF reiterates that the current IRS mechanism and rules cannot change for those in drought. A transition to a new policy must be the approach, an arbitrary cut off would be completely unacceptable.
6. Industry and government need an emergency provision and trigger as part of the new scheme. There may be climate events beyond the control of the very best risk management and drought preparedness – catastrophes that may threaten agricultural production and regional communities. In such circumstances, what's the plan? These issues and contingencies need to be considered now not later. In such circumstances, government intervention and

support will be warranted. However, the intent of the reform is to take the sting out of those events by investing upfront in management and preparedness strategies to reduce the need for future relief measures.

7. As a principle for the future, within guidelines, these measures need to be available to all farmers, applicable to their circumstances, not just those in drought-declared areas.

“This is the framework we’ve taken to the Federal Government and each of the ingredients is essential to gain the support of the Australian farming community,” Mr Crombie said.

“Further, drought reform is just one element of agricultural policy. The best drought policy on Earth is worthless if it doesn’t correlate with water policy, environmental policy, increased research and development, taxation, economic policy and the like. The Government needs to address deficiencies in several of these areas.

“I have been upfront with Minister Burke about these issues and the NFF’s willingness to assist in developing policies for a new era in how Australia deals with drought. I have put it to the Minister that a pilot of our new drought policy is a sound approach given the complexity of the issues and on the condition that existing Exceptional Circumstance arrangements do not change.

“It’s time we stopped talking about it. It’s time to trial a new approach.”

For more information on the NFF’s drought reforms, see its 2008 submission to the Productivity Commission Draft Inquiry Report into Government Drought Support at: [Submissions to Government](#).

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