

24 October 2014

Natural Disaster Funding Arrangements
Productivity Commission
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Dear Commissioners

The National Farmers' Federation (NFF) welcomes the opportunity to comment on the Draft Report on Natural Disaster Funding Arrangements, as part of the *Productivity Commission Inquiry into the efficacy of current national natural disaster funding arrangements*.

Given drought is a major climatic factor within Australia, as outlined by the NFF and other agricultural representative organisations as part of submissions to the issues paper, the NFF is disappointed that the Commission chose not to deal with drought as part of this inquiry. The proposed shift in focus to preparedness, and a reduction in post-event support for natural disasters seems consistent with the direction drought policy has moved in recent years. For drought policy, this has disappointingly led to worse outcomes, with government at all levels not committing adequately to funding preparedness and then responding ad-hoc to drought events, rather than through a transparent framework. It would be disappointing to see the same happen to Natural Disaster Relief and Recovery Arrangements (NDRRA).

The NFF agrees with the Commission that information is critical to understanding and managing natural disaster risk. However, new drought policy has been large on rhetoric, but without any increased investment in policy areas such as tools and technologies to inform farmer decision making. The NFF would welcome increased investment by governments in the Bureau of Meteorology and related weather-related information sources, for both short-term weather accuracy also longer-term seasonal forecasting. For communication to reach intended audiences and inform decision making, increased government investment must also occur in programs such as the Managing Climate Variability Program, which is currently led by the Rural Research and Development Corporations.

A greater level of investment in information services may also increase the opportunity for the development of more weather insurance products in Australia. The scope of discussion by the Commission in the draft report regarding insurance seems limited to flood insurance, but given the lack of relevant insurance products available to Australian farmers it would be

appropriate for the Commission to further explore opportunities to increase availability of multi-peril products to farm businesses.

The NFF welcomes the Commission's focus on preparedness and mitigation measures, but strongly rejects this occurring at the expense of disaster recovery. The NDRRA provides a strong framework for cross-jurisdictional action during times of natural disaster and the core model must remain in place as a basis for recovery efforts. The Commission's statements regarding the weak case for government assistance to businesses and farmer following natural disaster events is disappointing and is strongly rejected by the NFF.

As the NFF have previously highlighted, there is a large amount of variability between agricultural commodities, but overall Australian agriculture is and remains, the most volatile sector of the Australian economy over the past four decades¹. The value of output from the agriculture sector has been almost two and a half times more volatile than the average for all the major sectors of the economy. Further, data indicates that the volatility of Australian agricultural businesses has been the second highest of any nation over the 40 year period. That is, Australian farm businesses have faced a more risky operating environment than has been the case anywhere in the world over the last 40 years. Despite this challenge, Australian farmers have consistently found productivity improvements greater than other sectors of the economy, increased their commitment to environmental stewardship and sought to meet changing community expectations.

Even though their operating environment is extremely volatile, Australian farmers are much more self-sufficient than their international competitors (with whom we compete on both an international and domestic level). At 0.2% of National GDP, Australian agriculture has the lowest level of support in the world². Accordingly, this evidence suggests that Government expectations around regular or normal business risk management practices may not be appropriate or as useful for the agriculture sector. The reality is there are many viable and profitable farm businesses that simply require a small amount of assistance to manage through an uncontrollable natural disaster event.

The Productivity Commission have previously reported that *'Agricultural activities, because they generally have a larger environmental component, are different to production systems elsewhere in the economy. Many of these physical and biological factors, such as variations in rainfall and the onset of disease, are largely outside the control of farmers, yet they can have a significant effect on the level of production, input use, prices and the performance of farms.'*³

Given the unique operating environment of Australian farmers, characterised by a highly variable climate, exposure to international market forces and minimal Government intervention, it is particularly important that natural disaster funding arrangements are effective in mitigation, resilience and recovery of natural disasters. Australian farmers do not receive direct, or indirect subsidies like international competitors and do not have access to

¹ Including Risk in Enterprise Decisions in Australia's Riskiest Businesses, Mick Keogh AFI, Farm Policy Journal vol9. No.1 Autumn 2012.

² <http://www.oecd.org/tad/agricultural-policies/monitoring-and-evaluation.htm>

³ Productivity Commission, 2005, Trends in Australian Agriculture, Research Paper, Canberra.

commercial insurance arrangements for many natural perils, so any government reduction in commitment to ensuring a safety-net following significant natural disaster events would be strongly opposed.

Farmers invest significantly in their own businesses to manage the vagaries of the weather and it is important that any Government policy settings are transparent and consistent. It is also important that all levels of Government continue to invest in effective mitigation, resilience and recovery of natural disasters. Within this context, the NFF encourages the Commission to consider the importance of ongoing Government commitment to a well-funded and transparent framework for natural disasters in Australia.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tony Mahar', written in a cursive style.

TONY MAHAR
A/g Chief Executive Officer