

# Chapter Two

## Drought assistance

### Background

2.1 At its meeting on 1 December 2014, the committee decided that it would consider drought as a natural disaster under its terms of reference. This differs from the approach taken by the Productivity Commission (PC) which excluded drought from its considerations:

The terms of reference define natural disasters as ‘naturally occurring rapid onset events that cause a serious disruption to a community or region, such as flood, bushfire, earthquake, storm, cyclone, storm surge, tornado, landslide or tsunami’. Heatwaves and drought are outside the scope of this inquiry.<sup>1</sup>

2.2 However the committee's terms of reference tasked it to inquire into the need for a fund to support rural and manufacturing industries as well as communities affected by natural disaster. In this context the committee decided that drought was the primary natural challenge facing communities dependent on rural industry.

2.3 An area is declared as being in drought based on data from the Australian Bureau of Meteorology (BoM). This declaration is based on a variety of factors, including the length of the rainfall deficiency and how it impacts water users:

Drought is a prolonged, abnormally dry period when the amount of available water is insufficient to meet our normal use. Drought is not simply low rainfall; if it was, much of inland Australia would be in almost perpetual drought. Because people use water in so many different ways, there is no universal definition of drought. Meteorologists monitor the extent and severity of drought in terms of rainfall deficiencies. Agriculturalists rate the impact on primary industries, hydrologists compare ground water levels, and sociologists define it by social expectations and perceptions.<sup>2</sup>

2.4 Extreme variability of Australia's climate and the subsequent impact on rural industries has been well-documented. For example, the National Farmers Federation (NFF) note in their Climate Change Resilience Statement that:

Australia is the world's driest inhabited continent with the most variable climate. This variability is projected to increase with the extremes becoming even more extreme, creating significant challenges for agriculture ... Australian farmers must focus on embedding climate variability as a

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1 Productivity Commission, *Natural Disaster Funding Arrangements – Draft Report*, Volume 1, September 2014, p. 4.

2 Australian Bureau of Meteorology, *What is Drought*, available at: [http://www.bom.gov.au/climate/drought/http://www.bom.gov.au/climate/drought/ - tabs=About-drought](http://www.bom.gov.au/climate/drought/http://www.bom.gov.au/climate/drought/-tabs=About-drought) (accessed 22 April 2015).

normal business “risk” decision, whilst maintaining a focus on productivity and profitability in the short to medium term. A resilient farm is likely one that is profitable, sustainable (given its resources), and can effectively manage variations in environment, financial and economic aspects of its business, such as commodity prices and input costs.<sup>3</sup>

2.5 Likewise the Parliamentary Research Service paper by Alan Burdon, *Dry Paddocks, Damp Policies: Drought Assistance Strategies and their effectiveness*,<sup>4</sup> noted that the twentieth century began in the grip of one of the worst droughts on record only to be followed by a further six extreme droughts. More recently the Australian Bureau of Statistics found that from 2001 to 2009 eastern Australia has experienced its driest period on record:

The period from 2001 to 2009 has been the driest on record over parts of eastern Australia, meaning that many large water storages did not fully recover from the 2002–03 drought prior to the onset of the 2006–07 drought. While rainfall returned to near normal levels in the second half of 2003 following the severe drought of 2002–03, there were no periods of sustained above average rainfall in most of the region from early 2001 to the summer of 2009–10.<sup>5</sup>

2.6 Since 1990 Australian governments have preferred a long-term management approach to drought, rather than taking the position that drought should be treated as a natural disaster. This means that now the onus is on those affected by rainfall deficiencies as acknowledged by the NFF above. Successive reviews have cemented this approach, with government intervention focussed on supporting long-term drought preparedness and mitigation rather than providing temporary relief.

2.7 One of the most recent and comprehensive reviews was undertaken in 2008 by the PC under direction from the Assistant Treasurer, the Hon. Chris Bowen MP (The PC's Drought Report). This report brought into focus the previous two decades of drought policy and found that many of the policies introduced to alleviate the impact of drought had not met their objectives of helping farmers ‘improve their self-reliance, preparedness and climate change management’.<sup>6</sup> A number of policy reviews are set out in Table 1 below.

2.8 The PC also found that the majority of farmers did not access available government assistance in drought-stricken areas and that over two thirds of the designated assistance was not spent. It also found that most farmers are in fact sufficiently self-reliant to manage climate variability.<sup>7</sup>

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3 National Farmers Federation, Climate Change Resilience Statement, [www.nff.org.au/get/4216.pdf](http://www.nff.org.au/get/4216.pdf), (accessed 22 May 2015).

4 A. Burdon, *Dry Paddocks, Damp Policies: Drought Assistance Strategies and their effectiveness*, Research paper, 6, 1995-96, Parliamentary Library, Canberra, 1995, p. 3.

5 Australian Bureau of Statistics, *1301.0 - Year Book Australia, 2012*, available at: <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Feature~Australia's%20climate~143> (accessed 1 May 2015).

6 Productivity Commission, *Government Drought Support*, No. 46, 27 February 2009, p. xx.

7 Productivity Commission, *Government Drought Support*, No. 46, 27 February 2009, p. xx.

## Drought policy in Australia

**Table 1** Drought policy reviews<sup>8</sup>

<i>Review</i>	<i>Key Recommendations/Findings</i>
1990 — Drought Policy Review Task Force <i>Final Report</i>	<ul style="list-style-type: none"> <li>• Drought separate from natural disaster relief</li> <li>• Governments should implement a National Drought Policy</li> <li>• Against the use of transaction-based subsidies/rebates</li> <li>• State/territory assistance for drought purposes be provided through general concessional loans</li> <li>• Provision of grants or interest free loans be limited to extreme situations</li> </ul>
1997 — Drought Policy Task Force <i>Review of the National Drought Policy</i>	<ul style="list-style-type: none"> <li>• Transaction-based subsidies and interest rate subsidies be phased out</li> <li>• Improve farm financial and land resource planning via education and training programs</li> <li>• Encourage farmers to build cash reserves during good seasons to prepare for downturns</li> <li>• Research and development on the effects of prolonged drought</li> <li>• Introduce a Farm Family Re-Start Scheme, targeted at farmers unable to access payments from other sources</li> <li>• Counselling services be managed by state governments and provided at an early stage of drought</li> <li>• Amend and combine Income Equalisation Deposits (IEDs) and Farm Management Bonds (FMBs)</li> </ul>
1997 — McColl et al. <i>Mid-term review of the 1992 Rural Adjustment Scheme (RAS 92)</i>	<ul style="list-style-type: none"> <li>• Remove interest rate subsidies and grants to farm businesses for productivity improvement or for EC support</li> <li>• Replace Rural Adjustment Scheme (RAS) 92 with an improved scheme addressing the issues of management skills, farmer re-establishment, and savings and welfare</li> <li>• Introduce FarmBIS and the Farm Re-establishment Scheme</li> <li>• Introduce a single instrument combining IEDs and FMBs</li> <li>• Higher priority should be accorded to research on climate change, climate variability and climate prediction</li> </ul>
2004 — Drought Review Panel <i>Consultations on National Drought Policy</i>	<ul style="list-style-type: none"> <li>• Most stakeholders would support a shift in government focus towards drought preparedness measures at the expense of business support</li> <li>• Exceptional Circumstances Relief Payment (ECRP) was valued highly and regarded as being necessary during drought</li> <li>• Stakeholders less in favour of business support Exceptional Circumstances Interest Rate Subsidy (ECIRS) and fodder/transport subsidies — overall, stakeholders thought such assistance encouraged debt and supported the less prepared</li> <li>• Transaction-based fodder and freight subsidies seen to have a detrimental effect on farmers in other states (most stakeholders considered these subsidies should cease)</li> <li>• Exceptional Circumstance (EC) process as a whole seen as too demanding, complex and confusing</li> <li>• Off-farm income and assets limits for accessing EC assistance seen as restrictive</li> <li>• Criticism by stakeholders about perceived differences in administration of ECIRS between states</li> <li>• FMD and FarmBis schemes strongly supported</li> <li>• Rural Financial Counselling service regarded highly</li> </ul>
2006 — Agriculture and Food Policy Reference Group <i>Creating our Future</i>	<ul style="list-style-type: none"> <li>• Phasing out of interest and other transaction-based subsidies by the end of 2010</li> <li>• Maintain FMDs</li> </ul>

8 Productivity Commission, *Government Drought Support*, No. 46, 27 February 2009, p. 88.

2.9 The PC made a number of recommendations intended to provide a long-term policy foundation that included:

- (a) Research, development, extension, professional advice and training to improve farmers' business management skills and build self-reliance warrant significant government funding where they deliver a demonstrable community benefit;
- (b) Farm Management Deposits, notwithstanding their use for tax management, have encouraged farmers to save and to be more self-reliant, and should be retained;
- (c) All farm households in hardship — regardless of cause or location — should have access to an income support scheme that is designed for farming circumstances;
- (d) The NDP [National Drought Policy] should be replaced with extended objectives for Australia's Farming Future; and
- (e) An intergovernmental agreement with independent monitoring and financial incentives for complying with agreed commitments should be established.<sup>9</sup>

### ***Drought policy***

2.10 Up until 1989 Commonwealth drought assistance was provided under the Natural Disaster Relief Arrangements (NDRA) and each state and territory developed its own drought assistance policies, generally within the context of the NDRA.

2.11 In 1989, the Commonwealth Government removed drought from the NDRA. Its removal was brought about by concerns that temporary relief during droughts was not appropriate and that drought declarations were being made either ad-hoc or too quickly. The Commonwealth was also concerned with the high cost of administering drought relief and the way that some drought policies discriminated against farm managers who did prepare for dry times<sup>10</sup>. Additionally, concerns were also voiced about funds possibly being misused for political purposes.<sup>11</sup>

2.12 Following the removal of drought from the NDRA, the Commonwealth established the Drought Policy Review Task Force in 1990. The Task Force noted similar concerns including that many drought relief schemes were more focused on obtaining assistance and less about mitigating and living with drought.

2.13 The Task Force also noted that drought could not be objectively or universally defined and there could be no agreed distinction on the severity of drought:

The Task Force concluded that it was not possible to develop an objective, scientific, and universally accepted definition of drought and rejected the notion of being able to identify the severity of a drought. It concluded that: Any distinction between lesser and extreme droughts in this context would

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9 Productivity Commission, *Government Drought Support*, No. 46, 27 February 2009, p. xx.

10 A. Burdon, *Dry Paddocks, Damp Policies: Drought Assistance Strategies and their effectiveness*, Research paper, 6, 1995-96, Parliamentary Library, Canberra, 1995, p. 3.

11 Productivity Commission, *Government Drought Support*, No. 46, 27 February 2009, pp 89-90.

be completely arbitrary and inappropriate. (McInnes et al. 1990, vol. 2, p. 20).<sup>12</sup>

2.14 The Task Force considered that the main factor that sets drought apart from the concept of aridity or variations in regular rainfall, is that those areas considered affected by drought are being used for commercial or social purposes that depend on certain levels of rainfall.<sup>13</sup>

2.15 Nevertheless, the Task Force did develop a working definition that:

[D]rought represents the risk that existing agricultural activity may not be sustainable, given spatial and temporal variations in rainfall and other climatic conditions.<sup>14</sup>

2.16 On the basis of this definition, the Task Force proposed that drought should be considered as 'a recurring, natural condition and not a rare climatic aberration' and that a new national policy approach be adopted that focuses on 'the roles of producers and governments in implementing self-reliant risk management approaches to drought.'<sup>15</sup>

2.17 Two years later, in 1992, the Senate Standing Committee on Rural and Regional Affairs was tasked with reporting on the Task Force's recommendations. In contrast to the Task Force's view that there should be no distinction between different degrees of drought, the Committee opted instead to make a distinction on the degrees of drought severity on the basis of circumstances that it could reasonably be planned for, and exceptional circumstances that no amount of planning could mitigate.<sup>16</sup>

2.18 Following the Task Force report and the Senate committee's response, the National Drought Policy (NDP) was developed. The NDP's objectives, as recommended by the Task Force, were to:

- encourage primary producers and other sections of rural Australia to adopt self-reliant approaches to managing for climatic variability
- maintain and protect Australia's agricultural and environmental resource base during periods of extreme climate stress
- ensure early recovery of agricultural and rural industries, consistent with long-term sustainable levels.<sup>17</sup>

2.19 While the NDP adopted the position that responsibility for managing drought risk lies with the farmers, it also incorporated the distinction between normal and severe drought events as recommended by the Senate Rural and Regional Affairs

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12 Productivity Commission, *Government Drought Support*, No. 46, 27 February 2009, pp 89–90.

13 A. Burdon, *Dry Paddocks, Damp Policies: Drought Assistance Strategies and their effectiveness*, Research paper, 6, 1995-96, Parliamentary Library, Canberra, 1995, p. 4.

14 A. Burdon, *Dry Paddocks, Damp Policies: Drought Assistance Strategies and their effectiveness*, Research paper, 6, 1995-96, Parliamentary Library, Canberra, 1995, p. 4.

15 Productivity Commission, *Government Drought Support*, No. 46, 27 February 2009, pp 89–90.

16 Productivity Commission, *Government Drought Support*, No. 46, 27 February 2009, pp 90–91.

17 Productivity Commission, *Government Drought Support*, No. 46, 27 February 2009, p. 91.

Committee through the Exceptional Circumstances (EC) provisions that were introduced as part of the National Drought Policy (NDP) announced in 1992.

### ***Exceptional Circumstances***

2.20 The exceptional circumstances concept as a trigger for assistance was a feature of government drought policy until 2013. The concept was predicated on the distinction between normal and severe drought conditions. Due to there being no objective definition of drought, the NDP incorporated criteria for severe drought which categorised it as being exceptional, based on meteorological *and* economic factors. For a drought to meet these criteria, it must meet the following conditions:

- Be rare, in the sense that they do not occur more than once on average over a 20 to 25 year period;
- Result in a rare and severe downturn in farm income over a prolonged period of time (12 months or more); and
- It cannot be planned for or managed as part of a farmer's normal risk management strategies.<sup>18</sup>

2.21 The criteria placed the onus on the farmer to manage all but the most extreme circumstances, as well as ensuring that assistance is only provided in circumstances where a tangible economic impact on the farming business can be established.

2.22 The introduction of the NDP also dovetailed with the redeveloped Rural Adjustment Scheme (RAS), the Farm Household Support Scheme (FHSS) and the Farm Management Bond Scheme (FMB). The RAS developed out of the Rural Reconstruction Scheme which was introduced in the 1970s to assist farmers to either improve their farms, provide short term assistance to maintain the farm, or to leave the farm. The RAS was subject to review in 1992 with a greater emphasis on sustainability and management skills.<sup>19</sup>

2.23 The FHSS was intended to provide household support at the equivalent rate of the Jobsearch allowance to non-viable farmers where they had been refused commercial financing and had difficulty meeting living expenses.<sup>20</sup> The FMB provided assistance in the form of interest rate subsidies and tax breaks.<sup>21</sup>

2.24 Aside from these programs, drought assistance measures have evolved into a plethora of schemes and time-limited programs to tackle particular aspects of hardship borne by farmers.

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18 Productivity Commission, *Government Drought Support*, No. 46, 27 February 2009, p. 106.

19 Malcolm, B et al, *The Rural Adjustment Scheme, Its Role, Operation and Effectiveness*, 2000, pp 10–11.

20 Productivity Commission, *Government Drought Support*, No. 46, 27 February 2009, p. 92.

21 ABC Rural, *Timeline: droughts and Australian drought policy 1895-2014*. Available at: <http://www.abc.net.au/news/rural/specials/drought-timeline/#12> (accessed 4 May 2015).

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## Current drought assistance policy

2.25 Drought declaration has traditionally been the responsibility of state governments which take into account a variety of factors, including rainfall deficiencies, in determining an area to be drought affected (based on data provided by the BoM). This declaration can include a declaration of Exceptional Circumstances if required, which in turn triggers a range of assistance to those affected, which can include retrospective support. However, a significant change occurred in drought policy regarding declarations, and many other aspects of drought, in 2013 with the introduction of the 2013 Intergovernmental Agreement on National Drought Program Reform (IGA).<sup>22</sup>

2.26 The IGA moved away from EC declarations, with the NSW Minister for Primary Industries citing the controversy over the equity of the EC model:

There's no doubt that in the past there has been a lot of concern about the former Exceptional Circumstances model...Clearly that system was out of date and unfair.<sup>23</sup>

2.27 The objectives of the IGA agreed by the Commonwealth and all the states and territories are to:

- assist farm families and primary producers adapt to and prepare for the impacts of increased climate variability
- encourage farm families and primary producers to adopt self-reliant approaches to manage their business risks
- ensure that farm families in hardship have access to a household support payment that recognises the special circumstances of farmers
- ensure that appropriate social support services are accessible to farm families
- provide a framework for jurisdictions' responses to needs during periods of drought.<sup>24</sup>

2.28 These objectives are founded on the set of principles agreed in April 2011 by the Standing Council on Primary Industries. The principles set out the case for reform of drought policy:

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22 Department of Agriculture, *Intergovernmental Agreement On National Drought Program Reform*, May 2013. Available at: <http://www.agriculture.gov.au/ag-farm-food/drought/drought-policy/drought-program-reform/iga-national-drought-program-reform> (accessed 1 May 2015).

23 ABC News, *Farmers unhappy with new national drought policy*. Available at: <http://www.abc.net.au/news/2013-05-03/government-announces-new-national-drought-policy/4667782> (accessed 4 May 2015).

24 Department of Agriculture, *Intergovernmental Agreement On National Drought Program Reform*, May 2013. Available at: <http://www.agriculture.gov.au/ag-farm-food/drought/drought-policy/drought-program-reform/iga-national-drought-program-reform> (accessed 1 May 2015).

Council reconfirmed the principles for drought policy reform that would enable farmers to move from crisis management to risk management and preparedness. The principles are:

- there should no longer be Exceptional Circumstances (EC) declarations or 'lines on maps'. Instead, governments should focus on addressing the specific needs of farming families, farming businesses and farming communities;
- acknowledgement that drought is just one of a number of hardships that can adversely impact farmers'
- recognition of the important role of farmers as the nation's food producers;
- future farm family welfare assistance should require a level of mutual responsibility;
- for access to the income support system, farming families should have a temporary period of exemption from the normal assets tests for farm assets, but otherwise receive the same access rights as the wider community;
- government farm business support should assist farming businesses plan and prepare for the future. Farm business support will be based on a willingness by those businesses to prepare for the impacts of drought and climate change;
- the role of farmers in natural resource management and their role in maintaining vibrant rural communities;
- the importance of maintaining and supporting the natural resource base during drought and climate change;
- government policies and programs should support farming communities to prepare for drought and enhance their long term sustainability and resilience.<sup>25</sup>

2.29 However, the reform proposals have not been welcomed by all stakeholders. The NSW Farmers President said that while they welcomed the concept of preparedness, the process of reform was taking too long and having a direct impact on farmers across the state:

We welcome preparedness and we welcome the concept of that... but we also need a strategic approach... so that we can have some certainty as we head into these difficult weather conditions about exactly what arrangements will be in place.<sup>26</sup>

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25 Primary Industries Ministerial Council, *Communiqué PIMC 19*, 15 April 2011. Available at: <http://www.mincos.gov.au/communiqués/documents/pimc/pimc19.pdf> (accessed 1 May 2015).

26 ABC News, *Farmers unhappy with new national drought policy*. Available at: <http://www.abc.net.au/news/2013-05-03/government-announces-new-national-drought-policy/4667782> (accessed 4 May 2015).



2.30 The National Farmers' Federation submitted that an adequate replacement for the Exceptional Circumstances model had not been put in place and has resulted in an ad-hoc and inconsistent response to drought:

Concerning specific drought assistance arrangements, a lack of clear and consistent commitment from all levels of government has been witnessed since the dismantling of the Exceptional Circumstances framework without a suitable replacement. This has disappointingly led to worse outcomes, with government at all levels not committing adequately to funding preparedness and then subsequently responding ad-hoc to drought events, rather than through a transparent and consistent framework. The NFF believes it is important that the governments provide drought assistance to businesses in a consistent, structured manner that places sufficient effort on preparedness, in-event support and recovery.<sup>27</sup>

2.31 AUSVEG, the national peak industry body representing Australian vegetable and potato growers, was critical of the decision not to treat drought as a natural disaster for the purposes of determining financial relief:

The devastating effects of ongoing drought are undeniable, and while Australia's climate necessarily requires that farms account for dry spells as part of their business risk management, a period of declared extreme drought should be considered a natural disaster...<sup>28</sup>

2.32 AUSVEG also contend that \$6.5 billion spent through the Natural Disaster Relief and Recovery Arrangements (NDRRA), which superseded the NDRA, did not address the real threat to the livelihoods of vegetable growers in Australia:

... the NDRRA do contain a significant flaw: they do not cover drought. The vegetable growers of Australia are far more likely to have their livelihoods injured by prolonged drought than a meteorite strike, but under the NDRRA, they are protected against the latter and not the former.<sup>29</sup>

2.33 Graingrowers also submitted that prolonged drought is the 'pre-eminent current concern to the grain industry'.<sup>30</sup> However their submission offered suggestions aimed at mitigating the impact of drought rather than providing post-drought relief:

- Assistance with preparedness for drought is preferable to after the fact relief.
- Development and support of a Multi-Peril Crop Insurance scheme with government backing is an efficient way for support to be provided, and it has precedents internationally.
- Subsidised finance (i.e., interest rate at market rate minus an allowance), so that it recognises the special conditions around

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27 National Farmers' Federation, Submission No. 9, pp 1–2.

28 AUSVEG, *Submission No. 7*, p. 6.

29 AUSVEG, *Submission No. 7*, p. 5.

30 GrainGrowers, *Submission No. 11*, p. 2.

maintaining agricultural production but is still linked to market signals, is preferable to unlinked support.<sup>31</sup>

2.34 GrainGrowers also recommended that any support should take into account 'the nature of farm ownership and farm asset values', and be contingent on farmers adopting 'best management practices/using effective farm business decision technology'.<sup>32</sup>

2.35 The NFF were not of the view that drought should be addressed in the same way as other natural disasters. The Federation proposed that drought assistance requires a bespoke strategy that recognises the increased frequency and longevity of drought events:

We certainly want to see a natural disaster mechanism and we want to see a specific drought mechanism. We do not want to see it bundled in with natural disasters. We have a real fear that if it is bundled in with natural disasters any drought relief may simply go to the biggest cause in the biggest area and not actually enable farmers to cope with something that is occurring on a more frequent basis. We would like to see consideration given to what that drought support would look like.<sup>33</sup>

2.36 There are a number of significant state and federal drought management programs already in place. Many of these purport to assist in long-term mitigation strategies to better prepare farmers for the impact of drought. Western Australia for example manages both state and federal programs through the Rural Business Development Corporation of Western Australia (RBDC).

2.37 The RBDC informed the committee of the assistance available to farmers affected by drought in WA. The RBDC administers a number of programs on behalf of both the Government of Western Australian and the Federal Government. The state programs include:

**Farm Business Assessment Scheme** — A State Government scheme which provides grants of up to \$10 000 to farm businesses in drought affected shires to have their business assessed by an external professional.

**Farm Exit Support Grant** — A State Government scheme which provides a \$20 000 grant to farm businesses who have decided to exit farming.

2.38 The federal assistance programs administered by the corporation are:

**Farm Finance Concessional Loan Scheme (FFCLS)** — A Federal Government scheme that aims to assist farm businesses that are experiencing debt servicing difficulties but are considered commercially viable in the longer term, by providing loans to undertake productivity enhancement activities. Recently, this scheme in WA was enhanced by the inclusion of a debt restructuring component, and an increase of the

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31 GrainGrowers, *Submission No. 11*, p. 2.

32 GrainGrowers, *Submission No. 11*, p. 2.

33 Mr Simon Talbot, National Farmers' Federation, *Committee Hansard*, 5 February 2015, p. 13.

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maximum loan amount to \$1 million. A total of \$50 million of funding is available.

**Drought Concessional Loans Scheme (DCLS)** — A Federal Government scheme that aims to assist farm businesses recover from an existing drought and prepare for future droughts and return to viability in the longer term. Under the scheme, \$20 million is available to drought affected farmers in Western Australia.<sup>34</sup>

2.39 However the RBDC reported that there was a low uptake for both federal schemes. Over the two rounds of FFCLS funding from January to April 2014 and July 2014 to April 2015 only 25 of the total 53 applications received were approved. This funding amounted to \$5.19 million, of the available \$50 million allocated.<sup>35</sup>

2.40 Similarly, DCLS, which opened in September 2014 and closes in June 2015, has had very low take up. As of January 2015, the fund had only received eight applications and had only approved one.<sup>36</sup>

2.41 According to RBDC there were a number of reasons why both the application and the approval rates were so low. These reasons included the record WA grain harvest in 2013 which prevented many previously eligible farm businesses from meeting the criteria for either fund; farm businesses being unable or unwilling to take on more debt; and that the BoM methodology does not take WA's Mediterranean climate into account:

This [DCLS] Scheme is reliant on the Bureau of Meteorology (BoM) rainfall deficiency data, based on annual rainfall figures. In Western Australia, as we have a Mediterranean climate with only a six month growing season, the 12–24 month BoM data does not suit the Western Australian short and single growing season. Accordingly, the BoM maps for WA shows areas that have not experienced drought as being in severe drought, and other areas that have experienced severe drought are shown as having experienced 'normal' seasons. While the Scheme is a national scheme, the BOM data has disadvantaged some Western Australian farm businesses, which in turn has made it hard to 'market' the Scheme to farmers.<sup>37</sup>

2.42 This explanation was expanded on by the Western Australian Farmers Federation who suggested that this failure of the methodology was also responsible for the 'failure' of the Exceptional Circumstances model in WA:

Maybe I should go back and explain why the EC did not work, because we are actually seeing the present circumstances not working for much the same sort of reasons and that is that, especially in the south-east land

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34 Rural Business Development Corporation of Western Australia, *Submission No. 16*, pp 2–3.

35 Rural Business Development Corporation of Western Australia, *Submission No. 16*, pp 2–3.

36 Rural Business Development Corporation of Western Australia, *Submission No. 16*, p. 2.

37 Rural Business Development Corporation of Western Australia, *Submission No. 16*, p. 2.

division, we have very much a Mediterranean climate where we depend on rain falling in a fairly concise time...

One of the problems we have with the present system is that the rainfall outside that time is recognised. Therefore, people who are really deficient of rain in that growing period have been put out of, or culled out of, the drought section because they actually—especially last year—got rain during harvest and same with the year before. Although some of that rain in the summer can be useful if it falls in late summer, but if it falls around about harvest time it is virtually no use even with the amount of spraying and whatever that goes on these days.<sup>38</sup>

2.43 Support at both state and federal government level continues to develop. The federal government currently provides a number of assistance measures including:

- Farm Household Allowance
- Farm Finance Concessional Loans Scheme
- Farm Management Deposits (FMD)
- Taxation measures
- Rural Financial Counselling Service (RFCS).<sup>39</sup>

2.44 There have also been a number of funding announcements in recent months to support these programs. In December 2014 the Minister for Agriculture, the Hon. Barnaby Joyce MP, announced \$100 million of new funding for Drought Recovery Concessional Loans. Loans of up to \$1 million will be made available at 3.21 per cent over a 10-year period. These loans are in addition to the existing Farm Finance and Drought Concessional Loans Schemes which have already approved loans to 286 farm businesses in Queensland and NSW, valued at over \$150 million.<sup>40</sup>

2.45 On 9 May 2015 a further series of funding announcements was made to continue funding for concessional loan schemes, as well as other assistance measures:

- \$250 million in 2015–16 to continue existing drought concessional loans and drought recovery concessional loans schemes.
- \$35 million for local infrastructure and employment projects that provide options for people whose work opportunities have been adversely affected by drought.
- \$25.8 million for programmes to manage pest animals and weeds in drought affected areas.

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38 Mr Dale Park, President, WA Farmers Federation, *Committee Hansard*, 4 February 2015, p. 25.

39 Australian Government, Department of Agriculture, *Drought assistance*, Available at: <http://www.agriculture.gov.au/ag-farm-food/drought/assistance> (accessed 11 May 2015).

40 The Land, 4 December 2014, available at: <http://www.theland.com.au/news/agriculture/agribusiness/general-news/another-100m-in-drought-loans/2718992.aspx> (accessed 1 June 2015).

- \$20 million to extend and expand existing social and community support, including mental health support and counselling, for drought-affected farming families and communities.
- \$1.8 million available to fund additional rural financial counsellors to meet increased demand during periods of drought.<sup>41</sup>

2.46 The committee also notes the proposals announced in the 2015-16 Budget, and subsequently contained in the Tax Laws Amendment (Small Business Measures No. 2) Bill 2015, introduced on 4 June 2015, which will provide for accelerated depreciation for primary producers. This will allow farmers to deduct amounts for capital expenditure on water facilities, horticultural plants, fodder storage assets and fencing assets.<sup>42</sup>

2.47 However it is unclear to the committee whether this new funding will address the concerns of farmers' advocates that there are significant barriers preventing farmers from accessing the assistance measures. The NFF suggested that the system needs to be 'reworked', commenting that a more structural approach should be taken:

I would like to see it reworked. I think it can be sporadic; it is hard to compare event with event; often it can be fuelled by media. It is [a] horrible topic to talk about, but it can be fuelled by media, who may overindex in a particular geographic area, and the TV may drive the outcome. We think it needs more structure and more clarity of purpose...<sup>43</sup>

2.48 AUSVEG were also concerned that current assistance efforts were sometimes hampered by political considerations, arguments between different levels of government and the lack of a coherent strategic purpose:

Last year the Productivity Commission referred to government disaster relief responses as 'ad hoc and emotionally and politically charged'. An independently managed Commonwealth fund would ensure that when rural industries were at their most vulnerable they were not left exposed to the political motives of state or local governments. This is exemplified by the current lack of coverage for South Australia in the Drought Concessional Loans Scheme in which the state and federal governments are blaming each other for applications not being opened. This situation is unacceptable considering the federal Treasurer has acknowledged that drought relief is a complete natural disaster and the Minister for Agriculture believes drought is an unmanageable crisis.<sup>44</sup>

2.49 Mr Finlay from the NFF suggested in the media that those most in need of assistance were often considered ineligible for the current assistance packages, leaving much of the available funding unspent:

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41 Australian Government, Department of Agriculture, *Drought assistance*, Available at: <http://www.agriculture.gov.au/ag-farm-food/drought/assistance> (accessed 11 May 2015).

42 Tax Laws Amendment (Small Business Measures No. 2) Bill 2015, Schedule 2, Item 2.

43 National Farmers' Federation, *Committee Hansard*, 5 February 2015, p. 17.

44 AUSVEG, *Committee Hansard*, 5 February 2015, p. 32.

Some of these businesses, because they have been so smashed, are deemed to be non-viable so they're deemed to not be able to service the loan or pay it back in future, he said.

Mr Finlay said it was simply not possible for many farmers to take on a concessional loan which must be paid back in five years and said the Government needed to extend all loan periods to 15 years.

He said there needed to be greater cooperation between Government lending authorities and commercial banks to streamline the lending process and a relaxation in loan eligibility criteria.<sup>45</sup>

2.50 The NFF were also supportive of recent measures to improve water infrastructure, which has the additional benefit of supporting local communities:

In these remote communities the actual council, the local government authority, is the major employer and a lot of businesses rely on that and a lot of people in that community rely on that for income, Mr Finlay said.

So to actually put money into these communities around infrastructure projects, we strongly support that.<sup>46</sup>

## Insurance

2.51 Insurance coverage, and the adequacy of insurance policies to cover drought, was raised throughout the inquiry. The NFF highlighted the importance of technology to improve the quality of data to inform insurance risks and eventual premium calculations:

We have—again, I will not name names—some very excellent insurers who are working with farmers in the long term and we have others who may treat them simply like a city based insurance package, which does not really work. The National Farmers' Federation as an entity must develop the top two or three ag insurance companies in Australia and work collaboratively to identify and alleviate the gaps, the unknowns and the risks. However, having said that, technology is paramount. Often drought and flood are the greatest insurance risks. If we can identify, particularly around the drought areas, things that we are doing to mitigate the risk as a farmer collective in given geographic areas, we believe that we can get a better insurance bundle from a specific company.<sup>47</sup>

2.52 AUSVEG contended that there is a gap in the insurance market for farmers to cover themselves for risks that may impact production:

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45 ABC News, *Government red tape tying up \$400 million in drought relief*, National Farmers' Federation says, 7 May 2015, available at: <http://www.abc.net.au/news/2015-05-07/drought-relief-red-tape-national-farmers-federation/6451552> (accessed 11 May 2015).

46 ABC News, *Government red tape tying up \$400 million in drought relief*, National Farmers' Federation says, 7 May 2015, available at: <http://www.abc.net.au/news/2015-05-07/drought-relief-red-tape-national-farmers-federation/6451552> (accessed 11 May 2015).

47 National Farmers' Federation, *Committee Hansard*, 5 February 2015, p. 16.

There is also currently a large gap in the market for agricultural producers to insure themselves against production risk, and that gap includes coverage for drought and extreme rainfall.<sup>48</sup>

2.53 According to AUSVEG it was not just drought that was very difficult to insure against, but flood was similarly problematic, especially given that many farms are located on flood plains by necessity:

I will step into the next category that has affected us and that is flood. We have lived on a flood plain all our life. Our farming practices, usually high-intensity vegetable-farming enterprises, end up on flood plains. So, for a start, insurers do not want to look at you because you are on a flood plain. But, in saying that, even if there were an insurance policy that would cover you, the cost of premiums would outweigh whatever we would get out of it. Whatever we have seen over the past with insurance claims, there seems to be a loophole somewhere.<sup>49</sup>

## Research and development

2.54 The use of technology was widely agreed to be crucial in alleviating the impact of drought. As discussed above, the NFF suggested that improvements in the quality of data can assist in more targeted mitigation, as well as improving outcomes in insurance packages. The Federation also proposed making the most recent climatic data available to farmers to allow them to make the best choices around their pasture management:

[F]armers often operate somewhat in isolation and they do not have the capital resources to apply the best technology. But there is a growing demand amongst the farmer base, particularly around climate change and pasture management. If they could be given the best Google Maps data, the best Bureau of Meteorology data, the best intersects around solar, evaporation and wind to help them spray, to help them plan and to help model the land, that is the best tool we could possibly provide over the next 20 years...

[T]here must be something done around commercial climate technology being applied to farmer-driven outcomes at a farmer level, where the first thing the farmer does when he wakes up in the morning is he says, 'Do you know what? I am looking at my short-term weather forecast, my evaporation rates, rainfall and wind, and I am not going to plant today, I am not going to spray the weeds today.' Or, 'I am going to have a frost in three days—here is my risk matrix and I can now make a calculated decision that the risk of frost is too great, so I am going to wait a week.'<sup>50</sup>

2.55 Providing farmers with the tools to manage and prepare for drought is the NFF's principal policy position. In addition to providing access to climatic data, the

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48 AUSVEG, *Committee Hansard*, 5 February 2015, p. 32.

49 AUSVEG, *Committee Hansard*, 5 February 2015, p. 32.

50 National Farmers' Federation, *Committee Hansard*, 5 February 2015, p. 16.

NFF also highlighted the value in using the best available technology to manage crops, which can have a dramatic impact:

For us there is something around the technology, the best available farmer technology in terms of long-term forecasting and short-term forecasting. To give you an example, in one of our major farming areas we have been monitoring the migration of crop growing. The seasons have actually changed, so you now put your crops in two weeks later and harvest them three weeks earlier. That is the way the scenario works. A number of farmers were not aware of that technology and therefore suffered frosts at one end of the cycle. The point I am trying to make is that giving farmers the tools and the ability to self-manage, as long as they meet certain criteria and work as a collective within regions, is by far the better outcome.<sup>51</sup>

### ***Committee view***

2.56 The committee recognises that drought relief is a technologically and administratively challenging policy arena. This includes the difficulty in developing a determinative assessment of what a drought is, and the past drought declaration process which has been highly controversial for many years in Australia.

2.57 Throughout the inquiry the committee was presented with views from a number of stakeholders on whether the current policy model to alleviate the impact of drought is appropriate, or whether a reworking of drought policy should be considered. This is an especially important consideration in the context of the Australian environment that constantly presents challenges in how to maintain and potentially increase the productivity of rural industries that are reliant on the land.

2.58 The Productivity Commission's recent proposal to separate some forms of drought assistance from other types of natural disaster assistance continues a policy evolution that began in 1990. Since then, a number of reviews have consolidated the approach that drought requires a very different response than other natural disasters.

2.59 The committee notes that drought is considered to be a recurring, natural condition and not a rare climatic aberration and that this requires a long-term strategic approach. Such an approach naturally places greater onus on the land manager to implement self-reliant risk management approaches to mitigate and prepare for the continuous effects of drought.

2.60 Acceptance of this approach is not universal—particularly at the industry level. The committee heard evidence that drought, and the devastating impact it can have on the sector, is still the primary natural disaster concern of rural stakeholders. While the committee does not seek to diminish the impact drought has on those affected, it recognises the underlying principle that self-reliant risk management of drought will require a different response to the short-term post-disaster relief often associated with other types of natural events.

2.61 The approach of the Intergovernmental Agreement on National Drought Program Reform in 2013 to remove the Exceptional Circumstances (EC) classification

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51 National Farmers' Federation, *Committee Hansard*, 5 February 2015, p. 15.



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is one that is supported by the committee. The EC model was controversial and often resulted in seemingly arbitrary decisions based on 'lines on maps', rather than concentrating on the impact of those affected and how best this could be prevented, or alleviated.

2.62 Replacement of this model with one more focussed on building greater resilience that encompasses sustainable approaches for rural industries is an option that the committee understands is more broadly accepted as best practice. However the committee is aware there remains criticism over whether the present response has been coherent.

2.63 Considering the constant calls from the sector for assistance, the committee is very concerned about the unusually low levels of application for, and awarding of, government funding initiatives, such as concessional loans. Given that there are so few successful applicants, the committee questions the validity of the schemes' intent to assist the development of self-reliant management practices.

2.64 Some of the criticism levelled at the assistance schemes relates to the onerous administrative task of establishing eligibility.<sup>52</sup> Other criticism relates to the exclusion from assistance due to misunderstandings in meteorological data as described at paragraph 2.41. One of the significant eligibility criteria barriers to accessing support was the requirement that a farmer had to hold approximately 70 per cent equity in their farm.<sup>53</sup>

2.65 The committee considers that after many years of no income due to the impact of drought this requirement would appear to be overly onerous. The committee found that a compounding issue with equity ratio calculation is more often than not, that the calculation is taken during the drought years when funds are sought, not across the years to average or 'smooth' out the effects of the good and the bad years as stated by the NFF:

You should take a loan to equity ratio over a seven-year or five-year time horizon to get the good, the bad and the average years modelled out. What actually happens is that they say, 'Sorry, you are down to XYZ 20 per cent equity and it is time to move on.'<sup>54</sup>

2.66 This treatment of equity is especially significant if policy makers truly accept the rationale that drought is a 'recurring, natural condition and not a rare climatic aberration'.<sup>55</sup>

2.67 As indicated by the NFF, the ratio issue also highlights the scheme's loan repayment terms which are generally five year terms. This issue really goes to the intent and appropriateness of the scheme design. The sector has repeatedly voiced its

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52 Queensland Farmers' Federation, *Submission No.6*, p. 2.

53 <http://www.abc.net.au/news/2015-05-25/grass-roots-drought-policy-solutions-from-farmers-in-north-west/6493366> (accessed 25 May 2015).

54 Mr Simon Talbot, National Farmers Federation, *Committee Hansard*, 5 February 2015, p. 14.

55 Productivity Commission, *Government Drought Support*, No. 46, 27 February 2009, p. 90.

concern that the terms are insufficient in length. The NFF among others, have consistently said that 'it is simply not possible for many farmers to take on a concessional loan which must be paid back in five years... Government needed to extend all loan periods to 15 years'.<sup>56</sup>

2.68 A final comment regarding the administration of assistance schemes was by the Director of AUSVEG, Mr William Bulmer, and relates to the efficacy of the delivery of the assistance once all the eligibility criteria have been satisfied. This comment encapsulates other similar comments from across the assistance initiatives:

For one of the droughts we obtained, through Rural Finance, a \$200,000 low-interest loan...[by] the time they actually paid the money was 12 months. It just went on and on and on, and we just had to carry that through our business.<sup>57</sup>

2.69 However, it is also important to note that recent reductions in the cost of commercial finance will further complicate decisions by farmers to access the schemes. The committee is of the view that while it supports the government being a lender of last resort, the government should not be in a position of competing with the commercial finance industry.

2.70 Nevertheless, the committee welcomes the recent announcements of funding and support packages for those affected by drought. Though, the quantum of assistance does not appear to be the central issue in ensuring that the assistance measures are as effective and useful as possible. The committee is of the view that more needs to be done to clearly establish who the schemes are designed to assist and what they aim to accomplish. The committee would welcome an assessment of the design of the current assistance measures before further funding is committed to similar schemes with similar eligibility criteria.

### **Recommendation 1**

**2.71 The committee recommends an evaluation of current concessional loan schemes to ensure that the schemes are utilising appropriate data and that eligibility criteria are designed in consultation with the sector to ensure that schemes are as accessible as possible for those in need of Commonwealth government assistance.**

2.72 If the policy paradigm is to continue to support self-reliance, then more attention needs to be given to supporting the wider adoption of sustainable husbandry across the rural sector. The committee encourages greater input into education and support for other assistance measures such as investment in water infrastructure.

2.73 The utilisation of technology has the potential to transform the preparedness and mitigation efforts of farmers. According to evidence received by the committee, access to the latest meteorological data, accompanied by appropriate IT, could place farmers one step ahead of both the elements, and their competitors world-wide. The

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56 Mr Simon Talbot, National Farmers Federation, *Committee Hansard*, 5 February 2015, p. 14.

57 Mr William Bulmer, AUSVEG, *Committee Hansard*, 5 February 2015, p. 34.

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committee supports the ambitious target of providing food for 150 million people, but for this to be realised, investment in modern technologies is crucial.<sup>58</sup>

2.74 Improved technology in areas such as geographical information systems, evaporation, water retention and soil management is available but better access and education would ensure greater utilisation of these enabling technologies not only to improve productivity but also to assist farmers with issues such as insurance against unforeseen events. The committee believes that this is where government, at both a state and federal level, could add real value.

### **Recommendation 2**

**2.75 The committee recommends that the Commonwealth government consider the development of a land management technology fund to support the rural sector, and to ensure that the sector is equipped with appropriate Commonwealth government managed data.**

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58 National Farmers' Federation, *Submission No. 9*, p. 14.

