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Joint Select Committee on the Australia Fund Establishment
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Submission to the Select Committee on the Australia Fund Establishment

1. About AUSVEG

AUSVEG is the National Peak Industry Body representing the interests of Australian vegetable and potato growers. We represent growers around Australia and assist them by ensuring the National Vegetable Levy and the National Potato Levy are invested in research and development (R&D) that best meets the needs of the industry.

AUSVEG also makes representations on behalf of vegetable and potato growers to ensure their interests and concerns are effectively communicated to all levels of government, in the public sphere, and throughout relevant areas of the private sector.

Yours sincerely,

Richard J Mulcahy
Chief Executive Officer

3. Executive summary.

Australia is a nation in which the agricultural industry remains a major contributor to the national economy. As this industry is, by its nature, tied to the land, natural disasters like floods, bushfires and drought can have major and long-lasting impacts on the industry's performance, and therefore, on Australia's economy.

Recent and historical natural disaster events have inflicted serious damage to the horticultural industry specifically, as well as the agricultural industry as a whole. While natural disasters should be acknowledged as a business risk to some extent and accounted for accordingly in business management, growers cannot be left unsupported following the impacts of natural disasters when they are at their most vulnerable.

It is therefore important to consider the establishment of an independently-managed fund at the Federal level which could provide emergency financial relief to members of the horticultural industry, and the broader agricultural industry, when they are affected by natural disasters. Combined with encouraging uptake for multi-peril insurance and an effective and well-managed relief allocation system, this fund could reduce the reliance on growers on relief efforts from State and Territory Governments. Proper oversight of the fund would ensure a safety net exists for growers whose businesses are damaged by circumstances beyond their control while not propping up farms whose problems may be a result of poor risk and business management.

In these considerations of relief allocation, extreme droughts should be classified as a genuine natural disaster. While dry periods and droughts are an acknowledged business risk of the Australian climate, it is unfair to leave drought out of considerations of natural disasters on this basis while installing an 'exceptional circumstances' exception for extreme drought events (which has since been axed). Any emergency or ongoing financial relief in response to natural disasters should include consideration of extreme, unmanageable drought events.

4. The need for a fund to assist horticultural industry members affected by natural disasters.

Horticulture is a major contributor to the Australian national economy, with the vegetable industry alone being worth \$3.7 billion annually. In many areas around the country, members and stakeholders in the horticultural industry – including growers, input manufacturers, and food processors – are vital figures in the continued financial security of the entire regional community, through the payment of rates, support of local businesses, and a variety of other factors.

The industry is also extremely vulnerable to crises or emergencies caused by extreme weather events and natural disasters. Poor weather can result in poor crop yields and inflict significant losses on farmers; extreme weather, like droughts or flooding rains, can spike production costs or wipe out a grower's investment in a season's crop.

Each variety of natural disaster carries with it particular concerns. Droughts can increase fertiliser input, while simultaneously drying out the soil so that when rains do arrive, their topsoil (and any

inputs contained in it) washes away; they can also impact on a crop's profitability as a result of huge increases in expenditure on water for irrigation. Floods can wash away not only crops, but farm infrastructure like fencing, and can ruin machinery, irrigation systems, and growers' homes. Bushfires and cyclones can destroy entire properties.

When considering the huge importance of Australian horticulture to the Australian economy, as well as its value to Australian consumers, it is unthinkable that growers would be left to fend for themselves in the aftermath of emergencies which they had no ability to avoid or control. With the levels of debt being invested in day-to-day operations increasing¹, the losses faced by growers after a natural disaster can be enough to force them out of business.

Australian farmers are among the least supported in the OECD². While taxpayer money should not be used to support businesses which cannot stand on their own, it is completely reasonable – if not overdue – to consider the establishment of a dedicated Commonwealth fund which could provide emergency financial relief, as well as ongoing support, to growers whose crops have been damaged or destroyed by natural disasters. As the Productivity Commission has stated in its recent draft report on natural disaster funding, "Governments have a role in providing emergency relief payments to individuals who have been seriously affected by natural disasters to avoid immediate economic and social hardship."³

Currently, State, Territory and local Governments take responsibility for disaster management, including the determination of the type and level of the relief measures to be adopted following a disaster. Establishing a Commonwealth fund for rural industry disaster relief which could, in part, be used to support affected vegetable growers would be a welcome acknowledgement of the importance the industry has to the Australian economy and the Australian people, and provide reassurance to growers that they will not be left in crisis if a disaster wipes out the time, money and effort they have sunk into their crop.

The establishment of an independently-managed Commonwealth fund would also go some way towards reducing the volatility of what the Productivity Commission refers to as "ad hoc and emotionally and politically charged" government disaster relief responses⁴, and ensure that rural industries are not left exposed to the political motives of State or local Governments when they are at their most vulnerable.

However, any established fund should come with strict oversight to ensure that relief is only handed out to farms for which natural disasters have been the primary negative impact, instead of being used to prop up businesses from which the bulk of the problems may be self-caused, such as poor

¹ Figure 13, *Australian vegetable growing farms: An economic survey, 2012-13 and 2013-14*, H Valle (2014)

² *Malcolm Turnbull correct: Australian farmers among world's least subsidised* - <http://www.abc.net.au/news/2014-02-14/malcolm-turnbull-correct-on-farmers-subsidies/5252596>, Australian Broadcasting Commission (accessed 19/11/14)

³ Page 2, *Natural Disaster Funding Arrangements: Productivity Commission Draft Report Volume 1*, Australian Government Productivity Commission (2014)

⁴ Page 3, *Natural Disaster Funding Arrangements: Productivity Commission Draft Report Volume 1*, Australian Government Productivity Commission (2014)

business management and farming practices. Taxpayer money should not be used to rectify bad business decisions or be used in the place of disaster insurance.

5. The impact of natural disasters on the agricultural industry and the Australian economy.

The impact of natural disasters on the Australian economy is staggering. The Productivity Commission has found that insurance losses from natural disasters alone exceeded \$480 million annually over the period 1970-2013, and that this has sharply increased in recent years – the average annual losses for the period 1970-2006 only make up 22 percent of the average annual losses for the period 2007-2013⁵.

Deloitte Access Economics have calculated the total economic costs of natural disasters on the Australian economy, including broader social losses. This has led to an estimate that natural disasters inflict total economic costs on the Australian economy of around \$6.3 billion a year – and Deloitte have forecasted this to double by 2030, based solely on the increasing material costs of natural disasters and not accounting for any possibility of increases in their frequency⁶. (It should be noted that data suggests there is a rising trend in the number of natural disasters over recent decades, and that this will continue into the future⁷.)

For the agricultural industry, natural disasters can have a particularly significant effect on contemporary and ongoing productivity. ABARES estimated that the 2010 floods in eastern Australia reduced agricultural production by at least \$500-600 million⁸, including a \$225 million loss of fruit and vegetable crops⁹.

Previous droughts have shown similarly large impacts: the dry period of 1991-1995 across Queensland, NSW and Central Australia is estimated to have led to an average fall in production for rural industry of about 10 per cent, leading to a possible \$5 billion cost to the Australian economy. Earlier drought in 1982-83 led to a total loss of over \$3 billion, and in 1963-68, the heavy impact of drought on cropping was shown when drought inflicted a 40 per cent drop in the wheat harvest¹⁰.

Natural disasters can also have a flow-on effect on food prices for consumers – for example, the skyrocketing price of bananas (from \$2-3 a kilo to \$15 a kilo) in the months following Cyclone Larry¹¹ and the spikes in food prices following the NSW and Queensland floods of October 2000 and March 2001¹². Significant lasting damage to supply, which could occur if growers are left without financial support to rebuild their businesses following a disaster, would necessarily lead to ongoing high prices and consumer impact.

⁵ Page 6, *Ibid.*

⁶ Page 19, *Building our nation's resilience to natural disasters*, Deloitte Access Economics (2013)

⁷ Figure 2.1 and Box 2.4, *Natural Disaster Funding Arrangements: Productivity Commission Draft Report Volume 2*, Australian Government Productivity Commission (2014)

⁸ Page 1, *The impact of recent flood events on commodities*, ABARES (2011)

⁹ Page 2, *Ibid.*

¹⁰ Table 1, *Drought in Australia: Context, policy and management*, ABARES (2012)

¹¹ *Cyclone Yasi to see banana prices stay high till midwinter*, S Elks and J Owens/The Australian (2011)

¹² Graph A2, *The Impact of the Recent Floods on the Australian Economy*, Reserve Bank of Australia (2011)

6. Current natural disaster relief funding arrangements.

The primary system of natural disaster relief is currently the Natural Disaster Relief and Recovery Arrangements (NDRRA), whereby the states and territories determine which areas will receive assistance under the arrangements, and the Federal Government funds up to 75 per cent of the assistance available to individuals and communities in those areas.

In the period between 2002-03 and 2012-13, the Australian Government spent about \$6.5 billion through the NDRRA, with state governments dispensing at least another \$5.6 billion of NDRRA eligible expenditure¹³.

However, 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. This technical perception of drought has even led to the Productivity Commission excluding it from the terms of reference of its natural disaster funding inquiry¹⁴.

This lack of regard for the devastating impacts of drought on Australian farmers is unacceptable considering the Federal Treasurer has acknowledged that “drought is a complete natural disaster”, and the Minister for Agriculture believes drought is an unmanageable crisis¹⁵. The fact that the NDRRA do not extend to drought is even more galling considering that there is 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 rainfall¹⁶.

A survey by the Australian National University found that 27 per cent of respondents believe drought is the biggest issue facing rural Australia, and with over two thirds of those respondents believing the Federal Government holds primary responsibility to assist farmers with the problem. Importantly, 61 per cent of those respondents also believe that farmers should receive more financial assistance from the Government in general¹⁷.

The creation of the category of ‘exceptional circumstances’ in the National Drought Policy acknowledges that even within Australia’s climate, there will be extreme drought events beyond the ability of farmers to manage. It is fair to claim that drought should be an incorporated risk in agribusiness management, given the realities of Australia’s climate, but to exclude drought as a whole from natural disaster relief on this basis and then create a special category for unmanageable drought risks, which has since been terminated, is inconsistent and unfair.

¹³ Page 9, *Natural Disaster Funding Arrangements: Productivity Commission Draft Report Volume 1*, Australian Government Productivity Commission (2014)

¹⁴ Page 4, *Ibid.*

¹⁵ *Barnaby Joyce is pushing for a bailout package to help struggling farmers*, AAP/Weekly Times (2014)

¹⁶ Page 397, *Natural Disaster Funding Arrangements: Productivity Commission Draft Report Volume 2*, Australian Government Productivity Commission (2014)

¹⁷ Pages 1-2 & 9, *Public Opinion Towards Rural & Regional Australia: Results from the ANU Poll*, Prof I McAllister (2009)

While the area of drought assistance is complex and has undergone regular review and change (including the recent announcement of a \$30 million drought aid package for Victorian farmers), and all farm businesses should acknowledge the inherent business risk that drought presents, the facts remain. Drought is a major issue for rural Australia, and is considered a natural disaster by most Australians (including Government ministers and Government websites¹⁸), and therefore should be officially classified as a natural disaster for purposes of determining financial relief.

7. Recommendations.

1. That a Federal fund be established to provide emergency financial assistance to farm businesses affected by natural disasters.

Given the significance of agriculture to Australia's national economy, and the extreme short- and long-term impacts that natural disasters can have on the industry, there is a clear need for an established, ongoing Federal fund to provide emergency relief for farm businesses and ensure their ongoing survival when they are at their most vulnerable.

2. That drought be officially considered a natural disaster for the purposes of determining allocation of 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 so as to fall under the purview of the fund recommended above.

¹⁸ Drought, *Natural Disasters in Australia*, <http://www.australia.gov.au/about-australia/australian-story/natural-disasters> (accessed 19/11/14)