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Thursday 27th April 2014

Mr Andrew Laming MP
Chair
Joint Select Committee on the Australia Fund Establishment
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Mr Laming,

Thank you for the opportunity to make a submission to the inquiry into the establishment of a fund to support rural and manufacturing industries.

Regional Development Australia Orana supports the establishment of the Australia Fund and would like to provide some feedback, particularly in regard to terms of reference (a)(i) and (a)(vii); that is, how the fund could:

- Provide emergency or ongoing financial relief
- Grant funds to such a business for the purpose of purchasing new technology to make it more economically viable and competitive or restructuring it

To ensure the greatest impact, in terms of driving the economic prosperity of Australia, we propose that the Australia Fund play an active role in enhancing long-term economic growth in rural economies; not to be solely used in times of hardship for industries, regions or individuals.

Regional Development Australia Orana is charged with leading economic development in the Orana region of New South Wales. The Orana covers approximately 25 per cent of the state's landmass. 13 local government areas make up the Orana region, from Bourke to Mid-Western (Mudgee), Walgett to Cobar and everything in between. These areas are diverse; some are experiencing huge amounts of growth thanks to the resources sector, whilst others are challenged with maintaining viable communities and economies.

There is great potential for the Australia Fund to contribute to economic stability and growth in rural communities, particularly if used to foster innovation and support risk mitigation in agriculture. We propose the fund be used to support rural industries to operate more effectively in an environment marked by seasonal volatility and unpredictability. It would also assist in mitigating the current adverse effects that flow on to the rest of the community and other service businesses, including manufacturing.



Supporting rural industries

Growth in rural economies is intrinsically linked to the strength of the agricultural industry, which has been recognised by the Australian Government as one of the five pillars of the Australian economy. Its ongoing success is vital to the continuing competitiveness of the Australian economy. Yet, it is an industry marked by risk: susceptible to wild swings caused by extreme weather events. In fact, research shows that between 2004 and 2011, “output for the agricultural sector was almost twice as volatile as the next most volatile industry”¹. The industry is also faced with issues of funding innovation, succession and attracting young farmers.

But it’s certainly not all bad news: agriculture currently presents one of the greatest opportunities for expansion of international trade for Australia. With the increasing requirement for cereals, demand for proteins including dairy from the emerging Asian market, expansion of the Asian middle class and Australia’s ‘clean and green’ food reputation, the nation is poised to realise the great opportunity of the Asian century.

The Orana is a highly productive region, with a Gross Regional Product of \$7.145 billion. 23.1 per cent of all value-added in the region’s economy can be derived directly from the agribusiness sector (data provided by REMPLAN²). It is a significant industry sector in the region; not only do other industries such as manufacturing, transport, retail and services rely on business from this sector, it also maintains populations across the region and therefore supports human services such as health and education.

Due to its close ties to the rest of the supply chain, volatility in the agricultural sector results in volatility across the whole supply chain, and has massive flow-on effects across every part of the economy.

The Australia Fund could play a role in stabilising the ebbs and flows of agriculture, and inviting innovation and new players to the industry, thus ensuring a sustainable and competitive agricultural sector. As stated in the Australian Government’s Green Paper on Agricultural Competitiveness, “Ultimately, if this objective is attained then investment in Australian agriculture will follow, more export income will be earned, regional communities will be stronger, better jobs will be created and the health of our economy and nation will be strengthened”³. Thus, we propose that this option will provide an excellent return on investment for the Australian economy.

Advanced risk mitigation in agriculture

An affordable support mechanism, underpinned by government, would provide security over the long term for our rural businesses. Regional Development Australia Orana are currently working with

¹ Agricultural Competitiveness Green Paper (2014, p. 65)

² All figures, data and commentary presented in REMPLAN are based on data sourced from the Australia Bureau of Statistics (ABS), most of which relates to the 2011, 2006 and 2001 Censuses. Using ABS datasets and an input / output methodology industrial economic data estimates for defined geographic regions are generated.

³ Agricultural Competitiveness Green Paper (2014, p.vii)

partners from the farming, banking and insurance sectors, to develop an advanced model for risk mitigation in agriculture.

This model will include a mechanism for shifting from an emphasis on in-event drought support to business based risk mitigation via multi-peril insurance.

We would suggest that the Australia Fund be used to assist in providing some underwriting for multi-peril insurance schemes. If implemented, Australia would be adopting learnings from a number of modern overseas economies where multi-peril insurance is the norm. In this model, we would propose that insurance only be used to recover production costs (not yield), for all of agriculture, co-supported by a levy and rebate or other form of broad based whole-of-agriculture scheme that is matrixed and affordable. There is also potential to embed a policy of solidarity (that is, the levy be applied to all farming operations).

The Australian Government has stated it will not support a direct subsidy towards farmers' insurance premiums, however it will consider options of providing a grant to reduce up-front costs associated with multi-peril insurance schemes (such as risk assessment)⁴. This is a role the Australia Fund could provide.

There is a great history of research into multi-peril insurance systems in Australia. The development of this model is ongoing and recognises that previous work and will consider those findings in its development; this includes assessing the potential of weather derivative products as suggested by Hertzler⁵ and assessing how readily a multi-peril insurance scheme, which is often synonymous with cropping insurance, can be transferred to all agricultural activities. We would be glad to provide this information to the committee as it is developed.

It is important to stress that this is not intended to 'prop up' unviable farming enterprises. A common argument against multi-peril insurance is that farms should not operate in 'marginal country', or land susceptible to drought conditions. The most recent years' rainfall in Coonamble disproves this. From Coonamble Shire Council:

"Coonamble's long term average annual rainfall is 505mm. Rainfall recorded from January to December 2013 to now is 269.8 mm. Since 1878 there have only been 12 years (including 2013) to receive less than 300mm."

Despite common misconceptions drought is not 'business as usual' for Coonamble, nor is this the case for many of the areas currently experiencing drought conditions.

Drought response should not be viewed as a 'one off' or 'stand alone' policy area, but that financial drought preparedness should be viewed as a way to safeguard the ongoing sustainability of all rural economies amongst all other variabilities.

⁴ Agricultural Competitiveness Green Paper (2014, pp. 66-70)

⁵ Hertzler, G. (2005). Prospects for Insuring Against Drought in Australia. *Advances in Natural and Technological Hazards Research, Volume 22*, 127-138.

Supporting innovation & long term viability

The terms of reference also include assessing how the Australia Fund may 'grant funds to [a rural or manufacturing] business for the purpose of purchasing new technology to make it more economically viable and competitive or restructuring it'.

To achieve this, the Fund could play a role in supporting farmers adopt innovative technologies or practices to enhance profitability and preparedness; this may include more water-smart technologies, processes or crops.

Low profit margins and extreme weather events often exclude the adoption of new on-farm technologies; this becomes a double edged sword as not only do existing farmers lose out in terms of potential gains to productivity as a result of innovation, but the reputation of farming is not seen as innovative, further distancing young people from choosing to enter the industry.

This has led to issues of succession planning in farming businesses. In terms of supporting businesses to restructure for viability, funds could also be provided for the purpose of succession planning in agricultural enterprises.

Improving the financing for new and diversifying agricultural enterprises should be a priority for the Australia Fund to ensure and increase the viability of the industry into the future.

Conclusion

There is great potential for this fund to support innovation and entrepreneurship in agriculture, as well as mitigate the great seasonal variation farmers often face. Agriculture is a strong pillar of the Australian economy, and the Australia Fund provides a huge opportunity to stabilise and increase the competitiveness and sustainability of this industry, and those others it supports across the supply chain in rural communities.

In summary, we hope the committee will consider the following:

- That safeguarding rural economies starts with agriculture
- That, due to the opportunities for the agricultural industry in terms of export and international investment, this avenue may provide the best return on investment for the Fund
- That the Fund could be used to support the adoption of solidarity based multi-peril insurance schemes for production costs, thus mitigating the risks associated with extreme weather events
- That the Australia Fund also be used for the adoption of new technology and practice in the farming sector, and business and succession planning for farming businesses



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Regional Development Australia Orana is eager to promote these financial and risk structures for agriculture and see the Australia Fund as a great mechanism for supporting these initiatives.

I am happy to be contacted to discuss how the work of Regional Development Australia Orana could assist the committee, or with any further questions. Thank you for considering this submission.

Kind regards,

Felicity Taylor Edwards
CEO
Regional Development Australia Orana

