



20 April 2004

Drought Review Panel Secretariat  
Department of Agriculture, Fisheries and Forestry  
PO Box 858  
Canberra ACT 2601

**Re: National Drought Policy Review**

NCC and IRN would like to thank the Drought Review Panel for this opportunity to comment on aspects of the Australian National Drought Policy (NDP). We recognise that drought policy is a critical issue for farmers, rural communities, and Australian government at all levels. We also believe and wish to emphasise that developing a sensible, sustainable drought policy is a critical component in building an economically and ecologically sustainable future for Australian agriculture and rural communities.

**Introduction**

Australia is the driest inhabited continent and has one of the world's most variable climates – facts repeated so often they would almost not bear mentioning were they not so critical and, at least historically, so frequently ignored. For decades Australia's drought policies were rooted in the notion that drought is an infrequent and unpredictable phenomenon. Drought assistance began as a series of *ad hoc* relief payments in response to specific events and was eventually covered under the Natural Disaster Relief arrangements. In both instances the emphasis in drought policy was on retrospective relief payments rather than drought preparedness and risk management.

This policy direction changed in 1989 with the removal of Commonwealth-funded drought assistance from the Natural Disaster Relief Arrangements and the appointment of the Drought Policy Review Task Force. The Task Force recognised that climate variability is the norm in Australia and placed drought management in that context: "Managing for drought is about managing for the risks involved in carrying out an agricultural business, given the variability of climate. Drought represents the continuing risk that seasonal conditions will not be adequate to sustain agricultural activity" (Drought Policy Review Task Force 1989).

Drawing upon the Task Force report, the National Drought Policy (NDP) agreed to in 1992 recognised that severe rainfall deficiencies are a regular feature of the Australian environment, that climate variability is a normal commercial risk to be incorporated into property management, and that responsibility for managing for

climate stress rests with individual producers. Accordingly, the NDP set forth policy objectives that emphasise self-reliance for the rural sector; protection and maintenance of environmental and agricultural resources; and recovery of agricultural and rural industries consistent with long-term sustainable levels.

NCC and IRN believe that the focus of this review, and drought policy generally, should be to further implement the objectives of the existing National Drought Policy, to more explicitly incorporate principles of ecological sustainability into the National Drought Policy, and to continue to shift the focus of drought assistance away from drought response and damage control to a more proactive stance of drought preparedness and risk management. NCC and IRN believe that some current drought relief schemes are damaging to both the economy and the environment and are contrary to the objectives of the NDP. These relief schemes do not encourage primary producers to adopt self-reliant approaches to managing the risks from climatic variability. Instead, they have the effect of propping up inefficient operators and land prices. Droughts should be factored into dryland farming viability instead of being considered as an unexpected occurrence.

## **Discussion**

The remainder of this submission will address its comments to selected questions listed under the Terms of Reference as provided by the Australian Government Department of Agriculture, Fisheries and Forestry (AGDAFF). The questions posed under the Terms of Reference are italicised; responses follow directly.

### *Should Drought Assistance Arrangements be Retained, Modified or Replaced?*

As the NDP recognises, drought is a regular occurrence in the Australian climate and should be considered as part of the natural climatic variation. Therefore it should not normally be considered for assistance. In the words of the NDP, “the prospect of variable seasonal conditions is a normal commercial risk that must be incorporated into the management of Australian rural enterprises” and “responsibility rests with individual producers to prepare for and manage during periods of climate stress.” should take droughts into account these variations and include such contingencies in their business plans.

Drought assistance should not be factored into risk management or natural resource management practices/programs, as these plans should be in place to counter the effects of drought conditions regardless of any assistance. This makes eligibility for assistance a key factor in guiding how farms are managed and how they prepare for drought.

### Eligibility for Relief

Eligibility criteria should conform to NDP objectives of good management and sustainability. Constructive criteria take consideration of existing risk management and drought proofing strategies. Currently, eligibility for drought assistance depends on several factors. These are listed on the following page. This is followed by a list of suggested eligibility criteria for improving assessment for drought assistance.

## Current Eligibility Criteria

Constructive Criteria	Weak Criteria
<ul style="list-style-type: none"> <li>• Existing participation in Risk Management and Drought Preparedness</li> <li>• Viability of the farm and business</li> <li>• Owner must spend significant time and derive specific portion of income from farming.</li> <li>• Demonstrated benefits relative to costs via application.</li> <li>• Applicants must specify a project completion time</li> </ul>	<ul style="list-style-type: none"> <li>• Operating in drought affected area</li> <li>• Length of time in drought affected area</li> <li>• Fall in gross income</li> <li>• Fall in yields and equity</li> <li>• Time of application for assistance</li> </ul>

## Suggested Eligibility Criteria

Provision of any government assistance should be linked to an assessment of pre-drought planning and risk management. NCC recommends an assessment of this pre-drought preparation before assistance is provided. The planning process is a very important part of preparation, planning for drought needs to be appropriate to the locality as well as the environmental and economic conditions.

NCC recommends that the following criteria be added to improve assessment for claims for assistance.

- Date that drought preparation began and the level of planning and preparation by the farm for drought.
- The farmer should not be operating on or extending Marginal Land.
- There should be sufficient demand and price for produced goods.
- The farmer must be in-line with regulations and licence limits such as livestock stocking levels and land clearing limits.
- The types of risk management strategies in place and their role in the business. (Farm Management Deposits, Environmental Management Systems, etc.)
- Opportunities identified and employed for the benefit of the farm and the community.
- Types of training, information services; expert and community advice used to improve the financial and knowledge base for managing drought.
- Types of government assistance already provided to the business
- Existing plans for drought recovery (agistment, restocking)

## Types of Assistance

Currently, State governments provide a wide range of drought assistance. There are many measures, such as assistance to prepare for drought and to aid pest removal, that conform to the objectives of the NDP. These measures include personal counselling and training; and drought preparedness.

A cost/benefit analysis and an audit of regions most affected by drought and the distribution pattern of drought subsidies would be beneficial to determine which types of assistance should be maintained, reformed or removed. These studies would also aid the identification of marginal lands or more drought prone areas to allow a more strategic approach to drought planning and management.

## Current Measures

NCC and IRN believe that the measures listed below encourage poor pre-drought planning and business management. In NSW, these include Farm Business Cost Reduction (waivers or deferrals of NSW Government charges to reduce business costs), \$1 million in assistance for the Farm Employees Drought Relief Support Scheme, which will provide TAFE-based training for 200 farm employees and help keep them on farms; and a Business Drought Assistance package to help country businesses with payroll tax relief. In Victoria, the most obvious measure that encourages poor pre-drought planning are cash grants, which consist of a \$50 million drought support package. Examples of these exist in most states and territories.

These measures encourage farmers to continue to pursue inefficient production methods and to use marginal lands. Inefficient producers are unwilling to give up poor practices as they continue to receive government aid. Removing these measures will make the whole industry more viable as inefficient and unprofitable businesses vacate the industry, leaving behind strong businesses that fit the environmental and economic climate.

## Exceptional Circumstances (EC)

In times of severe drought as defined by AGDAFF, it may still be appropriate to provide specific assistance. Other industrial sectors also receive some assistance in extreme conditions such as severe storms. However, there is scope for review of Australian Government EC assistance. It is constructive that most current eligibility requirements specify that support is provided to viable farmers and businesses to circumstances beyond the boundaries of normal risk management. We recommend that in order to be eligible for EC, applicants should have already qualified under the Constructive Criteria for good management under “normal” drought conditions as listed above.

## Targeted Assistance

In some extreme circumstances, direct financial aid may be required. Rather than income support and interest rate subsidies, targeting specific sectors could be useful to provide specialised aid, such as for livestock, R&D, rebuilding the business and future drought preparedness. This will make businesses more accountable for their

assistance claims and have more direct impacts on specific problems. This approach is more effective in helping the poor and produces fewer negative side effects. If the policy objectives can be clearly identified, specific policies can be formulated to directly address those objectives.

### Income Support

- *Is it appropriate for government to continue to provide income support?*
- *When should it be provided? (For example, when a prima facie case is established?)*

*Under what criteria should income assistance be provided? Should access be essentially the same eligibility criteria as for the rest of the community in terms of off farm income and off farm assets tests?*

Drought assistance has been and continues to be used as an instrument of income support for individuals and families in drought-affected areas, but this practice should be phased out as quickly as possible for several reasons. First, it conflates welfare policy and drought policy. While farm families should certainly have access to income support programs on the same basis as all Australians, there is no reason to tie such support to precipitation shortfalls: individuals and families in need should be entitled to income support in wet as well as dry times, while it is difficult to conceive a justification for income support to those not in need simply because of a precipitation shortfall. Second, delivering income support through drought assistance dilutes the proper focus of drought policy: providing assistance to enable the agriculture sector to prepare and manage for the inevitable next drought, and developing mechanisms to preserve the productive capacity of agriculture through dry periods. In 1997, a government review of the Rural Adjustment Scheme recognised these problems, stating:

Welfare assistance should not be delivered through instruments that assist businesses. Such an approach confuses the objective of the intervention, does not effectively target the welfare problem and distorts market signals to farm businesses receiving assistance (McColl, Donald & Shearer 1997).

### Farm Business Support

- *Should business support be provided? What does it achieve (or who does it benefit)?*
- *What form should business support take (eg interest rate subsidies), if at all? When should it be provided - before, during or after the drought? and for how long and how much?*
- *Should there be a requirement for farmers to prepare for drought in order to be eligible for assistance? e.g. business planning or drought preparation.*

Farm business support should be targeted toward drought preparedness, risk management, and providing mechanisms to assist farm businesses in building and

maintaining reserves in wet times to be drawn upon when precipitation fails. In short, farm business support should support *sustainable* farm businesses that are viable when drought is factored in over time.

Retrospective support risks doing precisely the opposite. It can prop up inefficient operators, delay the exit of nonviable farm businesses, and by artificially inflating land price, harm potential purchasers' ability to finance land purchases at a price that truly reflects the land's productive capacity with droughts factored in.

### Exceptional Circumstances Buffer Zones

- *Is the current EC model of 'line on a map' approach in determining eligibility equitable? If not what are some possible alternative approaches?*
- *Should independent advisory bodies have a role to play in the process of assessing Exceptional Circumstance and in future drought policy?.*

Any line-drawing exercise, whether EC lines on a map or otherwise, risks inequities. There will always be one property inside the EC line that gets a bit more rain than neighbouring properties, or a property just outside the EC line that missed out on the last storm. But self-assessment is not the answer to this problem. Even with all the best intentions, any businessperson struggling under adverse pressures – whether from insufficient rain or a price downturn, will tend to dramatise his or her problems, and understandably so. It is unrealistic to expect individuals struggling to run a business to provide an objective assessment of the extent to which their businesses are affected by drought. Drought declarations and drought policy are best left in independent hands.

However, this does not mean that the inequities associated with EC declarations need to be ignored. The buffer zone strategy may offer some possible relief, but not as currently administered. Under current policy, buffer zones are essentially mini-EC zones, with applicants eligible for short-term assistance whether or not the buffer zone is ultimately declared as an EC zone. A better system might allow individual applications for assistance in buffer zones upon an independently assessed showing of hardship, contingent upon adequate drought preparation plans.

### Income contingent loans for drought relief

*There has been much debate about introducing a "HECS" style loan scheme (ie loan repayments are a fixed proportion of income) as the mechanism to provide assistance to farmers during events such as drought.*

- *Should such loans be available during these events? Should they be available to all producers or only those who cannot get commercial finance?*

Although there may be some limited role for a HECS style scheme for farmers who have developed and implemented robust drought preparedness and risk management plans, there are several significant problems with the analogy between post-secondary students and farmers that need careful consideration.

First, there is a simple explanation for why a government-sponsored and subsidised loans scheme is needed to finance post-secondary education: banks are unwilling to make the needed loans to students because students rarely have assets to secure those loans. By contrast, farmers often have substantial assets. To the extent farmers are unable to secure commercial finance for some drought-related shortfalls, it is not generally for lack of collateral but because of high risk. Under such circumstances, it would seem that those farm businesses most likely to take advantage of a HECS style scheme are precisely those which are least viable in the long term, i.e. those that cannot obtain commercial finance. A HECS style scheme runs a significant risk of perpetuating drought related problems rather than promoting sustainable agriculture that can weather dry periods. In addition, the extent of HECS indebtedness is limited by the education costs that define HECS eligibility. Even so, HECS indebtedness is a serious issue for post-graduates. Without any self-evident criterion by which to limit drought-related borrowing, there is potential for excessive program costs and another form of chronic farm debt.

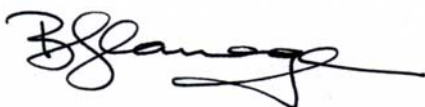
Any HECS style scheme should be designed to promote the self-reliance and drought preparedness objectives of the National Drought Policy. In practice, this probably means that the program would be limited to farmers who have developed and implemented robust drought preparedness plans that are adequate to protect them against at least a once per generation drought.

### **Conclusion**

NCC and IRN appreciate the opportunity to contribute to the work of the Drought Review Panel. As we have emphasised in this submission, we believe that the primary object of drought policy must continue to be to assist farmers and rural communities with drought preparation and risk management and to phase out assistance programs that delay the exit of nonviable producers and extend unsustainable practices on marginal land. We know that there will always be another “drought;” the only question is how best to prepare for it. While there is and may continue to be a small secondary role for government in relieving hardships caused by truly exceptional dry spells (at a maximum once per generation), government’s primary role must be to help farmers and rural communities to develop mechanisms that enable them to weather dry periods without government assistance. It is only by developing such mechanisms that Australia will have truly ecologically and economically sustainable agriculture.

If you have any queries regarding this submission please call Rachael Young, NCC Water Policy Officer on 9279 0955 or email [ryoung@nccnsw.org.au](mailto:ryoung@nccnsw.org.au) or Brendan Fletcher, IRN Coordinator on 9212 5112 or email [coordinator@irnnsw.org.au](mailto:coordinator@irnnsw.org.au)

Yours sincerely,



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## REFERENCES

Drought Policy Review Task Force 1989, *National Drought Policy*, quoted in Linda Courtenay Botterill, "Uncertain Climate: The Recent History of Drought Policy in Australia," *Australian Journal of Politics and History* 49(1), 2003, pp. 61-74.

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