



Australian Dairy Farmers

Australian Dairy Farmers Limited

Submission

to the

National Drought Review Panel

for the

National Review of Drought Policy

commissioned by the

Australian Commonwealth Government

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Executive Summary

Australian Dairy Farmers Limited (ADF) represents the dairy farming families of Australia via the six state dairyfarmer organisations. According to ABARE figures, these families were the worst affected by the recent drought conditions.

It was therefore incumbent upon ADF to review the current provisions for drought assistance carefully and put forward our views on making drought assistance more effective.

As part of the policy process, ADF provided input into the principles on which the National Farmers' Federation's (NFF) *Drought and Climatic Variability* policy is based. ADF supports the principles in the NFF's final policy position document.

In this submission, ADF provides specific recommendations that apply to all farmers, but more specifically to dairy farmers.

ADF has covered many aspects of policy in this document including the basic NFF platforms of drought preparedness, drought management and drought recovery. Included within these areas are recommendations on drought declaration; new programs; FMD reform; information systems; weather forecasting and water management; water infrastructure; administration and political reform; farm family support; grain imports and state assistance packages.

The number of policy areas covered highlights the wide-ranging impacts of drought and the subsequent need for multi-faceted approaches to assistance.

ADF policy recommends a faster, simpler, broader approach to drought declaration. Under this approach irrigators would not be excluded from drought declarations, as was initially the case in 2002.

The dairy industry also recommends a "one-stop-shop" approach to applications and additional packages that all farmers can access as drought preparedness mechanisms.

Included are references to Federal versus State politics and stress the frustration that is felt by farmers when politics reduces the effectiveness of urgently needed assistance.

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1.0 Introduction and Industry Background

ADF believes that the provision of drought assistance for farmers is based on the need to support the people who form Australia's regional communities through drought periods.

It needs to be noted that the underlying principal and basis for the provision of a national drought program funded by Government is that producers cannot mitigate or transfer risks of major drought events. In other words, beyond the point that normal drought risk management measures are effective, there are currently no products or tools available for producers to effectively mitigate or transfer the risk.

Subsequent failure to adequately support these communities will lead to increased personal hardship, reduced ability to manage natural resources and reduced contributions to Australia's economy in areas such as exports and employment.

Furthermore, ADF is of the view that the application of Commonwealth and State drought policies remains problematic, leading to inefficient resource use and allocation, broad ranging inequities in the spread of assistance to primary producers and rural communities, poor timing of the delivery of assistance, political interference, and ultimately unnecessary stress and frustration.

Droughts have historically been seen as natural disasters that affect broadacre cropping and extensive livestock industries. Consequently, assistance packages developed at both State and Federal levels do not adequately address intensive cropping, intensive livestock or irrigated industries.

Drought has never been confined to primary industries. The flow-on effects of the current severe drought are becoming more evident with the passage of time. Businesses reliant on a healthy rural base are shutting down. Employees have and are being laid off and debt levels have risen significantly. While drought can be seen as an insidious graduating event, the impacts are no less severe than a more short-term natural disaster such as a bushfire, or flood. While the impacts of overnight disasters are relatively immediate, it must be recognised that impacts from drought have a lag effect. It takes time for the impacts to become apparent, and even longer for the situation to be remedied. Whole-of-Government approaches are imperative if response measures to drought are to be effective.

ADF and its State member organisations have made a number of submissions to both levels of government in the past two years, resulting in some improvements. However, many further improvements are possible and needed. As such, the ADF welcomes the opportunity to present a range of important issues and recommendations to the Panel for further consideration.

This document forms a common dairy industry response to the Commonwealth Government's Drought Review Panel Terms of Reference and the call for submissions to be lodged before 6 February 2004.

This document outlines the collective views of peak industry dairy organisations and their members as to how to better design and manage drought programs to derive a more equitable, timely and cost effective results. These recommendations form a platform for policy change that can yield greater benefits to the Australian community as a whole, as well as the dairy farmers of Australia.

ADF requests to be directly involved in any analysis and assessment of any options by the Commonwealth Government for altering and or creating new drought policies, strategies and or programs.

1.1 Australian Dairy Farmers Limited (ADF)

ADF (formerly The Australian Dairy Farmers Federation or ADFF) is the national peak dairy farmer organisation representing dairy farming families throughout Australia. ADF consists of dairy farmer organisations from the six States, enabling broad based dairy farmer involvement. Its structure for reporting and policy development allows farmers views to be expressed from State branches through to the national level on all issues which are of national and international significance in furthering the growth and prosperity of the Australian dairy industry.

The ADF's main objectives are to promote the sustainable development of dairy farming and the dairy industry in Australia. ADF is also the dairy commodity council of the National Farmers' Federation (NFF).

1.2 The Australian Dairy Industry

The Australian dairy industry consists of over 10,000 producers, in an industry worth more than \$8.5 billion in domestic value added products and over \$3.25 billion in annual exports. It is Australia's largest food industry.

The Dairy industry nationally employs about 60,000 people directly and around 150,000 indirectly. Dairy farmers have billions of dollars invested nationally in "assets on the ground".

The industry exports nearly 1,000,000 tonnes of dairy products to over 100 countries. In 2002/03 the total Australian milk production was 10.326 billion litres. The Australian Dairy Industry exports over 55 percent of production. From total production in 2002/03 approximately 81 percent was utilised for manufacturing and 19 percent for drinking milk.

Virtually all of this industry activity flows constantly through rural and regional dairying communities across Australia, making the dairy industry one of the largest agribusiness contributors to employment and the largest value adding food industry in Australia.

The industry has worked through considerable consolidation over the last decade. These reforms have not been without difficulty and hardship across many farming communities, and the prolonged drought over the last two years has placed additional severe hardship on the industry at a critical time.

In response to the severe impact of the drought the dairy industry organisations have been actively involved to seeking and delivering a range of drought assistance measures for their members, including the development of Exceptional Circumstances applications.

1.3 The Impact of the Current Drought

ABARE, in their Australian Farm Surveys Report 2003, reported that dairy farmers were the most affected of all of agriculture by the drought. The report shows an average loss of (\$76,600) per dairy farm in 2002/2003 which compares to an average profit the prior year of \$60,880 per dairy farm. Therefore the severe affects of the drought led to a turn around from the previous year of \$137,480 per dairy farm on average. This is equivalent to more than \$1.5 billion being taken out of dairy farmer businesses, compared to the prior year. The drought has resulted in the largest fall in milk production in a single year since 1951-52, being down by 8.4 per cent.

ADF estimates that since the ABARE reporting period a further \$0.5 billion has been taken out of dairy farm businesses through the higher costs associated with the drought continuing well into the 2003-2004 year. Furthermore, in some parts of NSW and Queensland it is too early to say the drought is over.

In other words, over the past 18 months, the drought has caused a loss out of dairy farm businesses of about \$2 billion. This is more than the total payments of \$1.63 billion over eight years that dairy farmers have or will receive from the Dairy Structural Adjustment Program. These numbers highlight the seriousness of the drought impacts on dairy farmers and the need to address the consequences of these impacts.

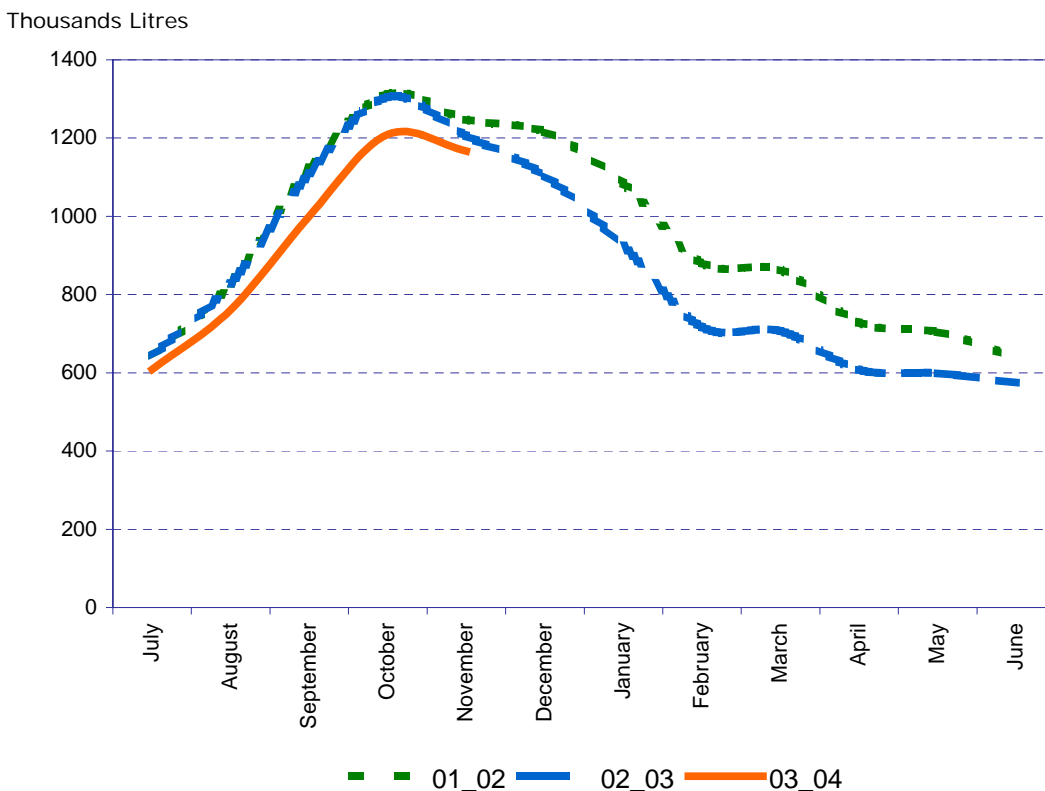
National production to the end of October was down 7.9% on the same time last year. All States but WA saw production in October lower than October 02 and all but WA are down for the four months to the end of October.

The production trends for the four months to October 2002 versus 2003 are: New South Wales down 3.7%, Victoria down 9.8%, Queensland down 6.6%, South Australia down 4.1%, Western Australia same, and Tasmania down 5.1%. Also it needs to be noted that the falls in production due to the severe drought occurred in many regions in the previous year, such as in Queensland and parts of NSW and still continues to persist in some regions. Therefore, the cumulative loss to industry will continue to increase for some time to come.

These figures are not surprising given that the effects of the drought continued through the first half of this year. As the following graph shows, total production last season to the end of October was keeping pace with the previous record production year. However, following November 2002, national production began to fall due to the high costs of feed during the drought. The declines in production have also impacted on a number of export product supply arrangements.

ADF believes that, based on this year's production, the recovery from the drought impacts will be at least a three to five-year process.

**Australian Milk Production - National Total
2001/02, 2002/03 & 2003/04**



The severe drought that has been experienced over the last two and more years has impacted on dairying operations in a number of ways including the following:

- Significant reductions in farm income and production;
- Significant increases in feed costs and farm operational costs;
- Reductions in milk quality and subsequent price penalties;
- Severe fodder deficiencies and loss of pastures;
- Severe water deficiencies;
- Water and fodder quality problems;
- Forced sale of cattle and herd management difficulties;
- Loss of labour and labour management issues;
- Liquidity difficulties, debt and equity management issues;
- A range of significant difficulties with recovery from drought;
- Reduced milk price due to reduced factory efficiencies; and
- Potential loss of markets due to an inability to supply.

The factors are further described in Appendix A (attached).

2.0 The National Drought Strategy and Policy

It is acknowledged that drought is a natural recurring feature of the Australian climate and that it presents a significant risk to agribusiness that requires management.

The current policies for both State and Commonwealth drought measures are anchored in the March 1999 Agriculture and Resource Management Council of Australia and New Zealand *Exceptional Circumstances Resolution 3D*. While the policy exposes all the broad tenets for progressive and efficient agriculture (from the Agriculture – Advancing Australia initiative), it also continues the view that there are circumstances that occasionally impact the agriculture sector that are beyond the scope of normal management practices and therefore warrant government intervention.

It needs to be noted that the underlying principal and basis for the provision of a national drought program funded by Government is the inability of a farmer to completely manage risk. In other words, beyond the point that normal drought risk management measures are effective, there is currently no commercial product available for producers to transfer the risk. In many areas the severity of the recent drought surpassed all normal drought risk management measures exposing the farmer to losses that cannot be insured against.

In managing climatic risk there is a need for better information and management tools to be made available for primary producers. Therefore, ADF believes it is a fundamental policy platform to provide primary producers with support to develop, implement and manage, business strategies associated with climate variability.

ADF believes that a sound National Drought Management Strategy is essential to underpin future improvements in agricultural productivity, sustainable natural resource management and social welfare and the viability and longevity of rural and regional communities.

2.1 A Platform for a New National Drought Management Strategy

ADF supports the principles outlined in the National Farmers' Federation (NFF) drought management strategy.

That is, ADF advocates that an effective National Drought Management Strategy would encompass a package of pro-active and reactive programs targeted at assisting primary producers to effectively manage the key phases of severe drought being;

- Drought Preparedness,
- Drought Management, and
- Drought Recovery.

The ADF has, in consultation with member bodies, presented a number of issues and prepared a number of policy and program recommendations for future strategies. These will assist dairy farmers and other primary producers to maintain productive and sustainable agricultural enterprises through the phases of drought. We recognise that support provided to primary producers flows to rural and regional communities.

The recommendations are targeted at the better long-term management of drought risk through programs that support and provide suitable incentives for primary producers to invest in strategies to better prepare for and manage the risks of drought. Furthermore they target effective assistance measures to enable primary producers to manage through severe drought events and to recover from those events.

2.2 Defining a Drought Event

In developing a new National Drought Management Strategy it is ADF's view that there is a need to more effectively define drought events especially in relation to the linkage of support/assistance mechanisms. Many industry organisations have experienced frustration with the inconsistencies of current definitions of drought at both State and Commonwealth levels. These inconsistencies have led to inequities in the provision of drought assistance in many cases and the inefficient use of industry and public resources.

A major problem with current drought policy relates to defining and sourcing information to 'prove' that the EC criteria are met. This stems from differences in emphasis between what industry, State and Federal officials regard as constituting a 'rare and exceptional' event, and from imbalances in the availability of credible data.

In addition whilst drought can be seen as an insidious graduating event, the impacts are no less severe than an overnight natural disaster such as a bushfire, or flood, which receive rapid approvals for assistance. Whilst the impacts of overnight disasters are immediately evident, it should be recognised that there is a lag effect when it comes to the impacts of drought. It takes time for the impacts to become apparent, and even longer for the situation to be remedied.

- **ADF recommends that the Commonwealth and State Governments work in co-operation with peak primary industry organisations to develop a more effective, timely and cost efficient system of defining drought events.**

3.0 Drought Preparedness

3.1 Provision of Programs

ADF advocates that a sound National Drought Management Strategy must have effective initiatives and measures aimed at assisting farmers to better prepare for, to mitigate and manage the risks of severe drought.

A more equitable system for the provision of assistance is required. Many producers have been unable to access assistance during the current drought despite having the same degree of impact as those who have.

The current systems at both Federal and State levels are geared more toward traditional extensive industries. However, the reality is that severe drought impacts on all industries in different ways and at different times.

This problem has been multiplied when the current system has been applied to intensive operations, resulting in inconsistent application of the guidelines and poor understanding of different industries. In turn, this has led to application divisions between industry types and a range of inequities in the provision of assistance.

Assistance measures need to provide for different industry types, management strategies and stages of the business cycle. Thus there needs to be flexibility to afford equality.

- **ADF recommends a more equitable system could involve providing a producer with a choice of programs such as interest subsidies, activity-based grants, enhanced FMD concessions, new insurance or superannuation options or accelerated depreciation.**

Such an approach would provide the business manager with the ability to choose the drought management package best suited for their business and position. For example, a recent Farm Debt Survey carried out by the Queensland Rural Adjustment Authority presented that 23% of Queensland farmers are debt free and therefore would not qualify for interest rate subsidy grants. Through providing a choice of a mechanism equity could be afforded to such producers whom have been equally impacted by severe drought, but would not currently be eligible for assistance due to narrow program guidelines. The measures listed above would be spread across the three key phases of drought, that is some would be appropriate for preparedness, some for management and some for recovery.

- **ADF advocates the inclusion of government funded incentives for the adoption by primary producers of additional drought risk management strategies such as drought management infrastructure, implementation of additional risk management tools (physical and managerial), research and development, and communication.**

Incentives could include measures such as a 100% tax deductibility for all drought mitigation investments in the year of expenditure for all primary producers. For example, fodder and water storage and management infrastructure, and/or conservation works and/or infrastructure.

Drought support initiatives need to support farmers to implement and manage strategies necessary to maintain responsible sustainable land and environmental stewardship during and from prolonged periods of severe drought. This could include conservation incentives via depreciation allowances, low interest rates loans and or activity based grants.

- **That consideration be given to enhanced financial and risk management mechanisms including insurance/superannuation products and enhanced Farm Management Deposits (FMDs).**

The ADF believes that Government should consider the development of a new insurance/superannuation based product to enhance a farmer's preparedness for both natural disasters and/or retirement. This might differ from FMDs in that it could have an effective *taxed-in* feature like superannuation. It could be accessible tax-free upon declaration of an EC event or upon retirement.

The ADF supports the FMD scheme, however ADF believes the scheme has a number of aspects that restrict its use as a risk management tool. For the FMD system to be utilised more widely by the dairy industry, ADF believes it should be reviewed and refined as a tax planning and risk management tool with the additional of greater investment incentives with superannuation and succession provisions. The ADF advocates the following points of concern and recommendations to enhance the FMD scheme.

Considerations in a review of FMDs:

- The \$300,000 deposit limit per person does not sufficiently provide for the dairy sector and should be increased. Additionally, the provision of an index mechanism to allow for annual increases in the limit is recommended for effective risk management in an environment where climate risk is changing. ADF would advocate that FMD limits should be relative at least one year's full operational cost of a farming enterprise.
- The current FMD \$50,000 off-farm income limit is seen as an irrelevant prescriptive barrier, which restricts dairy farmers from using the FMD system. The ADF recommends that this limit be removed or increased. Many producers have as a risk management strategy or out of sheer necessity, had to seek off-farm income to support the farming operation through difficult periods.
- The requirement to place FMDs into an individual's account does not provide a suitable risk management mechanism for dairy businesses. ADF recommends that the FMD scheme allow funds to be held in company or trust structures and not just personal names. The ADF would prefer to see FMDs be considered as assets of the farming operation rather than an asset of an individual taxpayer.

3.2 Service Providers

- **ADF believes that new initiatives are required to more effectively inform producers and their professional service providers (e.g. consultants, accountants and bank managers) of available drought management measures aimed at enhancing drought preparedness.**

This is aimed at enhancing the long-term sustainable management of a farming business. Initiatives could include providing resource to rural organisations to hold awareness and training seminars.

Training and Education

ADF advocates that the Commonwealth make available additional resources to underpin additional training and education programs on risk management and drought preparedness. This could be done through the FarmBiS program in partnership with rural organisations.

3.3 Weather Forecasting and Natural Resource Management

- **Commitment of additional resources is required for research and development into more effective rainfall variability/drought forecasting and prediction models that provide longer, more accurate and defined predictive information and lead times.**

Results from the additional research and develop work need to be harnessed to develop enhanced decision support tools for primary producers and other planners. This also needs to be supported with initiatives and incentives for primary producers to learn about the tools and to adopt the tools. Such tools also require a dedicated support service and continual development platform.

- **A future National Drought Management Strategy must also focus on regional water infrastructure, in particular, investment in enhancing existing water infrastructure, availability, and efficiency measures such as efficiency incentives, water recycling, appropriate water charging and management, and use of grey water.**

Many regions would have the potential for new or additional water infrastructure that would enable the region to better manage drought. The cost of drought should be factored into the benefits that additional water infrastructure can provide to both agriculture and regional communities.

The capacity for dairyfarmers to cope with drought needs to be kept in mind in deliberations regarding the national water initiative.

- **A future National Drought Management Strategy should also advocate water mechanisms that provide for the management of climate variability such as linking a component of price to reliability of supply.**

4.0 Managing Through Drought - Sustainable Drought Management

4.1 Farm Assessment

While an effective National Drought Management Strategy's first major line is focused on enhanced drought preparedness, the strategy should also assist producers to manage through and recover from drought. There will always be severe drought events where impacts will surpass preparedness strategies.

Such severe and prolonged periods of climatic adversity will continue to pose major challenges for primary producers, particularly as the environment of climatic risk continues to change and is not well understood.

ADF advocates that an effective National Drought Management Strategy will include support mechanisms to enable primary producers to implement and sustain strategies to manage through severe drought. As such the ADF makes the following recommendations:

- **To include a range of assistance mechanisms that can effectively take into account the effects of drought at the individual farm enterprise level, focusing on the circumstances and the actual needs of the farm business or the farm family, in planning for, persisting through and recovering from severe drought.**

Declaration of drought and eligibility

- **The process needs to be underpinned by a clearly defined broad initial declaration system identifying an exceptional drought within distinct biophysical/agroecological zones, with the major test of a farm business or farm family eligibility for individual drought assistance measures based upon the individual application outlining the impacts of severe drought at the individual farm level¹.**

The current process of individual industry assessment adds significant time delays to the application development and assessment process and thus delays the provision of drought assistance. The ADF advocates that the regional declaration process be inclusive with the provision of adequate information for the majority rural industries in a region.

- **That the guidelines for declaration processes be reviewed and refined to provide rural organisations and other relevant bodies with more effective guidance in assessing a region and developing declaration applications. ADF advocates that the declaration process remains event related, but that it is made to be objective, automatic, and capable of delivering more timely, apolitical and equitable decisions. From an industry perspective, the current EC application process is too complex, time consuming, costly and open to political interference.**

Current criteria are vague (e.g. what is the time frame for two crop failures), and some sectors 'fit' the EC application model far better than others. The income and assets test are unevenly restrictive, resulting in many otherwise viable farmers missing out. There is also insufficient data feedback from the process, for example Centrelink has not provided industry breakdowns for industry support.

Currently in order for an individual primary producer to apply for EC assistance, the Federal Government has stipulated that three steps must be completed, being as follows:

1. The Shire must be officially drought-declared by the respective State Government

Linking the EC program to State Government declarations has created a number of difficulties and has resulted in primary producers being ineligible for EC assistance even though they would meet all the required criteria except for a State Government issuing a declaration. The declaration systems differ from State to State and this creates significant inconsistencies in the provision of assistance to producers. Some States have declaration processes that are triggered by very different criteria to the EC process. For example, some States used current time scales for declarations whereas EC was based on an historical event. Therefore, by the time an EC application was developed and lodged based on an historic event, relief rain may have fallen. Consequently the State Government revoked their State-based declarations, thereby blocking producers from accessing assistance. There has been a number of recent examples of the Commonwealth Government making State declaration a prerequisite for EC assistance when just weeks prior to the decision the State authorities were terminating declarations.

In some States, there have been individual property declaration processes where the criteria was more suited to extensive type industries. Therefore, intensive industries were excluded from being eligible for EC assistance because they could not obtain a State declaration.

¹ If a simpler, broader, across-industry regional declaration process is not established following this review, then ADF would strongly argue for the retention of industry based assessment under EC. Furthermore, if such industry based assessments are required in future, ADF believes that resources should be made available to farmer organisations to assist with the cost of industry based applications.

2. A regional application for EC assistance must be lodged

In some States the responsibility for developing regional EC application has largely been left to rural industry organisations. The application processes have placed significant additional cost burdens on rural organisations, at a time when rural organisations themselves are being severely impacted by drought. Massive efforts have been required by state dairyfarmer organisations to demonstrate drought impact for the dairy industry, rather than leaving the individual application process to dictate whether individuals – regardless of their industry sector – have been sufficiently drought affected to warrant assistance.

3. Individuals must apply for assistance based on individual circumstances

If a broader approach was taken, and specific eligibility decisions were left to this 'third state of selection', industry organisations would be able to invest more time and money into assisting members access the funding, rather than spending inordinate amounts of time attempting to avoid sector 'exclusivity'.

- **As partly covered above, the ADF recommends that EC declarations be simplified at regional level with eligibility based on a single application, covering all assistance aspects, from a farm enterprise. Requirements on individual industries to demonstrate EC should be removed.**

The current policy appears to disadvantage the efficient users of water, that is those who have invested in infrastructure and/or irrigation systems. In some cases, when EC is declared, irrigators still have access to water and hence are able to produce during the initial phases of the drought. However, when they need to access assistance, as their water has run out – the EC Declaration is often nearing the end of its duration. Conversely, many industry sectors have been excluded from EC declarations due to water allocations at the time of application, without consideration of future water restrictions that have in some cases been driven by competing urban interests.

4.2 Jurisdiction and Administration by Government

Despite many recommendations to make drought declaration processes apolitical, it appears that many decisions may have political motives. An example of this was seen with the Federal Government Interim Assistance Package announced 9 December 2002, where some of the most drought-affected country in Queensland was deemed ineligible for interim assistance based on a southern-state winter rainfall model.

- **To achieve a political process consideration should be given to separating jurisdictions. For example, the Commonwealth managing whole EC process and/or developing a truly independent management authority together with better defined program guidelines.**
- **That the declaration process and individual producer application process be reviewed to derive greater administrative efficiencies.**

For example the current EC certificate could be utilised as a central application process for a producer to be able to access a range of drought assistance programs, instead of the current system of a producer having to complete multiple applications. Such a process could also be linked to State assistance programs to support primary producers through severe drought.

4.3 Farm Business Support Measures

ADF advocates that in relation to Farm Business Support measures the following recommendations be adopted:

- **Continue to assist farm businesses to effectively manage through the effects of severe drought and to provide a choice of assistance measures that suit different farming systems, management strategies and stages of a businesses cycle.**
- **Incorporate an assessment process for business support applications that assesses both the impact on income and operating position of an individual farming business, not just income. This should take into account the type of farming system and industry sector the individual enterprise is in, for example cropping, livestock, intensive livestock or horticulture.**
- **The ADF also advocates that the EC assessment criteria of a region having to have experienced two failed seasons is inappropriate, when in certain circumstances one failed season combined with additional circumstances such as input price pressures and declining commodity prices can result in exceptional circumstances for primary producers.**
- **Design business support measures that support viable farm businesses, in that with the provision of support, farmers will manage through the impacts of severe drought. Such support should reduce the need or effects of extra borrowings, enhancing the return to sustainable business conditions.**

Support measures should help encourage primary producers to continue to practice sustainable natural resource management within drought management decision making;

- **For producers who cannot demonstrate viability, there needs to be an effective incentive to either restructure their enterprise or to exit the industry.**
- **Ensure the provision to primary producers and professionals, of clear guidelines to support the application process for business support and, where required, facilitate the provision of professional assistance to prepare applications.**

Clear centralised, consistent and quality controlled advice should be provided to producers on their eligibility for assistance. This is a service where Government support could be provided to rural organisations to carry the provision of application support and advice services to primary producers:

- **The current business support measures for rural service businesses need to be reviewed and made more relevant and effective, recognising the significant down-stream effects of drought on rural and regional economies.**
- **National water management strategies should include risk management elements to enable the more effective management of water during severe drought. It is recommended that water schemes should have emergency water allocation plans to assist producers in crisis situations. Additionally, ADF advocates that during severe drought water authorities should have schemes in place supported by the Commonwealth Exceptional Circumstances scheme to assist producers to pay water charges. Water authorities should reduce fixed charges with significant reductions in the supply of allocations during periods of severe drought.**

4.4 Farm-Family and Social Support

ADF advocates that in relation to farm-family support measures the following recommendations be adopted:

- **Incorporate farm-family support measures that provide timely welfare assistance to eligible farmers, farm employees and displaced workers in drought-affected businesses, recognising the importance of maintaining a skilled workforce in regional areas throughout the entire drought cycle.**
- **Inclusion of more effective measures targeted at retaining skilled labour in the regions is a crucial ingredient to drought assistance.**

Retaining skilled and specialist staff has become a major problem during this drought and ADF advocates that greater public investment in retaining skills and providing additional training is warranted. Producers do not think the current Work for the Dole – Drought Force program is suitable as they wish to retain skills, not to have to lay them off and then try and coax them back.

- **Ensure that eligibility for farm-family support is triggered by an objective measure of an individual's (or family's) socio-economic circumstances, taking in account the inherent challenges that face individuals and families in surviving periods of adversity while living in regional and remote areas;**
- **Ensure that any farm-family support is only delivered for a defined period of time and is accompanied by counselling and training support options;**
- **Review the eligibility criteria for farm-family support to either increase and index the cut-off level over time or exempt the off-farm assets test totally.**

Many producers that have off-farm assets do not have them in a 'classified superannuation fund' but view and treat the asset as superannuation. Given the age profile across agriculture, many producers are hesitant to draw on these funds as they are trying to set up an off-farm retirement fund to help facilitate succession of the farming enterprise to the next generation without continuing to rely on drawings from that operation to survive. These types of strategies are themselves aimed at managing risk for the next generation. Farm-family support policies should not discriminate against these families:

- **That clear information is provided to producers on the scheme and that clear centralised, quality-controlled advice is available for primary producers from the agency and that the agency appoints appropriately trained staff to carry out the task.**

During the current drought primary producers and rural organisations have experienced differing interpretations by Centrelink staff on assistance guidelines. In some cases producers were exempted from assistance as a result and rural organisations have had to demand the rectification of problems and the review of applications.

4.5 Centrelink

- **Ensure the provision of statistics from Centrelink.**

Currently no data is available from Centrelink on the amount of assistance being accessed by primary producers as the agency states that they do not differentiate clients on their data base. For drought assistance measures to be effective they must be monitored for performance and reviewed. Without this data it is very difficult to carry out this task. In addition, industry organisations find it difficult to prioritise resource allocations to assist producers if they cannot ascertain where problem areas

exist. For example, if there are regions where producers may not be applying for and or receiving the necessary assistance.

4.6 Rural Counsellors

- **ADF supports the ongoing funding for rural counsellors.**
- **The current drought has placed a significant amount of pressure on farm financial and social counselling services to a point where some critical cases were not receiving adequate attention. It is recommended that a better system is implemented to more accurately gauge counselling resource requirements in drought affected regions and that where necessary, additional resources be made available in a timely manner.**

5.0 Drought Recovery

Although it is essential that measures are implemented to support primary producers to prepare for and persist through severe drought, ADF advocates that it is equally important that producers are allowed the opportunity to rapidly re-establish their productive capacity in the **drought recovery** phase.

The rapid recovery of rural enterprises is important for both regional economies and the national economy, ultimately helping to deliver positive social, economic and environmental outcomes at a range of scale. A rapid recovery assists primary producers to re-establish a strong equity position, affording producers the opportunity to invest further in future drought preparedness or rebuild risk management reserves such as FMDs in anticipation of future income declines.

In order to support farmers through drought recovery, ADF recommends that a future National Drought Management Strategy should include:

- **Consideration of access to enhanced finance and insurance/superannuation products, including low interest recovery loan facilities and/or HECS type loans, enhanced Farm Management Deposits conditions during the recovery period, to allow farmers to access the capital required to rapidly re-establish their enterprises.**
- **Enhanced decision support tools and training packages to assist farmers in re-establishing their enterprises, and incorporate initiatives to enhance farmers' confidence and capacity in utilising such products.**

It is clearly evident to the ADF, that following the most recent drought, there is a need for ongoing support. Many dairyfarmers have lost considerable equity and are rightly assessing the future of their business. While the dairy industry has committed considerable funds to assist dairyfarmers, the support of federal and state governments in this process is also necessary into the future.

- **Suitable incentives are required to help producers employ suitable skills and programs focused on rapidly rebuilding the skill base and social capital in regional Australia. To this end the ADF supports the continuation of FarmBis assistance packages.**
- **Incorporate policy elements that address the broader structural issues and generational transfer effecting Australian agriculture.**

6.0 Additional Recommendations

6.1 Administration

Currently there is a range of different agencies involved in administering different drought assistance measures. This situation creates a great deal of confusion, duplication and inefficient time and resource use for primary producers, rural organisations and Government agencies.

- **The ADF recommends that consideration be given to establishing a 'one-stop-shop' approach to delivering drought assistance.**

6.2 Farmer Organisations

As previously discussed the current drought has had a major impact on primary producers and the impacts has flowed through to a range of other sectors, industries and the community. One major flow-on impact is on peak industry organisations that have primary producers as members. The impact of severe drought has seen primary producers unable to pay membership fees which directly affects representative organisations' budgets. At the same time, primary producers call on representative organisations to provide additional support services.

A typical example of such demands occurred with one particular State Government leaving the majority of the work in developing Exceptional Circumstances (EC) applications for an industry to the industry organisation, with little support. While small businesses can apply for EC assistance, there is no support mechanism for non-profit representative organisations that can be impacted in the same manner.

- **The ADF recommends that the Commonwealth Government design an assistance program for non-profit peak industry organisations that have direct primary producer membership. That assistance be provided based on the percentage of membership covered by an EC declaration. That financial assistance is provided in the form of a grant and linked to the provision of drought support services to affected members.**

6.3 Managing Policy Transition

- **ADF recognises that it will take considerable time to develop and implement a new National Drought Management Strategy. As such, particularly as some regions are still suffering from drought, it is vitally important that the current programs are maintained until the new policy and programs can be implemented.**

6.4 Assessing Options

- **ADF requests that the Commonwealth Government formally involves industry in carrying out assessments and analysis of any alterations and or additions to the National Drought Management Strategy that may be considered by the Government.**

6.5 Grain Imports

During the last drought there were small volumes of grain imports to assist in alleviating local livestock feed demands. Strong quarantine requirements for grain imports to protect Australian grain producers from exotic pests and diseases tend to restrict the availability of grain imports and the destination of any imports. There were suggestions during the last drought that when a shipment of grain was imported local grain prices dropped by about 10%. This would suggest that local prices were above

import parity. The ADF believes livestock producers should have access to available feed grain at no more than import parity prices.

- **ADF recommends that the Commonwealth Government has measures in place for any future drought to monitor feed grain prices in Australia and make every effort to ensure domestic sales of grain are made at no more than import parity prices.**

6.6 State Government Assistance Measures

State Governments across Australia have or have implemented many different types of drought assistance schemes with varying degrees of effectiveness and efficiency. It is concluded that the most effective State Government drought assistance programs included:

- Direct grants that gave the farm manager the flexibility and ability to decide how to utilise the resources to manage the impacts of the drought and thus did not discriminate between different farm management scenarios, stage in business cycle or industry type.
- Freight subsidies to assist producers to purchase and freight feed supplies to their herds. This was helpful for the dairy industry as agistment is not a feasible option. Operations were able to maintain core genetics and some production and thus cashflow and processors were able to continue to supply dairy products to clients.
- Low interest rate loans have provided limited assistance as the amounts available per individual entity and the interest rate differential is not significant. However, such schemes may be utilised more in the recovery phase of the drought. Some States have restricted access to one or another program, for example in Queensland a primary producer cannot access both the freight subsidies and carry-on finance scheme.

It was evident from all States that the application processes were considered to be over burdensome and inefficient, as was the consensus with regard to State drought declaration processes. A number of States were considered to have programs that had significant inequities regarding discriminating between different types of industries, farming systems or regions.

Some States provided limited support to rural organisations to deliver drought information and to assist with drought applications. However, the quantum has been insufficient to make a considerable difference.

States have many other smaller programs but they provide only small levels of assistance for particular circumstances, for example school transport assistance, concessional registration and permits fees.

- **ADF believes that a new National Drought Strategy needs to ensure that State Government assistance measures are efficient, consistent, integrated and complement the national strategy. All packages need to be designed in such a way that they do not allow others in the market to take advantage of the scheme, reducing their effectiveness at the farm gate.**

7.0 Conclusions

ADF advocates that for a new National Drought Management Strategy to be truly effective, strong partnerships are required between primary producers, financiers, rural organisations and governments.

If this is achieved, more effective outcomes will result in the areas of agricultural productivity, sustainable natural resource management, social welfare and the viability of rural and regional communities.

While ADF advocates that improving self-reliance needs to remain the priority objective of a National Drought Strategy, the prolonged timeframe necessary to achieve this objective must be recognised. The immediate policy priority should be to create an operating environment allowing primary producers to continually enhance their business risk management strategies and drought resilience.

It also needs to be emphasised that the environment of climatic risk continues to change and more research is required to obtain a better working knowledge of it.

ADF believes the policy recommendations outlined would help create a more effective strategy to prepare for, manage and recover from severe drought events. In so doing, it would provide flow-on benefits to the national economy and stability to rural and regional communities.

Appendix A

Drought Impacts on Dairy Farming Operations

The current severe drought has impacted on all levels of the industry from farm through to processors and has directly affected regional goods and service supply businesses and employment.

In relation to the impact on dairy farming operations the following provides an overview of some of the main impacts.

1. Significant Reductions in Farm Income and Production

The current drought has had a prolonged impact on the returns and incomes of dairy farmers in most regions across Australia. ABARE, in their Australian Farm Surveys Report 2003, reported that dairy farmers were the most affected of all of agriculture by the drought. The report shows an average loss of (\$76,600) per dairy farm in 2002/2003 which compares to an average profit the prior year of \$60,880 per dairy farm. Therefore the severe affects of the drought led to a turn around from the previous year of \$137,480 per dairy farm on average. It is now estimated that the drought has directly cost the Australian dairy industry to date some \$2 billion.

Dairy farmers have implemented strategies to conserve water and fodder as drought risk management measures. However, the prolonged severity of this drought has surpassed these risk management measures and has resulted in much of their feed requirements having to be bought at a time when prices were at all time highs. This has lead to feed costs, as a proportion of milk income, more then doubling in the two years 2001 to 2003. Water reserves have been severely depleted. Water for irrigation has been severely limited and in many cases non-existent. Many producers have also had to resort to carting stock water and water to maintain dairy shed operations.

The dairy farming sector operates on a relatively small profit margin per litre of milk produced and therefore a significant increase in the use of high cost purchased fodder will severely impact on profit margins.

Many producers have had to reduce herd and milking cow numbers to reduce feed requirement pressures and to produce much needed cash flow. However, these actions directly impact on a farm's production capacity and profitability immediately and into the drought recovery phase. At the extreme, a significant number of producers have sold entire herds and closed operations.

Many farms have experienced poor productivity per cow, short lactation cycles and the lowering of conception rates due to animal stress produced by drought conditions. All of these impacts lower production and thus farm income.

Some farmers have not been able to maintain feed supplies and herd condition (through purchasing of feed) and as a result production levels have declined and in the worst cases cattle lost condition and dropped out of lactation. Additionally in drought recovery, it takes more time and higher feed rations to help animals return to suitable conditions to support getting in calf and returning to normal milk production.

Some producers have decided to try and maintain production and milk quality levels to avoid contract penalties and therefore have been reliant on purchasing large quantities of feed supplies at high costs. Over the last two seasons these strategies have caused operational costs to exceed returns and producers have as a result consumed equity in their operations.

2. Severe Fodder Deficiencies and Loss of Pasture Leading to Significant Increases in Feed Costs and Operational Costs

Fodder reserves right across the eastern seaboard have been severely depleted as a result of the current drought. In many cases fodder production has been significantly reduced or negated totally due to low rainfall and depletion of water sources used for irrigation.

Some enterprises have become heavily reliant on imported purchased feed sources.

Fodder inputs at prices, due to drought induced supply shortages, have reached all time highs. Some types of feed sources more than doubled in price over the last two-year period.

Many lines of normal feed sources have been completely unavailable over the last two years. As an example, molasses sales stopped early 2003. Normal prices range from \$60-80/tonne. Imported supplies cost up to \$185 per tonne at port if bulk orders and shipments were organised.

Available sources of fodder have had to be freighted great distances at considerable cost from interstate and some from overseas.

Increasing feed costs have lead to extreme stress and pressure to adopt 'risky' feed techniques such as feeding of "stressed sorghum", sugar cane, and old silage which can lead to animal deaths if not managed properly.

Major areas of improved pastures have died and will have to be replanted at considerable cost.

With relief rain many pastures have been overtaken by weed growth with little or no value, affecting production recovery. In some cases, weeds may put milk consignments at risk of rejection due to milk taint.

Farm operational costs, both financially and physically have increased due to the intense nature of drought feeding and pumping of water.

Producers in some regions where able to agist and milk their herds in other regions that were not as badly affected by drought, but the opportunity was only available for a relatively small proportion of the industry and for only a limited time.

3. Reductions in Milk Quality and Subsequent Price Penalties

During this drought cattle have been placed under significant stress as a result of low quality fodder, general feed shortages and inconsistent feed supply regimes, lack of fresh feed, coupled with above average temperatures.

This stress results in reduced milk quality in terms of protein, butter fat and higher cell counts which has lead to significant price penalties for producers.

4. Severe Water Deficiencies

During the drought surface and underground water reserves have been severely depleted and will require extended general rainfall for water reserves to recover. Even with recent relief rain water supplies are still depleted across many regions.

During the drought producers have employed different strategies to manage water deficiencies including buying or leasing expensive reserve water allocations; seeking new water sources by drilling new bores and installing new stock water supply lines; carting stock water and water for dairy shed functions; or if the cost was too prohibitive selling their herds.

Major storages have been at critical levels and irrigation supplies generally have been severely reduced, and in some cases, cut out for significant periods of time. This impact on irrigation supplies has severely reduced the capacity of fodder production systems and as a result producers have had to resort to purchasing fodder at extremely high costs.

The majority of farmers have water supply risk management measures in place to manage dry periods, however the extremes of this drought have surpassed most of these measures.

5. Water and Fodder Quality Issues

With the depletion of water supplies in many areas water quality has declined. This has caused problems for fodder production, stock water and cleaning operations.

During the drought, available fodder supplies have varied greatly in quality. These variations have caused problems for producers trying to maintain consistent milk production and quality. This has caused producers to suffer price penalties. In worse case scenarios poor quality fodder supplies have caused cattle deaths.

6. Forced Sale of Cattle and Herd Management Difficulties

The number of core breeding and production animals has declined as a result of the drought due to deaths, failed conceptions and the requirement to sell animals in the open market or direct to slaughter, as a last resort, to reduce stocking levels and to produce survival cash flow. In extreme cases, some producers had to liquidate whole herds and destroy stock as the producer did not have options due to there being no buyers or stock being too weak to be transported.

The reduction in herd numbers will lead to future losses in milk production and reproduction capacity and valuable genetic material.

As replacement animals will be expensive when the drought breaks, most producers will have little choice but to rebuild herd numbers via internal breeding programs. Therefore, it will take a minimum of three to four years of normal seasons to regain herd numbers.

7. Labour Management Issues

In order to reduce operational costs and the amount of new debt required to stay in operation, many farmers have reduced or stopped the use of hired labour. While this reduces costs it also requires family labour to work longer hours to cover the required workload.

Additionally, many producers have reduced their own wages and drawings to a point where it only covers survival costs, in order to reduce operational costs. The end result is that producers are working longer hours for less. This scenario has resulted in high levels of physical and mental exhaustion and placed significant amounts of stress on individuals, families and communities.

Farms are delaying general maintenance and improvement programs, further education and training, family and community interaction. The drought has resulted in a high 'personal cost' in terms of physical and mental exhaustion, stress and human capital erosion.

8. Liquidity Difficulties, Debt and Equity Management Issues

Farm sector debt has escalated as a direct result of the drought due largely to the high cost of feed supplies and reductions in income.

Increased debt levels have placed additional cash flow pressures on operations in terms of increased debt servicing requirements in a negative cash flow environment.

Producers have been forced to seek carry-on finance to stay in operation via increases in overdrafts, restructuring of loans and adoption of other financial support instruments.

Many farmers have liquidated off-farm assets to help cope with the effects of the drought and some have utilised the Farm Management Deposit program.

Many farmers have had to resort to liquidating on-farm assets including cattle and a number of producers have stopped production and liquidated whole herds and farming businesses.

Increasing debt levels, and in some cases reductions in asset values as a result of the drought, has reduced equity levels.

Many producers had taken on new debt to fund expansion plans to manage the effects of deregulation. The current drought occurred at a critical time and has negated and or delayed these plans.

The prolonged impact of the drought with increasing debt burdens, falling equity levels and falling operational margins have seen a number of farming operations put into receivership and liquidated.

9. Significant Difficulties in Recovery Phase

- Producers will need to restore profit margins.
- Producers will require access to finance to help fund recovery management strategies.
- Water reserves will need to be fully recharged.
- Pastures will need to be re-established at considerable expense.
- Fodder reserves will need to be restored.
- Genetics built up over a long period have been lost and will require replacement.
- Herd numbers need to be rebuilt – taking up to three years.
- The backlog of standard farm operations will need to be caught up, for example repairs and maintenance have been put on hold to reduce costs during the drought.
- Overdue creditors will need to be paid.
- New labour sources will need to be found.
- Equity levels will need to recover.

10. Reduced Milk Price Due to Reduced Factory Efficiencies

Due to the drought severely impacting production, many factories have lost efficiencies because of lower volumes of milk and thus falling economies of scale. They have had to pass some of these reduced efficiencies back to producers in the form of lower milk prices.

11. Potential Loss of Markets Due to an Inability to Supply

The severe drought has reduced production by such a degree that some processors of export products have not been able to maintain export supplies and as a result may lose market share and supply contracts. It will take a lot of time, effort and resources to win back these markets.