

# Agribusiness Association of Australia

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## Politics and Drought Assistance <sup>i</sup>

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The following comment by the Federal Minister Warren Truss on drought assistance was reported by the Associated Press on February 20th 2003 "... *There are now almost 5,000 farm families<sup>1</sup> receiving either the 6-month interim assistance or the 2 year EC drought relief...*"

A breakdown of the 2002 / 03<sup>2</sup> drought assistance figures by state is shown below.

	QLD	NSW	VIC	SA	WA
Farmers Assisted <sup>a</sup>	1316	1979	1182	34	460
Total Enterprises <sup>b</sup>	41 794	36 333	29 407	15 450	13 313
Percentage	3.2%	5.5%	4%	0.2%	3.5%

a – In receipt of Federal Assistance and excluding state transport and other assistance

b - Agricultural Commodities, Australia, 1999-2000 (7121.0).

The ABS estimates there are 103 800 'farmers' in Australia (approximately 141 000 'enterprises' producing food and fibre) so from the figures supplied by the Minister, approximately 4.8% of farmers in Australia were receiving some form of federal government drought assistance as at 20/02/03.

These figures may come as a shock to some; particularly those who like to promote the popular perception that 'most' farmers in Australia are in receipt of some kind of assistance (a belief that is fostered in the media and encouraged for political purposes). It suits politicians to be able to be 'seen' to be assisting farmers and it suits the farm lobby to be able to demonstrate that they have 'secured' assistance for their constituency.

However it is an impression that is ultimately damaging to the long-term relationship between agribusiness and the wider community, particularly those in the finance sector.

The Ministers' press statement also noted "... *more than \$60m already expended by the Federal Government...*" in drought relief payments, or a simple average of \$12 000<sup>3</sup> per recipient. The total federal allocation for drought assistance is \$900 million over a 2-year period, so the amount of the allocation actually spent is 6.7% of the total amount available to be spent. Being an allocation of course doesn't mean that this is the amount of money that will actually be spent over that period.

**Managing to survive.** - The figures referred to earlier show that approximately 95% of farmers in the states most effected by the 2002 / 03 drought (Qld, NSW & VIC) have apparently been able to survive the drought without federal EC assistance.

While this drought has been intense in its effects, mostly through its effects on the grains / cropping sector and the consequent flow on effects to the livestock sector through higher than normal feed prices and lower than normal supplies, it has to be remembered that leading up to the current drought the industry (both cropping and livestock) experienced some of the best years on record for production, exports and profits.

In September 2002 approximately 42 000 farmers (40% of total farmers) had deposited \$1.93 billion in Farm Management, or 6.8% of the total turnover of the production sector<sup>4</sup>. The funds deposited not only allow the participating enterprises to survive years when incomes collapse, but it also means they are less likely to be reliant on drought assistance measures. This not only saves taxpayers underwriting drought assistance, it makes the farming enterprises a better credit risk for lenders and it has the important psychological effect of making the participants more self-reliant.

<sup>1</sup> An assumption is made that a 'family' equates to an individual enterprise and that the term 'family' is used more for its political connotations – it sounds better than saying *4971 businesses were receiving assistance* – although it is acknowledged that a percentage will be in receipt of income support and not other more business focused drought relief.

<sup>2</sup> While this paper refers to the '2002/03' drought, it is acknowledged that in many areas drought conditions existed before the start of 2002, but that the drought will be referred to in historical terms as the 2002 drought.

<sup>3</sup> This figure is used for the purposes of illustration only. It is acknowledged that individual recipients will have received more or less assistance depending upon their individual circumstances.

<sup>4</sup> Based on total turnover value for 1999 / 00 of approximately \$28.5 billion.

Having established the current FMD regime as being of great value to individuals and the sector as a whole, modifications should be made to make the scheme more attractive for a greater percentage of farmers, because as the level of FMD deposits rise, there should be a corresponding fall in the need for drought assistance.

**The Value Chain.** - This leads us to an important question; if the federal government is willing to *allocate* \$900 million over a 2-year period for drought assistance, why not actually *spend* that amount rather than making it available? A boost to the regional economy of that amount will, in part, help replace some of the cash drained out of the economy. It would be of particular assistance to businesses that supply goods and services to farms and alleviate the job losses associated with the drought.<sup>5</sup>

Under Exceptional Circumstances a farmer can receive an interest rate subsidy of up to 50% on new and existing commercial loans to a maximum of \$100 000 PA (subject to review in the second year). This assistance is 10 times greater than that available to non-farm businesses that are adjacent to or dependent on areas effected by exceptional circumstances. In this case the interest rate subsidy is up to 50% on new and existing loans, but only up to a maximum of \$10 000 PA.

Being parsimonious toward the support sector takes no account of the fact that, without labour, input supplies, transport and other infrastructure, farming enterprises can't operate. In reality it doesn't matter how much assistance a farmer receives, if services he relies on in his area close or are reduced because of drought, then the viability of his enterprise is compromised – a farm can't operate without its input and output supply chains.<sup>6</sup>

The issue of how to better defray the economic impact of drought at a regional and national level should be the central theme of a wholesale review of drought assistance.

**Preparedness and Coordination.** - In its pre budget submission, the National Farmers Federation predicts that by the "...end of FY2003 farm production is set to be down 21%, farm incomes are expected to fall by 50% and Australian GDP will be reduced by up to 1% as a direct result of the drought".

Clearly the economic effects of drought are not limited to the state level, the economy of Australia is national and not delineated by state borders. Likewise natural resource issues closely linked to drought, particularly water storage, allocation and use, are issues of national economic importance and they are across state boundaries.

It would almost appear as though drought assistance has become more about making political mileage and less about effectively assisting the food and fibre production sector, as indicated by the following news report.

*NSW calls for full state drought support - The New South Wales government is demanding full Federal drought assistance for all its primary producers, based on the latest rainfall data. Agriculture Minister Richard Amery says producers in 67 per cent of his state are eligible for exceptional circumstances assistance, but he thinks the Federal Government should extend that to 100 percent. "We have a situation now where the drought is widespread right across the state and our rainfall figures, if you look at something like the end of January, something like 302 of the 331 weather stations had recorded rainfalls in the lowest five per cent, which is the worst such event on record in the past 114 years."* <http://www.abc.net.au/rural/news/stories/s784447.htm>

If 67% of farmers in NSW are eligible for EC assistance, why then are only 5.5% receiving that assistance? Is it due to blockages in the allocation system or farmers not claiming? If it's the latter, why offer assistance if its not going to be taken up?

Rather than trying to better coordinate the disparate drought relief efforts between the federal and the various state governments, states should cede their drought and rural adjustment responsibilities to a single federal organisation with responsibility for all aspects of drought assistance and industry reform (not just EC).

The states would still be involved in delivery of assistance, because of their "on the ground" presence, but they would move from being *decision makers* (with a possible vested interest in slowing the process of assistance delivery for political purposes) to become *service suppliers*.

Do we really need 6 different drought and rural adjustment policies to cover 103 800 farmers in a country of 19 ½ million people, when one national policy will be more effective?

Federal Minister Warren Truss, at the opening of Outlook 2003, acknowledged farmers are confused by the current drought funding arrangements and he is calling a summit reform drought relief when the drought breaks.

Why wait until then, particularly as thoughts will turn away from drought to more productive matters? Why not hold the drought assistance reform summit when it's relevant and current?

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<sup>i</sup> The opinions expressed in this article are those of the author, David Ginns, and do not necessarily represent those of the members of the Agribusiness Association of Australia. The opinions expressed are for the purpose of advancing debate and discussion on the issues raised.

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<sup>5</sup> The Deputy Prime Minister is on record as estimating that as many as 70 000 job will be lost as a result of drought.

<sup>6</sup> This point was made by representatives for the transport industry in late 2002, referring to the number of trucking businesses that were in serious financial difficulty from the lack of freight.