



**Australian Government**  
**Department of Agriculture,**  
**Water and the Environment**

# **Submission to the ‘Federal Government’s response to the drought, and the adequacy and appropriateness of policies and measures to support farmers, regional communities and the Australian economy’**

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# 1 Introduction

Drought is part of the Australian landscape and managing drought is a regular part of Australian agriculture. Australian farm businesses and the communities they are part of are adopting increasingly sophisticated and effective strategies to deal with drought and respond to climate change variability. Australian drought policy has evolved over the last fifty years away from viewing drought as a natural disaster or exceptional circumstances to an approach encouraging preparedness, sustainability, resilience and risk management for farming businesses and related communities.

## 2 Current drought policy settings and support measures

### 2.1 The National Drought Agreement

On 12 December 2018, the Council of Australian Governments signed a new National Drought Agreement (NDA). The NDA replaces the 2013 Intergovernmental Agreement on National Drought Program Reform (IGA) and will remain in place until 30 June 2024.

The NDA sets out a joint approach to drought preparedness, response and recovery, with a focus on accountability and transparency. The agreement recognises the need to support farming businesses and farming communities to manage and prepare for climate change and variability. It encourages all jurisdictions to focus on measures that bolster risk management practices and enhance long-term preparedness and resilience.

While jurisdictions are free to act as they see appropriate, the NDA clearly delineates roles and responsibilities between the Commonwealth and states and territories. For example, the Commonwealth is responsible for delivering a time-limited household support payment and states and territories are responsible for animal welfare and land management.

There are shared roles and responsibilities such as providing financial counselling, providing health and wellbeing support, developing quality, publicly available data and making information readily available.

The NDA also encourages information sharing to avoid duplication, while respecting each jurisdiction's ability to make its own decisions.

The Agriculture Ministers Forum provides a mechanism for the Australian, state and territory governments to coordinate drought response to minimise duplication and facilitate collaboration in delivering the shared roles and responsibilities defined in the NDA.

### 2.2 Principles of drought support

The NDA recognises that droughts are part of Australia's landscape and managing drought is a feature of Australian agriculture. The NDA states that future programs related to the objectives of the agreement should be consistent with the principles for reform, which are:

- 1) government policies and programs should support farming businesses, farming families and farming communities to prepare for drought and enhance their long-term sustainability and resilience
- 2) drought is just one of a number of hardships that can adversely impact farming businesses
- 3) programs and assessments for eligibility for programs need to be streamlined to remove red tape and deliver timely assistance to farming businesses, farming families and farming communities
- 4) recognition of the important role of farming businesses as the nation's food and fibre producers and important export revenue earners

- 5) future farm family welfare assistance should require a level of mutual responsibility
- 6) for access to the income support system, farming families should have the same access rights as the wider community, acknowledging that a different and temporary assets test would apply
- 7) policies and programs should assist farming businesses plan and prepare for the future
- 8) support will be based on a willingness by farming businesses to prepare for the impacts of increased climate variability and climate change
- 9) policies and programs should recognise the important role of farming businesses in maintaining strong and cohesive rural communities
- 10) policies and programs should recognise the importance of maintaining and supporting the natural resource base during drought and climate change
- 11) there should no longer be Exceptional Circumstances declarations and associated lines on maps.

## **2.3 Drought Response, Resilience and Preparedness Plan**

On 7 November 2019, the Australian Government released its Drought Response, Resilience, and Preparedness Plan (the Plan) (Department of Agriculture, 2019), which outlines how the government is helping farmers and rural communities prepare for and manage through drought.

The Australian Government's approach towards drought and drought preparedness is focused on three parts.

Firstly, taking immediate action to support those affected right now by the drought. This includes:

- the Farm Household Allowance, which includes income support and funding for planning and training
- the Rural Financial Counselling Service, which provides free financial counselling to farmers and related small businesses in, or at risk of, financial hardship
- the Regional Investment Corporation (RIC), to deliver concessional drought and farm business investment loans
- funding for 100 gigalitres of discounted water to grow fodder, silage and pasture
- the On-Farm Emergency Water Infrastructure Rebate Scheme to help farmers purchase and install on-farm infrastructure for stock and permanent plantings
- improving Great Artesian Basin drought resilience through funding to repair uncontrolled bores and replace open bore drains, which will save water for when it is needed
- targeting wild dog fencing and other pest and weed removal
- continuing the Drought Community Support Initiative, which provides immediate aid to drought-affected families
- taxation measures and concessions, including the Farm Management Deposits Scheme and accelerated fodder storage asset depreciation measures

- financing for the National Farmers' Federation to deliver FarmHub, a one-stop shop website that puts information on all drought assistance measures in one place
- investing in support for rural mental health services and community organisations
- investing in the Bureau of Meteorology to build and relocate new radars
- creating localised weather and climate forecasting services to help prepare for drought
- developing, improving and maintaining the National Drought Map.

Secondly, supporting the wider communities that depend on farmers for their livelihood, including:

- the Drought Communities Programme Extension, to provide up to \$1 million to individual councils for projects that use local supplies and employ local people
- prioritising the Building Better Regions Fund for projects in drought-affected communities;
- Roads to Recovery projects in drought-affected communities
- trialing a rural financial counselling pilot to help small regional and rural businesses with financial planning, mentoring and coaching
- a Drought Loan product through the RIC for agriculture-dependent small businesses
- financial support for schools facing financial hardship as a result of ongoing drought conditions
- financial support to assist early child care centres that are experiencing decreased demand and financial pressures due to families being unable to pay for child care
- the Foundation for Rural and Regional Renewal, which gives grants to small not-for-profit and community groups.

Thirdly, supporting long-term resilience and preparedness to withstand drought and encourage farm businesses and rural communities to be prepared for and capable of managing through the next drought. This includes:

- the Future Drought Fund to boost resilience, preparedness and response across Australia
- building infrastructure to increase water security, including through the National Water Infrastructure Development Fund
- National Landcare Program
- developing a national soil strategy
- delivering an agricultural stewardship package.

## **2.4 Current support measures and programs**

The Australian Government is meeting its obligations under the NDA and support measures and programs align with the principles for reform outlined in the NDA. Whole of government coordination is delivered by the National Drought and North Queensland Flood Response and Recovery Agency.

The Department of Agriculture, Water and the Environment is responsible for the support measures and programs set out below. Other Australian Government agencies have responsibility for additional programs, such as the infrastructure and community-based programs delivered by the Department of Infrastructure, Transport, Regional Development and Communications and the Department of Health's mental health and wellbeing programs. Additional information on the range of government measures is available in the Drought Response, Resilience and Preparedness Plan (Department of Agriculture, 2019).

### **2.4.1 Income support**

The NDA commits the Australian Government to funding and delivering a time-limited household support payment.

The Farm Household Allowance (FHA) was implemented on 1 July 2014 and provides assistance to farming families experiencing financial hardship, no matter the cause of that hardship, without the need for a drought or Exceptional Circumstances declaration.

FHA was developed as a direct response to the 2009 Productivity Commission (PC) Inquiry Report into Government Drought Support. The PC recommended that the government move away from income support that was limited to an Exceptional Circumstances declaration (for drought and its impacts) and relied on 'lines on maps' and instead move to a payment that was always available, not linked to an industry or a specific cause of hardship, time-limited and required recipients to undertake activities to improve their situation as a condition of receiving payment. Each of these principles have been enshrined in FHA arrangements.

### **2.4.2 Financial counselling**

A shared role under the NDA is the provision of rural financial counselling services.

The Australian Government has funded this service in rural communities for over thirty years.

The Rural Financial Counselling Service (RFCS) program was created in response to increased financial difficulties across the rural sector due to high interest rates, the deregulation of the financial sector, drought and depressed commodity prices. It was initially intended as a short-term assistance measure, but has continued in several forms to the present day.

The Australian Government has allocated more than \$105 million in funding to the RFCS program from 1 April 2016 to 30 June 2021.

There are 12 RFCS service regions across Australia. Between 1 July 2018 and 30 June 2019 there were more than 6,600 active clients.

### **2.4.3 Taxation Measures**

The Australian Government has made a number of taxation concessions available to assist farmers better manage their cash flows and invest in on farm measures that build resilience.

Income tax averaging evens out farmers' tax liabilities over time, by averaging their tax rate based on taxable income earned in the last five income years. This ensures farmer's tax liability is comparable to that of tax payers with stable incomes.

The Farm Management Deposits (FMD) Scheme also assists farmers to deal more effectively with fluctuations in cash flow. Eligible farmers can set aside pre-tax income to draw on in future years when needed, such as for restocking or replanting when conditions improve.

Farmers can also use their FMDs to offset the interest costs of their farm business loans, further enabling their long term resilience and business risk management during drought years. Further, if farmers are forced to dispose of livestock owing they may spread the profit earned over a period of five years.

Accelerated depreciation arrangements have also been made available to allow farmers to immediately deduct the purchase cost of new water facilities, fodder infrastructure and fencing. These tax measures allow farmers to further invest in, prepare for, and respond to drought.

#### **2.4.4 Concessional Loans**

A role of the Commonwealth, under the NDA, is to provide access to incentives that support farming businesses' risk management, including concessional loans. The Regional Investment Corporation (RIC) was established on 1 July 2018 to administer the Commonwealth's farm business concessional loans. Prior to this, the Commonwealth's concessional loans were delivered through state government delivery agencies.

The RIC's loans help eligible farm and small businesses improve their long-term strength, resilience and profitability. The Drought Loans offered by the RIC help eligible farmers prepare for, manage through and recover from drought. These loans can be used to refinance existing debt and pay for operating expense or capital expenditure. The RIC's AgBiz Loan was launched in January 2020 and is available to drought affected small businesses that supply primary production related goods and services to farmers. AgBiz loans can be used for working capital and also to refinancing existing debt. Both the Drought and AgBiz Loans provide recipients with concessional terms, including two years interest free, low interest rates and a ten year term.

The role of the RIC is not to compete with or replace commercial lenders, but instead work with them to achieve better outcomes for eligible businesses. This is reflected in the requirement for RIC loans that at least half of the businesses' debt is held with a commercial lender. RIC loans are also structured to have a remaining amount due at the end of the term that can be refinanced with a commercial lender.

#### **2.4.5 Future Drought Fund**

The Future Drought Fund is a long term investment fund that will provide a sustainable source of funding to help Australian farmers and communities become more prepared for, and resilient to, the impacts of drought. Established under the Future Drought Fund Act 2019 in September 2019, the Fund will begin with a \$3.9 billion investment, with earnings to be reinvested by the Future Fund Board until the balance reaches \$5 billion.

From July 2020, \$100 million will be available each year to invest in drought resilience programs. Through grants or other arrangements, the Fund will support research and innovation; research extension; adoption of existing and new technology; improved



environmental and natural resource management; and small-scale infrastructure and community initiatives.

#### **2.4.6 Centralised Farm Support and Information Access**

A shared role of the Commonwealth, states and territories under the NDA is to ensure information on assistance for drought preparedness, response and recovery is accessible and readily available and to contribute to developing quality, publicly available data, including weather, seasonal and climate forecasts.

##### **FarmHub**

FarmHub is a one-stop-shop website providing a centralised point of trusted information on support and programs from all levels of Australian governments, industry groups and not-for-profit organisations. The Government commissioned the site and it is maintained by the National Farmers' Federation (NFF). The NFF is working on additional services for inclusion on the site. This includes centralising farm risk management resources and developing an on-line drought preparedness e-checklist.

These additional services further enhance the availability and preparedness and resilience information to assist with farmer decision-making.

##### **Radars and weather guides**

In the 2019–20 Budget, the Australian Government committed \$77.2 million to install and operate four new dual-polarised Doppler radars, and supporting rain gauges, to fill significant coverage gaps in Queensland. The new radars are expected to become operational between 2021 and 2023.

The new radars will allow people in more areas of Queensland to monitor weather in real time via the Bureau's website and the BOM Weather app and provide:

- much improved rainfall rate measurement for use in flood warning operations;
- more accurate calculation of accumulated rainfall and stored soil moisture;
- better short-term forecasting of rainfall and severe weather, and identification of hail; and
- enhanced tracking of the location and strength of wind changes, benefitting aviation as well as firefighting and other emergency services.

The government also provided \$2.7 million to the BOM to develop Regional Weather and Climate Guides to improve the resilience of farming businesses by providing localised facts about the likelihood, severity and duration of key weather variables in regions across the country. This helps farmers understand and manage their climate risk, by providing regionally focused climate and weather summaries that detail historical observational information available from Bureau of Meteorology weather stations. The weather and climate information is delivered through a set of guides corresponding to Australia's Natural Resource Management regions. The guides have been developed in collaboration with representatives from each NRM region to ensure the information is tailored to the needs of local farmers and agribusinesses.

#### **2.4.7 Water initiatives**

The Australian Government and state and territory governments have worked collaboratively over recent decades to address Australia's long-term preparedness and resilience to prolonged

drought conditions and water scarcity. A variety of measures and agreements, including the National Water Initiative (NWI), the Water Act 2007 and the Murray-Darling Basin Plan, have been established to promote sustainable water resource management.

The NWI, agreed by the Council of Australian Governments in 2004, is Australia's enduring blueprint for water reform. Through it, all Australian governments agreed on actions to achieve a more cohesive national approach to the way Australia manages, measures, plans for, prices and trades water. Under the NWI, governments have made a number of commitments, including to:

- prepare comprehensive water plans;
- achieve sustainable water use in over-allocated or stressed water systems;
- introduce registers of water rights and standards for water accounting;
- expand trade in water rights;
- improve pricing for water storage and delivery; and
- better manage urban water demands.

Concern with the over-allocation of water resources led to the introduction of the Commonwealth Water Act in 2007. The Murray-Darling Basin Plan (Basin Plan) is the key mechanism in the Water Act to reset the balance between consumptive and environmental use in the Murray-Darling Basin. The government is implementing the Basin Plan to restore the Basin's rivers and wetlands while supporting strong regional communities and sustainable food production. It is eight years into the Basin Plan's 12 year implementation and the Australian Government is committed to ensuring that the water recovery required under the Plan is managed in a way that minimises socio-economic impacts on Basin communities.

The Australian Government is providing more than \$13 billion to implement the Basin Plan. The Sustainable Rural Water Use and Infrastructure Program is a key initiative. The program is investing \$10 billion in rural water use, management and efficiency, including improved water knowledge, market reform, and upgrades to on and off-farm water infrastructure that will improve water efficiency and return water to the environment.

More than \$8 billion is being provided for modernising infrastructure and water efficiency improvements as part of Basin Plan implementation. This represents a major investment in the long-term productivity of irrigated agriculture and the sustainability and resilience of regional communities to drought.

Water infrastructure activities have focused primarily on improving the efficiency of delivery of water and on-farm use. Across the Murray-Darling Basin, modernisation works are being undertaken on approximately 2500 km of delivery network channels. Improvements to water delivery efficiency through remediation, automation, reconfiguration, rationalisation and replacing existing open channels with pipelines are benefitting more than 12,000 individual irrigators. Efficiencies are increasing the productive water available to farmers by decreasing evaporation and leakages and improving delivery reliability, timing and quality.

The collaborative approach to managing water resources is also reflected in the highly successful improvement in drought resilience in the Great Artesian Basin (GAB). This joint effort

with state government has seen the GAB strategically recover water pressure, with a marked decrease in wasted water resources through targeted infrastructure investments that have increased the GAB's resilience to manage drought in to the future.

The Australian Government has committed \$36.9 million to deliver on-ground works that will improve the long-term sustainability of the Great Artesian Basin. This includes \$6.4 million available to Queensland to deliver strategic groundwater infrastructure through the Interim Great Artesian Basin Infrastructure Investment Program 2019-20, and \$27.6 million of matching dollar-for-dollar funding over five years for the delivery of infrastructure and non-infrastructure projects across all Great Artesian Basin states under the Improving Great Artesian Basin Drought Resilience program 2019-24. This commitment came about following extensive and continuing consultation with stakeholders about ways to improve efficient use of Basin water. Improving the long-term sustainability of Basin water resources will help achieve economic, environmental, cultural and social outcomes in the Basin.

A new Great Artesian Basin Strategic Management Plan is expected to be released in 2020. The plan has been developed to guide governments in their management of the Basin and provide transparency and clarity to water users and other stakeholders regarding Basin management activities and policy.

Financial assistance is also being provided to drought affected farmers to purchase and install new infrastructure to water their livestock and permanent plantings through the \$50 million On-Farm Emergency Water Infrastructure Rebate Scheme. So far, approximately 4,278 farmers have been assisted through this scheme.

The Australian Government is providing 100 gigalitres of water at heavily discounted rates to farmers in the southern connected Murray-Darling Basin to grow fodder and pasture. This water will help farmers maintain their breeding stock during the drought, and enable a faster recovery and return to profitability when the drought breaks. The program is expected to deliver 120,000 tonnes of fodder and allows farmers who have been priced out of the market or have a reduced water allocation to grow fodder or pasture for drought-affected stock.

#### **2.4.8 Balancing economic, environmental and social needs**

Work is underway across government to develop ways to support policies and programs with a wide range of environmental, social and economic data collected by the government. The methods include statistical modelling and the development of national environmental-economic accounts to provide a more complete picture of our land, soil, water, ecosystems and other natural resources assets that contribute to drought resilience. Some of this work will improve understanding of the impacts of drought to inform future policies and programs.

For example, the department is using data from the Murray-Darling Basin to pilot the development of ecosystem accounts. The accounts will help to clarify the economic benefits of ecosystem services, including during droughts. This work is part of the five-year National Strategy and Action Plan for Environmental-Economic Accounting, which started in April 2018.

In addition, the Physical Environment Analysis Network is using socio-economic data from a range of government sources to inform the 2020 evaluation of the Murray-Darling Basin Plan, and to investigate the impacts of drought and the potential for new insurance products. The

Physical Environment Analysis Network is a cross-portfolio analytical unit under the three-year Data Integration Partnership for Australia.

## **2.4.9 Pests, Weeds, Soils, and Biodiversity**

### **Pests and Weeds**

The management of established pest animals and weeds is primarily the responsibility of the states and territories, and landholders. The Australian Government is committed to the management of established pest animals to the extent to which they occur in Commonwealth areas. The Australian Government provides leadership and coordination, and invests strategically in research and development in pest animal management where it is in the national interest. However, pest animals and weeds are a burden not just for farmers; they also further stress ecosystems and landscapes experiencing drought. Weeds reduce farm and forest productivity, displace native species, and contribute to land degradation. Pest animals negatively impact Australia's agriculture, biodiversity, natural and built environments, public health and productivity.

The Australian Government has invested in landscape health, groundcover, established pest and weed management and critical stock forage prior to, and during, the current drought. The Landcare Programme supports a range of initiatives, from wild dog management right through to strategic leadership in a national approach to weed and pest animal management. Investment in these programs has been prioritised within communities impacted the most by the current drought. Under the Communities Combating Pests and Weed Impacts During Drought Program – Biosecurity Management of Pests and Weeds (rounds 1 and 2), \$25 million was committed by the Australian Government to help manage pest animals and weeds, at a time when drought-affected communities and farmers are least able to do so. The program aims to also increase farm business profitability, contribute to the government's broader biosecurity objectives, stimulate economies and employment in local communities and effectively manage these pest animals and weeds by using best practice management to reduce population numbers at a landscape level. Examples of projects delivered under round 1 of this measure include wild dog management through culling and exclusion fencing and weed management through on-ground control activities.

### **Sustainable management of soils**

Australian agriculture accounts for 58 per cent of Australian land use. The sustainable management of our natural resources particularly soils is critical for the sustainability of the agricultural sector. Soil that has been well managed and has built high levels of fertility, organic matter and structure will resist the impact of reduced rainfall for longer when droughts commence, be more resilient in times of drought and recover quicker when it does rain again.

Under the Australian Constitution, states and territories have primary responsibility for the legislative and administrative framework for natural resources, including soil management. The Australian Government's involvement in land management focuses on matters of national environmental significance and fulfilling Australia's international obligations. The Government recognises the importance of soil health and is investing in various programs and initiatives to increase the uptake of sustainable practices that lead to improvements in natural resource management outcomes at paddock and regional scales.

The Government continues to support the implementation of the National Soil Research, Development & Extension Strategy: Securing Australia's Soil for profitable industries and healthy landscapes (2014). The Government has also committed to the development of a National Soil Strategy (Strategy). The Strategy will contribute to domestic and international agendas, including the Australian agriculture sector's goal of being a \$100 billion industry by 2030, and the Government's priority of building resilience in our communities and adapting to a changing climate.

#### **Recent investments in natural resource management by the Australian Government**

On 18 July 2019, the Prime Minister announced the reappointment of Major General the Hon. Michael Jeffery AC, AO (Mil), CVO, MC (Retd) as the National Soils Advocate and provided his non-profit organisation, SoilsForLife, with \$2 million over four years to encourage the adoption of regenerative landscape management practices across the country.

In 2017, the Government established the Cooperative Research Centre for High Performance Soils (Soil CRC) to help bridge the gap between soil science and farm management. The Soil CRC is the biggest collaborative soil research effort in Australia's history, with an initial investment of \$39.5 million over 10 years.

The Government's National Landcare Program Phase 2 (the Program), commits around \$1 billion from July 2018 to June 2023, to protect and improve our sustainable agricultural practices at local and regional levels. The \$134 million subprogram (Smart Farms) of the Program, supports the development and uptake of best practice, tools and technologies that help farmers, fishers, foresters and regional communities improve the protection, resilience and productive capacity of our soils, water and vegetation, in turn supporting successful primary industries and regional communities.

Under Smart Farms, in 2018-19, Soil CRC also received an additional \$466,650, to conduct training and education activities for 30 grower groups and natural resource management organisations. Likewise, in 2019-20, Greening Australia received \$550,000 to support native planting and revegetation on farms to benefit animal welfare, reduce sediment loss and maintain soil structure, increase on-farm soil moisture, retain nutrients and protect riparian zones.

#### **Agriculture Stewardship Package**

The \$34 million Agriculture Stewardship Package (Package) is a 2019-20 Budget measure providing funding from 2019-20 to 2022-23. The four year Package includes:

- Development of an Agriculture Biodiversity Policy
  - The policy will address the increasing demand for sustainable agricultural practices to achieve the dual outcomes of improving productivity and biodiversity.
- The Agriculture Biodiversity Stewardship Pilot Program
  - This \$30 million Program is to trial a grants program aimed at increasing the adoption of sustainable practices to deliver business improvement and biodiversity outcomes to farms. Of the \$30 million, up to approximately \$27 million in administered funds is available for a grants program. The remaining \$3 million has been allocated for departmental and grants administration of the Program in 2019-20 and in the forward years.

- The Australian Farm Biodiversity Certification Scheme Trial
  - An allocation of \$4 million to develop and test a sustainability certification/verification scheme, complementing the Agriculture Biodiversity Policy. The scheme will encourage farmers to demonstrate best practice biodiversity management of natural resources, ensuring the actions are recognisable by the community and other farmers. The trial may also identify opportunities for agriculture industry participation in existing or new market based environmental stewardship programs.

## 2.5 Impact of measures

Historically, Australian governments have employed a range of agricultural policy measures to maintain and stabilise farmer returns, including marketing and price support schemes and subsidies to reduce input costs. However, these assistance measures distorted resource use across farms and weakened farmers' incentives to find better ways of managing risk and to improve productivity. Moreover, government assistance served to offset 'normal' adjustment pressures, impeding ongoing structural change and preventing more efficient farmers from expanding their operations.

Recognising this, the Australian and state and territory governments have largely reformed market interventions to the point where the level of agricultural producer support is currently the second lowest in the OECD.

Agricultural support is defined as the annual monetary value of gross transfers to agriculture from consumers and taxpayers, arising from governments' policies that support agriculture, regardless of their objectives and their economic impacts. The Percentage Producer Support Estimate (%PSE) represents policy transfers to agricultural producers, measured at the farm gate and expressed as a share of gross farm receipts.

The OECD estimates Australia's PSE as around 2 per cent of gross farm receipts for the period 2016-18 (OECD, 2018). This is in comparison to 6 per cent for 2006-08 which coincided with the millennium drought and the EC arrangements. The OECD further states, of the level of support that Australia provides to agricultural producers, the vast majority is invested in projects and programmes that reduce environmental externality risk, increase producer's ability to deal better with droughts and other [climate driven] events (OECD, 2018). Of the remainder support, the OECD concludes that it primarily supports producers directly in their ability to manage risk and engage in environmental management.

Australia has developed an extensive agricultural knowledge and innovation system that is underpinned by an investment of around \$1.1 billion a year in rural research and development. The OECD has reported that Australia's total factor productivity growth, which has outpaced the global average, has been driven by continued structural adjustment and the uptake of these innovative technologies and practises within the sector.

Reforms in the Australian agricultural system have reduced the disparities in assistance that were encouraging inefficiencies in resource use across farms. The gains from reducing these inefficiencies ('resource reallocation effects') have made an important contribution to productivity growth, particularly in dairy and broadacre agriculture (extensive grain and livestock production). At the same time, reform and structural adjustment in agriculture were facilitated by economy-wide reforms that provided a more favourable enabling environment.

(Sheng, et al., 2015) Estimate that about half of all broadacre agricultural productivity growth is due to structural adjustment. This includes farm consolidation, which has seen the number of farms in Australia halve over the last 60 years while average farm size has increased – supporting diffusion of improved management practices, as well as providing increased economies of scale, and increasing farm incomes.

Recent research by ABARES (Hughes, et al., 2019) estimates the negative effects the recent climate (2000 to 2019) has had on broadacre farm profitability compared to the climate between 1950 and 1999. However, similar to past ABARES research (Hughes, et al., 2017), this research also finds evidence of adaptation and management practice change helping to reduce the sensitivity of farms to dry conditions over time. The results suggest that without these gains, the effects of the post-2000 climate would have been larger (26% decline in average broadacre farm profits under 1990 technology compared to a 22% reduction).

## 3 Coordination of drought

### 3.1 National Drought and North Queensland Flood Response and Recovery Agency

The National Drought and North Queensland Flood Response and Recovery Agency (the Drought and Flood Agency) was announced by the Prime Minister, the Hon. Scott Morrison MP on 5 December 2019 to lead a national response to the drought and to assist in coordinating the current drought response and recovery. The Agency is led by the Hon Shane L Stone AC QC, Coordinator-General and Chairman of the Advisory Board.

The Agency is continuing the communication and collaborative arrangements described above.

#### 3.1.1 Communication and Collaboration

The Drought and Flood Agency has continued communication groups within government, and with states, territories, state drought coordinators and local government that were operating before its formation. These groups share information on conditions, drive collaboration on support measures and ensure consistent communication to farmers and rural communities on drought matters.

The core groups that are facilitating ongoing drought coordination include:

- the AGMIN Working Group which engages Australian, state and territory governments, drought coordinators and the Australian Local Government Association
- the Inter-Agency Drought Communication Network which brings together relevant Australian Government departments to coordinate consistent communication to farmers and rural communities on drought matters
- the Deputy Secretaries' Standing Group on Drought which a cross-agency coordinated approach to Commonwealth programs to remove duplication of measures.

### 3.2 Coordinator-General and Special Envoy for Drought

Earlier coordination included, on 19 August 2018, the Government announcing the appointment of a Coordinator-General for Drought, Major General Stephen Day. DSC. AM. To support this work, the Joint Agency Drought Taskforce (Taskforce) was established in the Department of Prime Minister and Cabinet, led by Major General Stephen Day.

The Coordinator-General delivered advice to government on a strategy for drought preparedness and resilience. In his advice, the Coordinator-General found that:

- the lessons from previous droughts, academic research, and advice from farmers' representative groups tell [us] that preparing for drought rather than responding to it is the best approach
- the National Drought Agreement focuses the support of the federal, state and territory governments on incentives that help the agricultural sector and communities to better prepare in order to successfully manage drought. That this, coupled with the earlier IGA, has been a sustained move in the right direction



- that no significant shifts in the Australian Government's approach [to drought] are needed.

The Coordinator-General made 18 recommendations to government. Of these, five have been completed, nine are underway and four are noted, with some of these being implemented through other measures or programs.

The Coordinator-General's advice, and the Australian Government's response to the Coordinator-General's recommendations are available at [agriculture.gov.au/drought](http://agriculture.gov.au/drought).

On 11 September 2018, the Prime Minister, the Hon Scott Morrison MP, appointed the Hon Barnaby Joyce MP Special Envoy for Drought Assistance and Recovery. The Special Envoy worked as an advocate and adviser to the Prime Minister. His role was to report on the ground, from the regions, on how drought affected farmers and graziers and their communities, and how Federal government drought relief policies were working and what improvements to help build resilience were needed. The Special Envoy's role included providing advice to the Prime Minister about the impact of relief efforts, including the performance of government service delivery and advice about proposals that might be emerging from the community.

Major General Stephen Day and the Hon Barnaby Joyce MP have ceased these roles.

## 4 Background: the Evolution of Australian drought policy

This section outlines the evolution of drought policy up to the current policy settings, which informed the development of the National Drought Agreement, signed by the Council of Australian Governments on 12 December 2018.

Under the Australian Constitution, states and territories have the primary responsibility for the legislative and administrative framework for natural resources and agriculture, including land use, water management, and drought response/planning. However, all levels of government, industry, and the community play a role in the process of drought management, response and resilience.

### 4.1 Drought as a natural disaster

Drought policy in the middle of the 20th century focused on attempts to 'drought proof' agriculture through the expansion of irrigation. In 1971, in keeping with the then current global approach, government policy shifted to recognise drought as a natural disaster, enabling support for those affected to be provided under the joint Commonwealth-State Natural Disaster Relief and Recovery Arrangements.

In 1989, however, the Commonwealth removed drought from these arrangements and commissioned a review of drought policy. The review found that, under disaster relief and recovery arrangements, Commonwealth assistance for drought had affected farmers by being poorly targeted, distorting farm input prices and worked as a disincentive for farmers to prepare and manage through recurring drought. The review, 'Final Report' (Drought Policy Review Task Force, 1990), recommended that a new national drought policy be developed with self-reliance as a key focus of future drought management. The intent being that this would result in farm productivity improvements, increased sustainability and an industry that could better manage the impacts of drought.

### 4.2 The National Drought Policy and Exceptional Circumstances

This change culminated in the 1992 National Drought Policy, with the objectives to:

- encourage primary producers and other sections of rural Australia to adopt self-reliant approaches to managing for climate variability
- facilitate the maintenance and protection of Australia's agricultural and environmental resources during periods of climatic stress
- facilitate the early recovery of agricultural and rural industries, consistent with long-term sustainable levels.

Under the National Drought Policy, a number of assistance programs were introduced. The Rural Adjustment Scheme offered grants and interest rate subsidies and the Drought Relief

Payment provided income support for farmers within declared Exceptional Circumstances (EC) areas. In 1997 these programs became the EC Interest Rate Subsidy and the EC Relief Payment.

Between 1997 and 2012, EC arrangements were the primary mechanism for supporting farmers under the National Drought Policy. For an event, such as drought, to be declared an exceptional circumstance, it had to:

- be rare and severe, that is it must not have occurred more than once on average in every 20 to 25 years and must have been of a significant scale
- have resulted in a rare and severe downturn in farm income over a prolonged period of time (that is, greater than 12 months)
- not be predictable or part of a process of structural adjustment.

Over time, the EC arrangements were shown to be inequitable, particularly because eligibility was determined by 'lines on a map'. This meant farmers who were experiencing largely the same drought circumstances as their neighbours but were located on the other side of a boundary road were not able to access support. Support provided under EC arrangements was very costly but did not encourage improved farming management practises or increased self-reliance.

### **4.3 The National Review of Drought Policy**

In 2008, Australian, state, and territory primary industries ministers agreed that the current approach to drought management and support, based on EC, was no longer appropriate in the face of a variable climate. The decision to close the EC programs was based on successive reviews of drought policy. Three reviews were commissioned. Jointly, these reviews found that EC assistance was ineffective and could result in farm businesses being less responsive to drought conditions. On 30 April 2012, the last EC declarations lapsed.

The first review was a climatic assessment undertaken by the Bureau of Meteorology and the Commonwealth Scientific and Industrial Research Organisation. The assessment looked at the likely future climate patterns and the EC standard of a one-in-20-to-25-year-event. The report, 'An assessment of the impact of climate change on the nature and frequency of exceptional climatic events' (CSIRO; Bureau of Meteorology, 2008), was released in July 2008. The review found that drought conditions in Australia were likely to occur more often and be more severe. It also recommended that drought assistance programs be restructured to help farmers prepare for drought rather than waiting until they are in crisis to offer assistance.

The second review, an Expert Social Panel examined the social impacts of drought on farm families and rural communities. The seven member panel prepared A Report to Government, 'It's About People: Changing Perspectives on Dryness' (Drought Policy Review Expert Social Panel, 2008) in September 2008, which provided a basis for understanding the role drought played in the networks of regional Australia. The report concluded there needed to be a new national approach to living with dryness, rather than dealing with drought. It suggested that focusing on human capital and better social outcomes was likely to lead to better economic and environmental outcomes from drought resilience and preparedness.

These two reports informed the third review, an economic assessment of drought support measures, undertaken by the Productivity Commission, which was publicly released on 12 May

2009. It found that EC declarations and related drought assistance programs do not help farmers improve their self-reliance, preparedness and climate change management (Productivity Commission, 2009). It highlighted that governments need to commit to recognising that the primary responsibility for managing risks, including climate variability and change, rests with farmers.

## **4.4 The WA Drought Pilot & Review**

From 1 July 2010 to 30 June 2012 the Australian Government, in partnership with the Western Australian Government, trialled measures to support farmers and rural communities to prepare for future droughts rather than to rely on in-drought assistance. The pilot tested a package of new measures developed in response to the national review of drought policy. It particularly focused on measures to better support farmers, their families and rural communities in preparing for future challenges. It also trialled services for farming families and rural communities that were designed to provide more effective social support (Keogh, et al., 2011). The Pilot aimed at seven core program areas:

- Farm Planning – Increasing the number of comprehensive written strategic farm plans
- Building Farm Businesses – Increasing farm viability through financial support for capacity building and resilience activities
- Farm Family Support – An income support mechanism to build long-term business viability, equivalent to the Newstart Allowance
- Farm Social Support – A program aimed to provide social support services that were more accessible and coordinated, with a focus on counselling.
- Stronger Rural Communities – Increasing the capacity of rural communities in hardship to build new social capital and reinvigorate existing community networks.
- Farm Exit Support – To provide financial support for farmers to exit the industry, re-train and relocate.
- Beyond Farming – To help farmers decide whether or not they should remain in farming, and through networks learn from former farmers about the process to exit the industry.

Aspects of the measures in the trial are part of current policy, through the Farm Household Allowance, the services available from the Rural Financial Counselling Service and the support available from the Drought Communities Program.

## **4.5 The Intergovernmental Agreement on National Drought Program Reform (IGA)**

In May 2013 the Australian, state and territory primary industries ministers agreed the Intergovernmental Agreement on National Drought Program Reform (IGA). The IGA outlines the roles and responsibilities for implementing the new approach to drought planning, resilience, and response. The IGA recognises that farm businesses need to prepare for drought, rather than rely on governments' response as an exceptional circumstance.

In 2013, the Australian Government also announced the delivery of the farm assistance package which included access to concessional loans, the Rural Financial Counselling Service, a

nationally consistent approach to debt mediation and an enhanced Farm Management Deposits scheme. This farm assistance package followed the 2009 Productivity Commission's recommendation that all farmers facing hardship should have access to a Farming Family Income Support scheme, regardless of drought.

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