

Chapter 3

Drought Assistance and Exceptional Circumstances Programs

Introduction

3.1 Chapter 3 addresses the inquiry's third term of reference, the adequacy of current drought assistance and Exceptional Circumstances (EC) programs to cope with long-term climatic changes.

3.2 Overwhelmingly submissions and evidence to committee were of the view that existing drought assistance and EC programs were not appropriate tools to cope with long term climate change. The committee acknowledges that, to some extent, its consideration of this term of reference has benefited from, but also been superseded by, the announcement and ongoing work of the National Review of Drought Policy.

3.3 Chapter 3 starts with an overview of the current National Drought Policy (NDP), including a summary of some of the drought assistance and EC programs, and an overview of new measures to help primary industries adjust to climate change. The chapter goes on to outline the work of the National Review of Drought Policy and then concludes with a discussion of the problems and short-comings of the current policy and programs.

National Drought Policy¹

3.4 Government assistance for drought events is guided by the NDP. The NDP was developed in 1992 and reaffirmed in 2005 by the Primary Industries Ministerial Council. Under the NDP, drought assistance is intended to be a short-term measure to help farmers prepare for and manage and recover from drought.²

3.5 The objectives of the NDP are to:

- encourage primary producers and other sections of rural Australia to adopt self-reliant approaches for managing climate variability;
- maintain and protect Australia's agricultural and environmental resources base during periods of extreme climate stress; and

1 Unless otherwise stated, the following information is taken from Department of Agriculture, Fisheries and Forestry (DAFF) and the Department of Climate Change (DCC), *Submission 34*, pp 17-18.

2 DAFF and DCC state that a drought is a prolonged, abnormally dry period when there is not enough water for users' normal needs. However, because people use water in many different ways, there is no universal definition of drought, see *Submission 34*, p. 17.

- ensure early recovery of agricultural and rural industries, consistent with long-term sustainable levels.

3.6 Although self-reliance is a key objective, the NDP also recognises that there are rare and severe events that are beyond the ability of even the most prudent farmer to manage. These events are covered under the EC arrangements.

Exceptional Circumstances events³

3.7 To be classified as an EC event, the event:

- must be rare, that is, it must not have occurred more than once on average in every 20-25 years;
- must result in a rare and severe downturn in farm income over a prolonged period of time (eg greater than 12 months);
- must be a discrete event that is not part of long-term structural adjustment processes or normal fluctuations in commodity prices.

3.8 Applications for EC declaration are prepared by communities or industry bodies with the assistance of the relevant State or Territory Government and are forwarded to the federal government Minister for Agriculture, Fisheries and Forestry (Minister) for consideration. Applications for EC declaration need to be supported by evidence of the rarity and severity of the event and evidence that the event could not have been foreseen or managed through normal risk management strategies available to farmers.⁴ Currently, the classification of drought rarity and severity is based on long-term historical rainfall records.⁵

3.9 On receipt of an application for EC declaration, the Department of Agriculture, Fisheries and Forestry (DAFF) assesses whether the application demonstrates a prima facie case for EC assistance. Where an application is found to demonstrate a prima facie case for EC assistance, the Minister forwards it to the National Rural Advisory Council (NRAC).⁶

3 Unless otherwise stated, information in the following section is from DAFF, *Information Handbook: Exceptional Circumstances. Guide to the policy and assistance measures provided under Exceptional Circumstances Arrangements*, February 2008, pp 7-12 (EC Handbook). Available at <http://www.daff.gov.au/agriculture-food/drought/ec> (accessed 8 August 2008).

4 See particularly DAFF, EC Handbook, pp 10-12.

5 DAFF and DCC, *Submission 34*, p. 18. The NRAC is an independent committee which advises the Minister on rural issues, including EC declaration applications. The NRAC comprises up to eight members, including: a Chairperson; an Australian Government representative; a State or Territory Government representative; a representative of the NFF; and others appointed as expert members in the areas of economics, financial administration, banking, sustainable agriculture, farm management or training.

6 DAFF and DCC, *Submission 34*, p. 18.

3.10 The NRAC assess the application for EC declaration, and may also conduct an on-ground assessment of the application area. NRAC then provide the Minister with a recommendation on the application. Where the Minister accepts the recommendation of the NRAC to declare an EC area, the funding of the declaration requires Cabinet approval.⁷

Drought assistance and Exceptional Circumstances programs

3.11 There is a broad range of drought assistance and EC programs available from both the Federal and State Governments. Set out below is an outline of some of the types of assistance available.⁸

Exceptional Circumstances Relief Payment

3.12 The Exceptional Circumstances Relief Payment (ECRP) is to assist farm and small business families in EC declared areas that are experiencing difficulties meeting basic living expenses. ECRP is paid at a rate equivalent to the Newstart Allowance, and subject to similar income and asset tests as the Newstart Allowance. The income and assets test excludes assets considered essential to the long-term viability of the farm and up to \$20,000 in off-farm, or non-business, income.⁹

3.13 DAFF and DCC provided the following information about the uptake and cost of the ECRP:

As at 1 February 2008, there were 24 180 farming families and 1 047 small businesses receiving ECRP. Total expenditure since 2001 equates to over \$1 billion ... The mean payment for ECRP [to farmers] is \$5 410 per year
 ...¹⁰
 ...

Exceptional Circumstances Interest Rate Subsidy

3.14 The Exceptional Circumstances Interest Rate Subsidy (ECIRS) provides an interest rate subsidy to farm enterprises and eligible small businesses that are viable in the long term, but are in financial difficulties due to a short term EC event.

3.15 ECIRS provides a subsidy of up to 50 per cent of the interest payable on new and existing loans for the first year of an EC declaration, and up to 80 per cent in the second and subsequent years. The subsidy is available up to a maximum of \$100,000 in any 12-month period and a cumulative maximum of \$500,000 over five years.

7 DAFF and DCC, *Submission 34*, pp 31-33.

8 See also DAFF and DCC, *Submission 34*, pp 34-35; and DAFF, *Drought Assistance: A summary of measures provided by the Australian, State and Territory Government*, February 2008 (Drought Assistance Handbook), available at <http://www.daff.gov.au/agriculture-food/drought/assistance/compendium> (accessed 18 July 2008).

9 DAFF and DCC, *Submission 34*, pp 25-26. See also DAFF, *EC Handbook*, pp 15-16.

10 DAFF and DCC, *Submission 34*, p. 25.

3.16 As at 1 February 2008, there were 48 198 approved ECIRS applications for farmers and 1 115 for small businesses at the cost of over \$1 billion.¹¹

Exceptional Circumstances Exit Package

3.17 The EC Exit Package is designed to assist farmers intending to leave farming. The package consists of a taxable, one-off, grant of up to \$150,000. In order to receive the full amount of the grant, the farmer's net assets, after the sale of the farm, must be less than \$350,000. The grant reduces to zero when the net assets reach \$575,000.

3.18 As at 26 February 2008 there had been 231 claims registered for the grant with five claims paid.

3.19 Other elements of the EC Exit Package include:

- up to \$10,000 for professional advice and retraining to help recipients plan for life after farming; and
- \$10,000 to help with relocation expenses and to access job seeking services after they have sold the farm.¹²

Professional Advice and Planning Grants

3.20 Professional Advice and Planning Grants are designed to encourage and assist farming enterprises to develop a business plan incorporating drought risk and management strategies.

3.21 Grants of up to \$5,500 (GST inclusive) are available to eligible farm businesses located in EC declared areas to obtain advice on business management, production and agronomic issues, natural resource management and risk management. The grants can be used to:

- assist in planning to maintain or increase the productivity or profitability of a business;
- prepare for or manage a business in times of drought or climatic variability;
- fund an independent review of a farm business.¹³

3.22 Professional Advice and Planning Grants commenced in October 2006. As at 31 January 2008, 5015 grants had been approved amounting to a commitment of over \$26 million.¹⁴

11 DAFF and DCC, *Submission 34*, pp 22-23, and DAFF, *EC Handbook*, pp 17-20.

12 DAFF and DCC, *Submission 34*, p. 27.

13 See DAFF, *Professional Advice and Planning Grant: Frequently Asked Questions*, 19 March 2008, available at: <http://www.daff.gov.au/agriculture-food/drought/assistance/advice> (accessed 8 August 2008).

14 DAFF and DCC, *Submission 34*, p. 21.

Farm Management Deposits

3.23 Farm Management Deposits (FMD) assist primary producers to deal more effectively with fluctuations in cash flow resulting from climate variations and/or changes in market prices.

3.24 FMD allow farmers to set aside pre-tax primary production income in profitable years to establish a cash reserve to assist in meeting costs in low income years. The deposits are tax deductible in the year that they are made and included as taxable income in the year that they are withdrawn. To qualify as a tax deduction the deposit must remain in the account for 12 months, unless the withdrawal is made during an EC declaration, and the deposit was made prior to the EC declaration.¹⁵

3.25 As at 30 September 2007, there were 36 865 FMD holders with total holdings of \$2 389 billion.¹⁶

Counselling

3.26 Both State and Federal Governments provide counselling services aimed at providing counselling to drought affected areas. Two types, Drought Counselling and the Rural Financial Counselling Services (RFCS) Program, are discussed here.

3.27 Drought Counselling aims to improve access to personal counselling services for drought-affected families in rural regions. Funding is provided through the Department of Families, Housing, Community Services and Indigenous Affairs' Family Relationship Service Program to enable organisations to provide face to face counselling and other drought support measures.¹⁷

3.28 Counselling is also provided through the RFCS Program. Although not specifically a drought assistance measure, RFCS provides grants to:

support the provision of a free and impartial rural financial counselling service to primary producers, fishers and small rural businesses in financial difficulty. Rural financial counsellors across Australia can provide information and support on drought issues for rural communities ... the aim of the programme is to provide information and support to people in rural Australia by improving access to services.¹⁸

15 DAFF and DCC, *Submission 34*, p. 22. See also DAFF, *Drought Assistance Handbook*, p. 18.

16 DAFF and DCC, *Submission 34*, p. 22.

17 DAFF, *Drought Assistance Handbook*, p. 27.

18 DAFF, *Drought Assistance Handbook*, p. 19.

3.29 DAFF provided the following information on the numbers of clients assisted through the RCFS program for February 2007-January 2008:¹⁹

Type	NSW	QLD	WA	VIC	SA	TAS	All States
Clients Assisted	6 720	1 056	311	4 322	2 284	210	14 916

Climate Change and Drought

3.30 In its submission DAFF notes that climate change is expected to deliver an increased frequency and severity of extreme climatic events, such as drought:

[i]ndustries that are affected by climate, such as Australia's agricultural industry, are at greater risk if they rely solely on historical patterns of climate variability and extreme events when making business decisions.²⁰

3.31 To this end DAFF states that a primary objective of recent programs, such as the Professional Advice and Planning Grant, has been to 'increase the capacity of farmers to understand the risks posed by climate change and their ability to manage and plan for it'.

3.32 DAFF's submission also noted the commencement of a new measure: the *Climate Change Adjustment Program (CCAP)*.²¹ CCAP is part of the *Australia's Farming Future* initiative, which is designed to address the impacts of climate change in the primary industries sector. CCAP will:

provide financial assistance to build skills, provide training and professional advice to help improve management and to provide for better planning and decision-making. It will also provide re-establishment grants for farmers.²²

3.33 More information about CCAP is set out on DAFF's website.²³ Assistance under CCAP includes:

- An Advice and Training Grant of up to \$5,500 (GST inclusive) for specialised professional advice and training across a range of disciplines to assist farmers to adjust to the impact of climate change.²⁴

19 *Submission 34*, pp 27-28.

20 *Submission 34*, p. 28.

21 *Submission 34*, p. 16.

22 *Submission 34*, p. 16.

23 DAFF, *Climate Change Adjustment Program: Frequently Asked Questions*, 1 July 2008. Available at http://www.daff.gov.au/agriculture-food/australias-farming-future/climate-change-adjustment-assistance/climate_chane_adjustment_program_faq (accessed 18 July 2008).

- Transitional Income Support to assist farm families in financial difficulty to manage the impacts of climate change. Income support is available for 12 months at the Newstart Allowance rate. Farmers receiving Transitional Income Support must develop a CCAP Action Plan and undertake actions included in the plan, for example improved financial security, and increased preparedness of the farm business for changing economic and climatic conditions.²⁵
- A Re-establishment Grant of up to \$150,000 for farmers who choose to sell their farm enterprise and leave farming.²⁶

3.34 As CCAP is a new measure, the committee received little evidence on the policy.²⁷

National Review of Drought Policy

3.35 In February 2008 the Primary Industries Ministerial Forum announced that 'current approaches to drought and exceptional circumstances are no longer the most appropriate in the context of a changing climate', and that '[d]rought policy must therefore be improved to create an environment of self-reliance and preparedness and encourage the adoption of appropriate climate change management practices'.²⁸

3.36 In April 2008 the Minister for Agriculture, Fisheries and Forestry announced a review of national drought policy.²⁹ The review of national drought policy comprises three separate investigations:³⁰

24 DAFF, *Climate Change Adjustment Program: Frequently Asked Questions*, 1 July 2008, pp 3-4, available at http://www.daff.gov.au/agriculture-food/australias-farming-future/climate-change-adjustment-assistance/climate_chane_adjustment_program_faq (accessed 18 July 2008).

25 DAFF, *Climate Change Adjustment Program: Frequently Asked Questions*, 1 July 2008, p. 8, available at http://www.daff.gov.au/agriculture-food/australias-farming-future/climate-change-adjustment-assistance/climate_chane_adjustment_program_faq (accessed 18 July 2008).

26 DAFF, *Climate Change Adjustment Program: Frequently Asked Questions*, 1 July 2008, pp 5-8, available at http://www.daff.gov.au/agriculture-food/australias-farming-future/climate-change-adjustment-assistance/climate_chane_adjustment_program_faq (accessed 18 July 2008). People will be excluded from receiving the Re-establishment Grant if they have received another industry exit payment, for example an exit grant under the Exceptional Circumstances Exit Package, or the Farm Help Re-establishment Grant or the Rural Adjustment Scheme Re-establishment Grant.

27 See Westpac Banking Corporation, *Submission 28*, p. 3.

28 Primary Industries Ministerial Forum, *Communique*, 29 February 2008, p. 2, available at http://www.daff.gov.au/data/assets/word_doc/0004/576643/communiquefeb.doc (accessed 16 July 2008).

29 The Hon. Tony Burke, MP, Minister for Agriculture, Fisheries and Forestry, 'Drought policy for Australia's future', Media Release DAFF08/046B, 23 April 2008, available at http://www.maff.gov.au/media/media_releases/april_2008/drought_policy_for_australias_future (accessed 16 July 2008).

- an economic assessment of drought support measures by the Productivity Commission;
- an assessment by an expert panel of the social impacts of drought on farm families and rural communities; and
- a climatic assessment by the CSIRO and the Bureau of Meteorology of the likely future climate patterns and the current EC standard of a one-in-20-to-25-year-event.

3.37 The Minister for Agriculture, Fisheries and Forestry has stated that the progress of the review will be discussed at the November meeting of the Primary Industries Ministerial Forum, with the aim of having an improved drought policy in place by July 2009.³¹

Criticisms of drought assistance and Exceptional Circumstances programs

3.38 The evidence and submissions received by the committee was in agreement with the view of the Primary Industries Ministerial Forum, that the current drought assistance and EC programs are no longer the most appropriate in the context of a changing climate. Submissions called for 'sweeping reforms' and a 'visionary new strategy', especially in light of a climate change.³²

3.39 The CSIRO also submitted that there is a misalignment between the objectives of drought policy and the science used to support it:

The objectives of drought policy focus on reducing the economic and social impacts of drought, while the science supporting drought policy has focused almost exclusively on rainfall and agricultural production. This misalignment has potential implications for the ability of policy to influence drought and agricultural production, at least in the short term. For example, a focus on rainfall and production has distracted from the development and implementation of more holistic methods for measuring the key policy outcome, such as the adaptive capacity of rural communities...³³

3.40 The Queensland Government also queried whether it was appropriate to continue using the historical climatic record in the drought declaration process:

30 National Review of Drought Policy, Department of Agriculture, Fisheries and Forestry website, http://www.daff.gov.au/agriculture-food/drought/national_review_of_drought_policy (accessed 16 July 2008).

31 The Hon. Tony Burke, MP, Minister for Agriculture, Fisheries and Forestry, 'Drought policy for Australia's future', Media Release DAFF08/046B, 23 April 2008, available at http://www.maff.gov.au/media/media_releases/april_2008/drought_policy_for_australias_future (accessed 16 July 2008).

32 Growcom, *Submission 31*, p. 13; NFF, *Submission 24*, p. 6.

33 *Submission 32*, p. 28.

Using the historical record for drought declaration processes may no longer be indicative of future conditions, with implications for sensible drought planning. Drought assistance programs were not designed to cope with long-term climatic change.³⁴

3.41 Several general criticisms were made of the drought assistance and EC programs. The Rural Business Development Corporation (RBDC) described the current programs as being of 'limited use'. RBDC is of the view that assistance could be provided in a timelier and less complex fashion.³⁵ The Agricultural Alliance on Climate Change stated that current drought policy is 'entirely reactive', providing little or no active support for the adoption of locally appropriate drought management strategies.³⁶ Growcom were of the view that current programs 'fail to provide real assistance' to horticulture industries and enterprises and believes that the programs will not cope with new and additional demands driven by climate changes.³⁷

3.42 One specific criticism that was made of current drought assistance and EC programs was that these measures may, in some cases, merely prolong the life of unviable or unproductive enterprises and hinder structural change. This particular criticism appeared to be directed more to business assistances measures, such as ECIRS, than social welfare measures, such as ECRP.

3.43 For example the RBDC highlighted specific concerns with interest rate subsidies, which RBDC believes may provide greater benefit to poorly managed farming enterprises:

...providing an interest rate subsidy across all farm debt means in practice that considerable assistance is provided to those farmers who have a high debt prior to the EC event and conversely farmers who operate under low debt scenarios as a matter of course receive less. The level of debt that a business has prior to the EC event will be a function of the stage the business is in i.e. expanding versus consolidation, but high debt levels could also reflect an accumulation of trading losses. This would mean that greater assistance would be going to poor performing businesses. This inequity can be divisive within affected communities where all farmers have been impacted by an adverse season.³⁸

34 *Submission 30*, p. 14. See also: the Agricultural Alliance on Climate Change, *Submission 37*, pp 19-20.

35 *Submission 15*, p. 2. See also Primary Industries and Natural Resources Curriculum Centre TAFE NSW, *Submission 4*, p. 2.

36 *Submission 37*, p. 20.

37 *Submission 31*, p. 13.

38 *Submission 15*, p. 2. See also: The Australia Institute, *Submission 21*, extracted from The Australia Institute, *Taxpayers Soaked*, Newsletter no. 43, June 2005; Agricultural Alliance on Climate Change, *Submission 37*, p. 19; Apple and Pear Limited, *Submission 23*, pp 7-8.

3.44 In evidence to the committee Mr Ben Fargher of the NFF acknowledged that interest rate subsidies are 'not a perfect tool', but argued that such measures may still be appropriate in some circumstances:

...what about the young people out there that will only get through this current drought because of that instrument and go on to be good farmers for years and years?³⁹

Proposals to improve drought assistance

3.45 The committee received substantial evidence on proposals to change government drought assistance programs, making the programs more appropriate to a changing climate.

Improved decision making and risk management strategies

3.46 A number of submissions highlighted the need for assistance programs to be focussed more on drought preparedness by enabling farmers to plan for, and manage, the risks of climate change. For example, Growcom submitted that:

[w]hile some improvements have been made to shift the emphasis of assistance programs towards risk management, major reforms are still needed. The likely implications of projected climate changes must be incorporated into future arrangements for drought, exceptional circumstances and natural disaster support programs.⁴⁰

3.47 Growcom advocated the need for drought policies and programs to have a strong focus on 'supporting proactive risk management and advanced agricultural business planning for a drier, hotter climate'.⁴¹

3.48 Meat and Livestock Australia and the Cattle Council of Australia also commented on the need for assistance to incorporate climate change into management strategies:

There is an immediate need for improved knowledge and tools to enable producers to build climate changes into current management strategies. Improved seasonal climate forecasts at appropriate regional scales that are based on dynamic climate models incorporating human-induced climate change as well as natural variability will form the basis of decision support tools for greater resilience.⁴²

3.49 The Queensland Government outlined its investment in the development of climate forecasting systems to assist farmers in their business decision making:

39 Mr Ben Fargher, Chief Executive Officer, NFF, *Committee Hansard*, 1 July 2008, p. 34.

40 *Submission 31*, p. 13.

41 *Submission 31*, p. 13.

42 *Submission 36*, p. 6.

The Queensland Government has also invested ... in drought preparedness programs to help producers be better prepared for drought and climate variability. These include the development of climate forecasting techniques and a range of farm management tools that practically integrate these climate forecasting systems into producers' operations. Queensland Government climate forecasting systems ... have become widely adopted internationally. Continued development of these applied forecasts and integrated decision support tools are integral to ensuring producers are able to adapt to an increasingly variable climate.⁴³

Diversifying farm income sources

3.50 A number of submissions also noted a role for the development of diversified income sources for farmers as a means of sustaining the agricultural sector through drought and reducing reliance on government assistance.

3.51 The Agricultural Alliance on Climate Change discussed 'building the resilience of rural livelihoods by increasing the diversity of farm income sources' as an effective and measurable objective for drought policy.⁴⁴

3.52 Mr Tim Wiley and Mr Bob Wilson note that farmers require off farm income to sustain them through periods of drought. According to Mr Wiley and Mr Wilson, in the Mid West region of Western Australia farmers working part time in local mines have made a valuable contribution to both industries through the recent drought.⁴⁵

3.53 In their submission, Mr Wiley and Mr Wilson also state that there needs to be a change from drought assistance to agricultural restructure, and propose a role for carbon sinks to finance this change.⁴⁶

3.54 The National Association of Forest Industries also highlighted the role of forestry as a complementary land use:

Commercial scale forestry, while it is generally ineligible to access funding from assistance programs, does not require the level of assistance which often applies to agriculture. In contrast, forestry can offer a valuable complimentary land use which is less exposed than other forms of agriculture to the effects of seasonal and long term climatic variations.

For instance, both native and plantation forestry, can provide a valuable source of income at both the regional and farm level during periods when extreme climatic conditions are causing an economic downturn for other

43 *Submission 30*, p. 15. See also WA Department of Water, *Submission 27*, pp 2-3.

44 *Submission 37*, p. 19.

45 *Submission 41*, p. 13.

46 *Submission 41*, p. 30.

parts of the agricultural sector. This may be critical in supporting regional communities and individual landholders during these periods.⁴⁷

Assistance based on shared responsibility

3.55 A common theme put forward to improve drought assistance programs was to develop a form of 'shared responsibility' on the part of recipients in exchange for assistance.

3.56 For example, the NFF proposed mutual obligation 'Climate Management Grants':

Eligible farmers would have to match the Australian Government's funding with either cash or in-kind support – effectively a partnership to better drought-proof the sector. This mirrors the desire – both within the broader community and within the farming sector – to, over time, shift the policy paradigm from drought relief towards drought preparedness and management.⁴⁸

3.57 The NFF envisage that the grants could cover a variety of approved activities, for example: building stock containment; trialling new or different drought-resistant farm systems; increasing or improving fodder storage capacity; soil mapping, including water-holding capacity and plant requirements; and implementing innovative practices and infrastructure to improve drought resilience.⁴⁹

3.58 The Queensland Government discussed 'incentive-based' assistance programs:

Consideration should be given to providing greater support for proactive incentive-based assistance programs that provide assistance based on the long-term efforts of an enterprise to improve land care management and farming sustainability. Improved economically-based multivariate evaluation frameworks and models are needed to ensure that the quantum and nature of any assistance provided is guided by viability and sustainability prospects in the long-term.⁵⁰

3.59 Both the NFF and the Queensland Government noted, however, that the operation of drought assistance programs based on shared responsibility would not preclude the need for a welfare safety net in times of drought.⁵¹

3.60 Meat and Livestock Australia and the Cattle Council of Australia also put forward a proposal based on incentives to encourage drought preparedness:

47 *Submission 6*, pp 4-5.

48 *Submission 24*, p. 8.

49 *Submission 24*, p. 8.

50 *Submission 30*, p. 14.

51 See Mr Ben Faragher, CEO of the NFF, *Committee Hansard*, 1 July 2008, p. 37; Queensland Government, *Submission 30*, p. 14.

Agriculture needs access to tax incentive/reduced loan facilities etc. to allow for serious future building, so that through a government contribution, the dollars are leveraged to minimise agriculture's exposure to future droughts. The areas of 'future building' could include fodder conservation, water reticulation, soil ameliorants, off farm investment workshops etc.⁵²

3.61 The CSIRO advocated a community-based system for the allocation of finite drought assistance:

Governance systems that provide communities with authority to allocate finite amounts of assistance determined prior to droughts would reduce the open-ended nature of current incentives to seek assistance, and encourage the conservation of scarce fiscal resources. Limits on drought assistance and rules for its governance pre-agreed with local communities could help to free governments of criticism surrounding intervention during drought. Communities and governments could work together to develop locally relevant conditions for mutual responsibility that do not impede the exit of non-viable farms from the industry.⁵³

3.62 The Australia Institute's preferred policy option is to progressively withdraw 'government subsidies' to agriculture in concert with a process of structural reform to help remove farmers from drought-prone areas and areas of low productivity. However, the Australia Institute acknowledges that it is unlikely that such a policy would be considered. As an alternative, the Australia Institute propose making improved environmental outcomes a condition of receiving drought assistance.⁵⁴

Committee view

3.63 The committee notes the work of the National Review of Drought Policy and does not wish to duplicate the work of that review, or pre-empt its findings. To this end, the committee has limited its work to consideration of the short-comings of the current programs and outlining the options that have been presented to for improving drought assistance and exceptional circumstances programs. Further, the committee has refrained from making recommendations about the direction of future drought policy.

3.64 It is clear to the committee that the general view of those in the agricultural sector, and wider community, is that current drought assistance and EC programs are not the appropriate tools to cope with climate change. Climate change requires a new approach to how government assistance is provided to assist the Australian agricultural sector through times of extreme climatic events. To this end, the

52 *Submission 36*, p. 6.

53 *Submission 32*, p. 31.

54 The Australia Institute, *Submission 21*, see The Australia Institute, *Taxpayers Soaked*, Newsletter no. 43, June 2005.

committee was encouraged by the focus in submissions for drought assistance which focuses on drought preparedness strategies.

3.65 The committee believes the agricultural sector wants to change and adapt to climate change, however the current drought has severely restricted the ability of the sector to finance such change. The committee's view is that future drought policy should therefore be aimed at assisting the agricultural sector to adjust to climate change and prepare for extreme climatic conditions. To some extent, the Climate Change Adjustment Program does this, by addressing calls for improved access to tools to assist with better decision-making and risk management strategies in the face of climate change.

3.66 The committee believes that both diversified farm income sources and shared responsibility could play a role in future drought assistance policy. However, many of the proposals presented to the committee in the course of this inquiry are still only at a conceptual stage, and would require extensive work and consultation in order to develop them to a policy stage.

Senator Glenn Sterle
Chair