

Policy Position for Horticulture on Disaster Preparedness and Relief

Background

While Australia has always been known for its “droughts and flooding rains”, and bushfires, climate change has in recent years seen more, and more extreme, weather events impact on horticulture.

For example, two severe hail storms before and after Christmas 2005 devastated the Summerfruit (particularly stone fruit) and pome fruits (apple and pear) industries, and had major impacts on many other industries across eastern and south-eastern Australia, from Tasmania through to Queensland (including major fruit-growing areas such as Batlow, Murray-Goulburn, Young, Orange and Stanthorpe). Many growers in these regions now find it difficult to even gain hail insurance – for while many were ‘protected’ by hail netting, most types of netting were destroyed during the storms. Cyclone *Larry* provides us with yet another example of the devastating impact of climate change; as does the current crisis situation in the lower Murray-Darling Basin.

It seems clear that this situation is likely to become more extreme and unpredictable, at least for the immediate future – and some measures in place for the current drought, for instance, will need to be extended for a minimum of 3 years.

Issues

Traditional assistance measures are still primarily geared to broad-acre production (eg flood relief; tax relief in drought for re-stocking, etc.). For horticultural industries, responses are generally *ad. hoc.* and on a case-by-case basis.

This creates frustrating delays for growers already struggling with farm survival or re-stocking issues (and perhaps even destruction of their homes, as in the case of Cyclone *Larry* or a major bushfire). It also creates additional workloads for officials in relevant Government departments (DAFF, ATO, Centrelink, and so on), as there are no clear guidelines for managing such incidents and they must fall back upon any available precedents.

Currently, the only significant natural disasters 'future preparedness' tool open to growers is the Farm Management Deposits Scheme. This involves setting aside and lodging funds with the ATO in high income years and withdrawing the funds at a concessional tax rate in low income years - provided farm income exceeds 50pc of gross taxable income (in order to qualify for the scheme). There is also a \$300k limit on funds lodgement. Considering total funds under the Farm Management Deposits Scheme have exceeded \$1.0billion in recent years, it has become an effective means of evening out the peaks and troughs in farm income.

However, it represents a very narrow approach to risk management - in that it basically relies on the tax system incentives alone to encourage input and withdrawal of funds that a grower may need to address a 'natural disaster'. Secondly, it is more akin to an off-farm investment which may not actually be applied to a disaster - without first considering tax effectiveness.

The current model has very little linkage with commercial insurance structures. Most growers commit significant general insurance dollars to reduce the risk of asset loss - perhaps associated with theft, fire and frost. However, when it comes to broader 'natural disasters' insurance cover, the investment is not at all focused and may not be offered commercially.

Secondly, there are many examples where if the industry is small or the insurance premium is high it is virtually impossible to obtain insurance cover at a manageable premium or, in the event of a significant claim, it is impossible to get cover thereafter. This points to a very thin market for natural disasters insurance – generally (as in the example of hail insurance).

This is a classic situation of market failure, where due to the commercial risks (combined with high commercial premiums that cause a thin market or grower uptake) there is insufficient incentive to make further provision in the good years for the bad years i.e. growers take their chances and rely on government benevolence.

It is this reality that has the affect of re-asserting the hand-out mentality of the rural adjustment scheme - exceptional circumstances provisions - and works against an increased level of preparedness in micro- managing (at farm) the risk of natural disasters.

In the light of the growing impacts of climate change, industry is keen to work with Government on the development of a more strategic and whole-of-governments approach to disaster responses. Climate change induced variability in the farming environment increases the urgency for consideration of this approach.

One major alternative approach to risk management is a stronger commercial linkage – that is to encourage natural disasters preparedness. In the same way as growers sign up for their general insurance annually, they would ideally make a similar provision/allocation to bad weather or natural disasters mitigation.

To ensure an approach which allows the insurance industry to be involved as much as possible in managing the risk, it is proposed that the insurer is able to cover an underwriting loss out of premiums - with a government (premium subsidy) to fund that difference.

By way of background: an insurance premium alone does not generally cover the total insurance risk. An insurer makes up the difference by a combination of laying off the risk at the time of the disaster event (against other insurers), and generating added revenue on an ongoing basis by investing yearly premiums in the money market (generating increased capital) in turn applied to an insurance event.

To the extent that it would be possible to introduce an insurance premium subsidy that would add market depth and allow the insurance risk to be fully funded, the first step towards

getting many more growers to provide for their own potential natural disaster - at a micro (farm) level - would be achieved.

The cost to government of a premium subsidy (while requiring more analysis) is not considered to be a whole new funding outlay in that there is expected to be an offset in terms of lower 'exceptional circumstances' expenditure. Secondly, as this approach involves promoting a cultural shift in farmer thinking, to qualify for a natural disaster premium subsidy may be conditional upon the grower undertaking certain risk-proofing activities on the farm.

In the 2007-08 budget the Australian government has seen the wisdom of creating an endowment fund for future education infrastructure (and education excellence) and a similar approach to supplementary resourcing of a true natural disasters insurance scheme would seem equally appropriate.

Enhancements of such a scheme and greater commitment from industry might well be achieved if government support paralleled the thinking and approach behind the grower re-imburement model that has been introduced to support early warning and loss of income associated with eradicating an exotic pest or disease (PlantPlan). In the latter case government has seen fit to underwrite the cost of eradicating a disease against a future levy income stream - payable by the industry. In relation to natural disaster insurance, there is a similar case for support although the market failure associated with meeting and funding the cost of natural disaster premiums is considered to be greater.

Cyclone *Larry* provides an effective case-study of other government measures which could relieve some of the burden an Extreme Weather Event/Disaster places on growers. The level of cooperation and coordination between State, Federal and local governments provides a model of the basic principles in dealing with an Extreme Weather Event, and have relevance for other industries (certainly Horticultural industries) suffering the devastating impacts of climate change. In this instance, governments provided:

- ❖ Support for laid off workers and their families – “work for the dole” schemes and/or fast tracking of benefits;
- ❖ Assistance to retain key personnel on farms;
- ❖ Income support for farm families;
- ❖ replanting assistance grants – regeneration costs for an agreed proportion (in the case of *Larry*, 1/3) of production area;
- ❖ Low interest loans for follow-up planting – remaining (2/3 of) production area;
- ❖ Exit scheme for those who aren't in a position to re-build;
- ❖ Payment of interest on loans, or lease payments, for 1 to 2 years until growers get back on their feet;
- ❖ Prompt appointment of a 'disaster recovery coordinator' for the affected region.

Our Position

1. The Australian government to introduce a commercially complementary insurance-based risk management system and funding for rural sector natural disasters 'preparedness'.

2. From 'Exceptional Circumstances' to Disaster Relief

The current EC package is not being effectively accessed by horticulture. Additional measures are required which would significantly reduce the burden on producers trying to return to productivity and profitability.

As a matter of urgency, an alternative model of Disaster Relief, suitable to the situation for intensive industries (rather than the traditional model developed for dry-land, broad-acre farming), needs to be developed. Proposed ameliorative solutions include:

Addressing Economic Impacts:

- ❖ **Adapt the existing EC program to meet the needs of horticulture; including:**
 - eligibility criteria relevant to the current circumstances and the industry (eg removal of the requirement to demonstrate exceptional circumstances for the past 3 financial years; changes to off-farm income and farm assets criteria);
 - interest rate subsidy;
 - ongoing expenses – relaxation of threshold and off-farm income;
 - elimination of the discrimination against mixed family holdings.
- ❖ **Structural Adjustment packages ('Exit with Dignity' strategies)**, including the provision of Farm Help (income support and re-establishment grant). This may be useful for those wishing to exit farming altogether.
- ❖ **Face-to-face delivery of individual and customised financial and business strategies and options to enable individual growers to make informed decisions regarding options to continue in or exit the industry – including vastly increased resources to the necessary agencies at the local community/regional level** (eg Rural Financial Counselling services and Centrelink);
- ❖ **Extending and harmonizing state governments' assistance;**
- ❖ **Perennial crop replanting assistance;**
- ❖ **Deferral of fixed water and water transfer charges – in the case of a drought;**
- ❖ **Retention of farm employees in production lag phase;**
- ❖ **Income support** through Centrelink would be required; however there will be a need to address the longer term requirements of perennial crop producers who may need to access off farm employment for an extended period whilst crops are maturing (3-10 years). Some **tailored employment or retraining assistance programs** may therefore be required.
- ❖ **Relocation assistance** - Many farmers are being forced to relocate to regional centres to find paid work while the farm is unable to generate an income stream due to the current drought situation.

- ❖ **Extension of Division 385 (Deferral of the taxation point on profits)** to bring Horticultural producers in line/equity with other primary producers, and enable producers impacted by extreme weather events to defer, or stage, income tax payments on profits. In the case of livestock in drought, for example, producers forced to sell stock may elect to either bring the profit on the sale to account at any time over/within the next five years; or deduct the profit from the costs of replacement stock. Tax relief in this way would hasten the return to productivity; improve the employment prospects of those laid off (reducing calls on Centrelink and other welfare payments); and maintain viability of their regional communities.
- ❖ **Farm Managed Deposits (FMDs).** Amend the existing legislation for Farm Managed Deposits (Division 393) to include the entity level, and not solely individual(s). This will remove a perceived anomaly whereby only individuals can contribute to Trusts (particularly Family Trusts); and Trusts can distribute profit, but not loss;. It will also allow growers to re-plant/re-stock utilising profits deposited in the FMD. The current limit of \$300,000 under s 393-35(6) should be increased (\$1,500,000) for entities other than natural persons.
- ❖ **Extension to worker wage subsidy scheme from 13 weeks to a maximum of 36 weeks** to align with the return to production; this will significantly assist in providing the industry with the capacity to fund its significant labour requirements for the recovery period.

Supporting Farming Families and Communities:

- ❖ **Establishment, through DAFF, of a national network of Local Drought Support Coordinators,** working in partnership with Drought Support and Rural Financial Counsellors.
- ❖ **Social gatherings** – To be organised by the Local Drought Support Coordinators.
- ❖ **Drought Household Assistance (DoCS)** - up to \$2,000 per household to pay domestic bills only. This would be very helpful for those who have an immediate loss of income.
- ❖ **Deferral of charges** - Growers who are located within the southern MDB areas should receive some form of rebate, subsidy or deferment on the payment of essential charges for utilities and services.
- ❖ **Immediate granting of pension entitlements** to older generations who wish to hand over the family farm.

(For full details of Horticulture's proposed new Disaster Relief Package, visit www.hac.org.au/news_and_events/news/ for a copy of *Meeting the Crisis in the Murray Darling Basin*).