Tasmanian Farmers and Graziers Association

Submission:

Natural Disaster Funding - Issues Paper

To:

Productivity Commission

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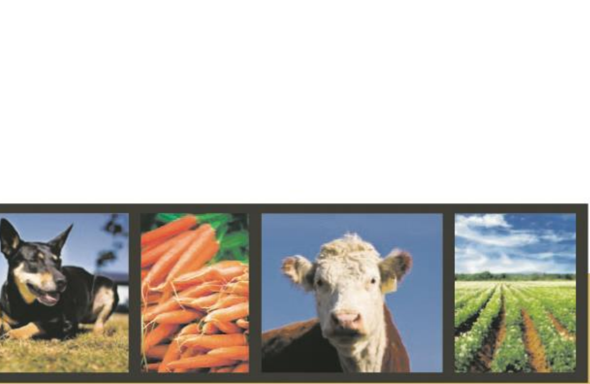

PO Box 193, Launceston 7250
Cnr Charles & Cimitiere Streets Tel: (03) 6332 1818
www.tfga.com.au

AGRICULTURE IN TASMANIA

The total Tasmania gross state product (GSP) was $23.9 billion for the 2012 year. The GVP of agriculture, forestry and fishing collectively amounted to almost 9% of this total – before input supply services and value-adding, which is well above that for the nation as a whole.

In 2010/11, the farm gate value of production (GVP) of agriculture, forestry and fishing was $1.98 billion. This comprised:

- agriculture - $1.150 billion;
- forestry - $235million; and
- fishing - $597 million.

This is before considering input supply services and value-adding. Taking into account basic multiplier factors, this means the farm-dependent economy contributes more than $5.0 billion to the gross state economy - in spite of adverse pressures on the forestry industry.

Over the past 25 years, the average annual rate of increase in farm gate GVP has been close to 4%. Average growth in the farm GVP over the recent past has been slightly slower than average, as a result of reduced export returns due to the high value of the $A and increasing cost pressures along the value chain.

Milk and milk products followed by livestock and livestock products were the main sector contributors to farm production value. However, this was partly offset by reduced vegetables output associated with severe wet weather at harvest in the first quarter of 2011.

Some 10,500 people were employed directly in agriculture forestry and fishing. A further 8,500 people were employed in services to agriculture and food and fibre value-adding. This is close to 9% of the working population in Tasmania.

The preliminary Tasmanian government Scorecard data for 2010-11 (prepared by DPIPWE) indicates the wholesale value of food and beverage production has remained steady, roughly in line with the previous year at $2.7billion This demonstrates the important role that the processing sector plays in adding value to farm gate returns and the fortunes of those who live and work in the farm dependent sector.

Furthermore, the inclusion of forestry as a long cycle crop enterprise in farming businesses in the state means that the overall economic contribution must include these figures too. Our best estimate is that in 2009/10 this added a further $400 million to farm gate income. Clearly, as a result of the uncertainty currently evident in this sector, that figure has fallen significantly since then. Nonetheless, on a long term outlook, forestry remains an integral part of a diversified farm business.

Compared to the previous year, growth in agriculture GVP has broadly offset the fall in forestry GVP.

The vast bulk of our agricultural product is sold interstate and overseas. Farm exports in 2010/11 easily exceeded $550m (farm gate equivalent value) when account is taken of pharmaceutical products. The share of exports to Asian destination exceeded 50%. In addition, it is estimated that a further $1.8 billion of raw and value-added product was shipped to the mainland.

In 2011/2012, total exports from Tasmania were valued at $3.196 billion. Agricultural products represented some 30% of that total – approximately $1 billion. Almost 25% of total exports ($502 million) were destined for ASEAN countries. Agricultural products valued at approximately $121 million represented 25% of that total. ASEAN countries have become increasingly important destinations too, with overall exports increasing marginally over the past three years; and food exports alone increasing significantly from $71 million to $96 million over the period 2009/2010 through 2011/2012. Major products exported to ASEAN countries included dairy ($42 million); seafood ($32 million) and wood products ($20 million estimated from private forestry sector). Key destinations included Japan (35%), China (21%), and Hong Kong (21%).

Farmers are also significant land managers in the state, with almost a third of Tasmania's land area of 68,300 sq. km committed to agriculture.

These figures clearly confirm the importance of the sector as an economic driver for the state's economy – and also demonstrate that agriculture is a more significant contributor to the Tasmanian economy than in any other state. With this in mind, it is clear that Tasmania needs to ensure that the agricultural base of the state remains competitive and profitable.

ABOUT THE TFGA

The TFGA is the leading representative body for Tasmanian primary producers. TFGA members are responsible for generating approximately 80% of the value created by the Tasmanian agricultural sector.

Operationally, the TFGA is divided into separate councils that deal with each of the major commodity areas. As well, we have a number of standing committees that deal with cross-commodity issues such as climate change, biosecurity, forestry, water and weeds. This structure ensures that we are constantly in contact with farmers and other related service providers across the state. As a result, we are well aware of the outlook, expectations and practical needs of our industry.

With our purpose being to promote the sustainable development of Tasmanian primary industries, the TFGA is committed to ensuring that the agriculture sector in Tasmania is profitable and sustainable. We are also committed to promoting the vital contribution the agricultural sector makes to the environmental, social and economic fabric of the Tasmanian community.

COMMENT

Overview

The TFGA welcomes the opportunity to comment on the Australian Productivity Commission's report into Natural Disaster Funding. As a peak State Farming Organisation, we will restrict our comments to the agriculture aspects of the inquiry and note that the Commission is restricted to reviewing naturally occurring rapid onset events.

We are disappointed that drought has not been included in the terms of reference, as the Commission would be aware next to fire and flood the impacts of drought on the agriculture sector have been significant. While the following comments will deal with naturally occurring rapid onset events nevertheless many of them will also equally apply to episodes of drought which is an ongoing and increasing element of the Australian environment.

Many of the events contained within the terms of reference them are arguably long standing elements of the diverse Australian environment, most notably flood and bushfire. Both these elements have over recent years become more frequent and intense and their impact on Australian agriculture has been substantial.

In our own state of Tasmania, bushfire tends to be more prevalent than devastating floods; and, indeed, the state's history records many significant and devastating bushfire events. In this submission, we will focus on those events that have been historically part of the Tasmanian agriculture landscape. We will also make some comment on relevant policy considerations.

Natural Disasters in Tasmania

Bushfire

Bushfire in the Tasmanian context is the most prevalent natural occurring rapid onset disaster and as such has ensured that the Tasmanian agriculture sector and the broader Tasmanian community have had significant experience with this type of disaster.

The most recent of these events occurred in January 2013, centred on the Dunalley area in the south of the state. These fires resulted in sixty five properties being destroyed; over two thousand people being evacuated; and in excess of 20,000 ha being burnt. These figures do little to highlight the human aspect of such an event and in no way communicate the long and often difficult road back to recovery.

The current arrangements for funding of recovery initiatives in relation to such an event have over time proven themselves to be effective in providing the funding required to re-establish state owned infrastructure such as roads. In as far as it goes, this methodology in dealing with the aftermath of such an event appears to be meeting its objectives.

Within the agriculture sector, the vast majority of landowners have taken the issue of fire seriously over many generations. Farmers do not take the risk of fire lightly and have invested heavily in time and assets to ensure that the risk is mitigated to the extent of their own influence.

A significant number of land owners are members of local brigades and, during peak fire season, are on standby 24/7. Most farms have assets specifically acquired to address bushfire outbreaks, with many farmers owning pumps, specifically designated dams and, in some cases, truck-mounted firefighting equipment.

A major impediment to effective mitigation outcomes for farmers is the current regulatory regime under which the agriculture sector operates.

The ability to back-burn on a property is severely restricted by regulations that in effect tend to dissuade landowners from carrying out such activities. Regulatory constraints mean there is effectively a prohibition on a land owner's ability to clear bush and forest that presents a very serious threat to assets and infrastructure.

Again, we find that the regulatory regime is so restrictive that often such clearance is prohibited; or the process is so complex and expensive that land owners are dissuaded from undertaking mitigation activities. The fact that state-imposed regulations actively work against private land owners undertaking relevant mitigation strategies is counterproductive and costly, not only to the individuals but ultimately the federal and state governments.

Finally, in the case of bushfire (and, to some extent, severe floods) the provision of insurance payouts and or government assistance masks very real costs and impacts. In the case of agriculture, lost production and production potential can last for many years, often long past the memory of the event.

Governments at all levels need to be more cognisant of this very real and long lasting aftermath and there needs to be a more appropriate funding model that seeks to address this difficult area of disaster recovery.

Floods

Tasmania has experienced its fair share of significant and devastating floods over the decades. As weather patterns change, we are seeing such events become more common.

Unlike bushfire, floods are often restricted to specific geographical areas due to topography and other naturally occurring landscape aspects such as rivers. As such, mitigation strategies are more easily accomplished and tend to be more readily assessable. Floods also have a tendency to occur in the same places often producing similar results in terms of damage and recovery costs.

With this in mind, it again appears clear that mitigation methods are by far the most cost effective means of addressing recovery costs in the long term. Clearly urban planning and land use policies can assist in mitigating and managing flood impacts. However, reliance on these alone is short sighted and there is a need to provide funding for significant infrastructure such as levee banks and similar flood mitigation devices.

Policy Considerations

The economic cost of disasters can be split into two broad groups:

- Preventative and risk management costs: for example, back burning to reduce the risk of bushfire, or building standards to minimise damage in the event of an earthquake, or managing building approvals to avoid building in flood plains.
- Post event costs: These include amongst other things the cost of reconstruction following a disaster, losses from business interruption, rehabilitation for personal injury, and compensation which may be payable from loss of life.

Policy settings need to be developed to address these differing costs and situations.

Insurance Coverage

By their very nature, natural disasters are infrequent but severe. As a result, the insurability of such events is brought into question. Insurers are often unwilling to provide full coverage (eg flood coverage in certain areas) or, if such coverage is provided, the price of insurance may be unaffordable for many people.

Current home and contents insurance policies offer a variety of coverages, with storm, hail, earthquake and bushfire events typically covered.

The fact that all home insurance policies cover storm damage but many do not cover flood, allied with the insurance industry's distinction between the two, is seen as unfair and confusing. This has led to a community backlash against insurers and considerable distress, financial loss and disillusionment for many insured home and business owners in areas affected by floods and cyclones.

As a result of the increasing frequency of natural disasters, there has been considerable discussion amongst policy makers and others of the need for significant overhaul of the current insurance environment.
Standardisation of policy coverage and definitions certainly need to be given serious consideration. Suggestions that home insurance be made mandatory, along the lines of third-party car insurance, would also merit further investigation.

Importantly, availability of multi-peril insurance for farm activities is extremely limited. The focus of modern government activity is to encourage self-reliance and preparedness. Without insurance, neither of these objectives is realistic.

There is a clear case for the federal government to underwrite the availability of such insurance. The cost of the scheme could be offset against existing natural disaster funding programs. In fact, eligibility for other forms of assistance could be predicated on having taken out the appropriate insurance coverage.

The issues around insurance for flood and other natural disasters identified here are not unique to Australia. All countries are subject to some degree of natural disaster risk, with the degree and type of risks differing across countries.

The history, design and experience of schemes from other countries demonstrate that many countries have natural disaster risks that either cannot be fully and suitably covered by the private insurance market or have not in the past been covered adequately by the insurance industry, leading to government intervention.

Consequently, many developed countries and some developing countries have implemented one or more types of schemes that complement the private insurance market in the provision of insurance for natural disaster. The schemes vary widely by design and are often a reflection of the climate and other specific characteristics of each country, such as the most common type and severity of natural disasters, insurance industry evolution, political and economic history, and level of community and government interest.

There is much we can learn from these experiences; and detailed investigation of options and models should be undertaken.

NDRRA Program

The National Disaster Relief and Recovery Arrangements (NDRRA) covers funding agreements between the federal government and state and territory governments to deal with recovery activities following disaster events.

The increasing frequency of natural disasters is placing stress on funding of these programs.

Whilst some changes were made to the NDRRA after the 2011 Brisbane floods, there is a clear need for further review and amendment to ensure the sustainability of these programs and also equity in delivery across jurisdictions.

TFGA encourages all governments to co-operate in a comprehensive review of all these arrangements.

Government preparedness

There have also been suggestions as to whether existing federal and state government arrangements for dealing with natural disaster recovery and resilience should be supplemented by the establishment of a national disaster fund to support the rebuilding of public infrastructure in the aftermath of events such as the recent floods.

The consideration of a national fund mostly concerns government budgeting practices, that is, how the government pays for its programs and projects.

There are two steps involved in paying for government programs and projects. One step is to include the program or project in the budget estimates. The other step is to ensure that cash is on hand to make payments on a day-to-day basis for programs and projects included in the budget estimates.

Creating a fund to provide ‘pre-event’ funding could involve the government either:

- committing to new expenditure for natural disaster response measures and thereby including this expenditure in the budget estimates; or

- undertaking borrowing early to have cash available on 'stand by' that could be used to finance unexpected natural disaster spending.

We believe that these are issues that warrant serious policy consideration.

Governments as land owners

The Tasmanian government is by far the largest land owner in this state. Following the recent Tasmanian Forests Agreement process, over 52% of the Tasmania is now in public ownership under various forms of title arrangement.

While the federal and state governments are called upon to provide funding following natural disaster events, little or nothing is invested in mitigating the risks on state-owned land prior to event.

It is reasonable to expect that private land owners will instigate risk management measures to protect their properties. There is no justification, however, for exempting the Crown from similar expectations.

The Tasmanian farming community is constantly concerned about the impact that impacts spreading from public land have on the environmental, productive and safety significance of private land. The boundary fence doesn't stop the spread of fire, flood, wildlife or weeds. However, responsible management on both sides of the fence will assist to control spread of these risks from public onto private land.

An issue of particular concern at the moment is the risk bushfires escaping from public land and damaging or destroying farm fences and other farm infrastructure.

Wetter weather conditions over the last year have resulted in phenomenal vegetation growth. As a result, fire authorities warn that conditions are ripe for major bushfires. Changed management regimes on many public landholdings, especially forestry reserves, mean that the already critical threat of bushfire is exacerbated and there is an increasing likelihood of damage or destruction of private infrastructure.

Recent experiences have shown that in many cases insurance coverage does not extend to repair or replacement of damaged infrastructure in circumstances such as these. This can leave a landholder with no resources to replace their assets and, in worst case scenarios, even threaten continued business viability.

Private landholders have the right to expect that they will not be adversely affected (financially or in any other way) by circumstances created on neighbouring properties, especially when their neighbour is a government agency. Unfortunately, the state government has not demonstrated basic good neighbour behaviour.

TFGA believes that the state government should immediately commit to the development of a good neighbour charter between private and public landowners.

This should include a commitment to meet half the cost of materials to replace or repair fencing or other assets on private land where these are destroyed or damaged by bushfires, floods or other activities that originate from roadside verges, national parks, state parks and forests or other state-owned landholdings.

This policy would have to be developed in consultation with affected landholders. It would also have to be supported by guidelines that provide some certainty for landholders as to a baseline level of funding in such circumstances.

The Victorian Government's recently introduced landholder recovery plan provides a good model for this type of program.

SUMMARY

The TFGA believes that it is reasonable to expect landowners to be active in mitigating the risks associated with naturally occurring rapid onset events. In our view, this responsibility extends to all land owners - and that there is a corresponding obligation on federal and state governments in their roles as land owners. To expect private landowners to carry all the costs associated with mitigation and repair with no corresponding commitment from government land owners is simply unacceptable.

Any cost analysis will show that it is more economically viable to mitigate naturally occurring events than to providing funding for recovery post an event. Clearly, more attention needs to be paid to relatively low-cost actions such as changing the regulatory regime in order to provide better incentives for private landowners to instigate mitigation initiatives without the impediment of regulation.

Natural disaster relief and recovery arrangements should be reviewed to ensure that they better reflect the real costs of recovery, particularly as this relates to agriculture and the very real issue of lost long term income and repairs of damage to farm infrastructure.

Options for improving insurance coverage need to be investigated in detail. The development of government-underwritten multi-peril insurance options should be given a high priority.

Governments also need to focus on policy settings to ensure they have capacity to fund what are often significant investments in reconstruction of public assets following natural disasters.

The primary contact for this submission is Jan Davis, Chief Executive Officer of Tasmanian Farmers and Graziers Association.

Name of Organisation	**Tasmanian Farmers and Graziers Association**
Address	PO Box 193 (Cnr Cimitiere & Charles Streets) Launceston TAS 7250
Telephone Number	(03) 6332 1800
E-mail address	submissions@tfga.com.au
Website	www.tfga.com.au