Tasmanian Farmers and Graziers Association

Submission:

Draft Report on Natural Disaster Funding

To:

Productivity Commission

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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

The TFGA welcomes the opportunity to comment on the Australian Productivity Commission's draft report into Natural Disaster Funding. As a peak state farming organisation, we are well aware of the impacts of rapid onset natural disasters on the farming community.

The draft report highlights some key points in its recommendations and many of these deal with a substantive change in the way we prepare for and ultimately deal with rapid onset disasters as a nation. The recognition that Australia is subject to natural disasters on a recurring basis is pleasing and avoids the debate about the need for disaster preparedness. The report focus on the need to plan and mitigate the risks as an essential task for both government, business and private individuals is supported by the TFGA.

The forthright analysis of the current funding arrangements and their vulnerability to political manipulation and whims is to be commended. Such full and frank analysis will ultimately lead to better outcomes for all involved. Clearly, the Commission has reached a conclusion that the current approach for disaster funding is not in the long run sustainable or desirable and accordingly have recommended a significant shift in the way we prepare and deal with rapid onset natural disasters.

The view that governments generally over invest in post-disaster support and under-invest in mitigation is disturbing and problematic in its solution. We are supportive of the Commission's recommendation that the federal government should increase funding to the states from $40m to $200m annually to assist in mitigation measures. Nonetheless, we have concerns about a reduction in post disaster funding, particularly in the short term.

If governments implements the proposed reforms, then we believe that a transition period would be required to ensure that the new funding arrangements and outcomes are bedded down first before moving completely to the final model. This is critical where mitigation may involve significant infrastructure investment over a number of years and arguably rapid onset disasters.

We are pleased to see the recommendation for governments to continue to provide emergency relief payments, coupled with the recommendation to eliminate and reduce duplication, inconsistency, inequity and inefficiency.

The TFGA is also very supportive of the Commission's view that governments can do better in terms of allowing people to better understand natural disaster risks and ensuring policies that have incentives to allow people to manage them effectively. We also support the Commission's contention that building regulations have been effective in mitigating natural disaster impacts. However, the issue of land use planning does require a reassessment in this context.

We note the Commission's views on insurance as an important risk management option. We are generally supportive of this proportion. However, more detail is needed to better flesh out this proposition and its potential for post disaster recovery. The comment that pricing is increasingly risk reflective is concerning and highlights a very real vulnerability to any post disaster recovery, as more and more businesses and individuals find themselves priced out of the market.

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, where such coverage is provided, the price of insurance may be unaffordable for many people a trend noted in the draft report.

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 a 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 and coupled with unfettered premium increases becomes unsustainable.

There is a clear case for the federal government to underwrite the availability of such insurance. Obviously, there would be a cost to government in underwriting such a scheme. However, this cost 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.

SUMMARY

The TFGA believes that on balance the draft report has much to commend it.

Our ongoing concerns are focused on:

- ensuring that there is a reasonable transition time for any new funding arrangements; and
- the issue of insurance cover particularly with respect to multi-peril crop insurance and affordability of insurance coverage, as this is given emphasis in the review.

We look forward to the release of the final report in due course.

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

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