

Post-Budget Breakfast Address by

The Hon. Warren Truss MP

Federal Minister for Agriculture, Fisheries and Forestry

To the Farm Writers' Association of NSW

'Planning Agriculture's Future – Drought and Beyond'

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Transcript

Good morning ladies and gentlemen.

It's a great pleasure to be invited again to address the Farm Writers' Association following the release of the Federal Budget last evening and I guess it is great to be here when it is raining outside. Although it is perhaps a tragedy that is not raining a bit further away from here as well, but certainly in a Budget where drought was the centre theme of the agricultural element, where the response to the drought was a key national objective, it is great to wake up on the morning after the Budget in an atmosphere where it is raining.

Certainly the Budget is a significant event for every government because it sets the scene for the year ahead, it includes significant initiatives for the year ahead and it certainly also provides an atmosphere and an indication as to the prospects of our nation for the year ahead.

This Budget has resulted in the largest ever allocation of funding to the Australian farm sector – but I have to say I am not especially delighted about that because the allocation is for drought assistance and I am sure that farmers would have preferred rain.

The reality is that the drought has made an enormous impact on the farm sector and it is appropriate that the Government should respond to those particular needs in a year such as this.

Clearly, international events such as the war in Iraq and the Bali bombings have affected the mindsets and the attitudes of all Australians over the past year. And it is against this backdrop of continuing security concerns that this year's Budget has been framed.

As a result, national security, defence and counter-terrorism have been given an appropriately high priority.

However the Budget also emphasises the Government's ongoing commitment to Australian farmers and regional communities, including through natural resource management and assisting farmers to deal with the exceptional circumstances surrounding this drought.

Many of the challenges facing rural and regional Australia are complex in nature and require long-term solutions. Importantly, the Budget gives effect to the Government's continuing support for a number of big-ticket funding initiatives within my portfolio.

These include especially the Natural Heritage Trust (NHT) and the National Action Plan for Salinity and Water Quality (NAP), the Agriculture – Advancing Australia (Triple-A) package of programs, extensive border protection measures to protect Australia's agricultural industries and environment from pests and diseases, and the Government's investment in our agricultural Research and Development Corporations. Funding for all of these initiatives is continued and in some cases enhanced.

The Government's commitment to funding these integrated, comprehensive, and financially substantial packages to support our rural industries will underwrite the success of Australian agriculture for many years to come.

The Government continues to demonstrate sound economic credentials with this Budget. The Government has forecast a Budget surplus of \$3.9 billion for this year and \$2.2 billion for the year ahead.

The fact that we are returning surplus budgets demonstrates something of the strength and resilience of the Australian economy. To be able to deal with the challenges and threats of war and drought, of economic downturn in our major trading partners and still have a budget surplus, I think, an enormous credit to our nation. If our budget was to have been framed on the same parameters of the US Budget, we would have been delivering last night a deficit of \$30 billion, not a surplus. That is if you took the US circumstances and compared them relative to the size of the Australian economy, we would have been reporting a \$30 billion deficit rather than a \$2.2 billion surplus.

And of course we are so much better off with budget surpluses, they lead to lower interest rates and they mean that the Government can pay off debt, they ensure that more public funds are spent on worthwhile things like health and education and infrastructure rather than on repaying interest.

By the end of next year, we will have repaid \$63 billion of Government debt since we came into office. The remaining debt figure is rather modest when you compare it to the total value of goods and services produced by the Australian economy. Our Gross Domestic Product is forecast to grow by three-and-a-quarter percent next financial year.

Inflation, we anticipate will be around two-and-a-half percent and the unemployment rate will remain largely flat at about six percent.

Under the stewardship of the Coalition over the past seven years, the economy has enjoyed a sustained period of high growth with low inflation and the lowest interest rate climate for 30 years.

Farmers, as small business people, directly benefit from the Government's prudent financial management, through a sound investment climate and other conditions that serve as an incubator for business wealth.

The recent performance of the Australian economy has certainly been remarkable in comparison with the rest of the world. In spite of the weak global situation, in spite of the difficulties associated with the trading environment, we have managed to produce yet another surplus budget and one which I think demonstrates the capacity of our nation to resist difficult circumstances around the world and still be able to grow and prosper.

The 2003-04 Budget contains some key expenditure initiatives:

- There is another \$2.1 billion over five years more for Defence and counter-terrorism expenditure;
- There is \$1.5 billion to fund Higher education reform;
- Another \$917 million for the enhancements to the health system over five years;
- There is also \$135 million to boost employment opportunities for people with disabilities;
- The Tough on Drugs Strategy has received another \$316 million and there is a range of other specific programs to help people with particular needs, especially families around Australia to cope with difficulties they are currently facing.

But the most immediate and pressing problem for many Australian farmers and rural communities has certainly been the drought. It has tested rural endurance and spirits and certainly, as it always does, leads to an atmosphere of gloom in many rural communities. Assisting farmers and rural communities to cope with the drought, as well as to recover from it, will continue to be a major priority for the Government in the coming year.

Importantly the Budget makes provision for \$742 million that will enable the Coalition Government to honour its commitment to drought assistance, in the next two financial years.

While the prospects for a widespread autumn break are encouraging, we really need effective rainfall for the remainder of autumn through to spring.

The sowing of winter crops has commenced in many areas and I am pleased to say also on my own farm for the first time in a long, long time, but clearly follow-up rain will be essential and many areas still are facing difficulties.

For instance at the Murray–Darling Basin Ministerial Council meeting in Toowoomba on Friday, Ministers were told that the in-flow into the Murray-Darling Basin system in the past year was 15 percent lower than ever previously recorded.

That kind of news at a time when reservoirs like the Hume Weir are down to six percent capacity, when there is no water at all available in the Menindee Lakes system for the irrigation scheme demonstrates that the prospects for the year ahead for irrigators are indeed quite alarming. We would need an extraordinarily good winter to enable irrigation supplies to be built up to the sorts of levels where farmers can expect to receive anything like their normal allocation. So we are really concerned about the capacity to supply water out of the Murray-Darling Basin system, and that is a very large proportion of NSW, to support the irrigation industry.

In addition people in industries such as dairying face particular difficulties as a result of the unavailability of water and if per chance we are not able to allocate any reasonable flows at all for irrigation purposes next year then the very future of many of our vineyards and orchards is obviously under threat. A priority for many next year may just be to keep their vines and their orchards alive, let alone hoping to make any significant production.

So the risks are still quite substantial. Unless the weather conditions improve significantly we are indeed facing considerable difficulty in many of those sectors.

Farm production is expected to drop by 23 per cent in 2002-03, reducing GDP growth by about one per cent.

Rural exports are expected to decline by about \$4.2 billion in 2002-03.

The net value of farm production is estimated to fall by around 80 percent, to just \$2.3 billion for the same period.

Those are the figures for the current financial year, but the prospects for the next year are obviously slightly more encouraging. The weather forecasts are starting to show some signs that the winter rainfall patterns may be closer to normal.

The weather bureau has officially declared the El Nino over and that is good news for northern Australia. Indeed the forecast for the next three months for the northern part of Australia, and I acknowledge that this is not their wet season, but the forecast extending into the northern parts of NSW are very encouraging. They predict above average likelihood of median rainfall.

However the forecast for the wehatbelt in SA and western Victoria is not so encouraging – there the forecast is of a of below average likelihood of reaching median rainfall.

So we still have some way to go. But if in fact we have closer to a normal winter rainfall there is the prospect of the biggest wheat crop in our history. Certainly there are many farmers wanting to plant fence-to-fence, there is a lot of vacant land out there ready to be planted and people will certainly take the opportunity if it is available.

It is predicted therefore that the net value of farm production will rise by over 160 per cent to \$6 billion in 2003-04, although still well below the \$11 billion received in 2001-02.

So we are predicting a kick-back but from a very low base and so the recovery will obviously take time and of course all of that depends on rainfall that we don't yet have in most of the cropping areas.

Certainly the Federal Government has moved to provide significant assistance to farmers during this drought.

The states have never delivered less to farmers in a drought. No Commonwealth Government has ever delivered more.

The Commonwealth has made Exceptional Circumstances assistance available much more widely, we have made it available sooner and we have made it available with greater flexibility than in any previous drought.

You will be aware that I have been seeking to reform the EC system now for several years without getting any co-operation at all from the states. The reality has been that because we couldn't get any co-operation from the states, the Commonwealth has acted within its own capacity and entirely funded by the Commonwealth to implement a range of new measures to try and make EC work as well as we can and indeed a supplementary package of interim assistance which has been provided to farmers.

We have moved to provide assistance in a way that has been comprehensive and available as quickly as we possibly can.

The National Rural Advisory Council has considered a very large number of applications for EC and by so doing has ensured that assistance has been made available as quickly as possible.

On the 9th of December the Prime Minister announced a 'one-off' package of additional drought assistance that has enabled thousands of farmers, who were not in EC areas, to obtain immediate income support and interest rate subsidies. The measures were developed to allow farmers to obtain Commonwealth assistance while waiting for their State governments to develop a formal EC application.

So instead of farmers having to wait for an EC application to be lodged, we moved in to provide immediate assistance to all of those who had a rainfall deficiency over the previous nine months period. Indeed, because such a large portion of NSW was covered by that criteria, every farmer in NSW was eligible for this kind of assistance. That has never happened before in Australia.

That package has certainly achieved the objective of giving the states time to prepare applications for the National Rural Advisory Council for EC consideration.

Over 90% of NSW has been considered for EC and over 80% of all Australian farmers in the 9 December announcement area have been considered for EC.

By the start of May of this year, over 12-thousand Australian farm families are receiving either interim income support, prima facie EC or full EC.

The Commonwealth will accept applications, in accordance with additional drought assistance measures announced on 9 December, up until the 10th of June 2003, with the benefits to flow for two years to those accessing the interest rate subsidies. So even in those areas that do not qualify for EC, they are still eligible for two years' of interest subsidies from the Federal Government on new loans up to \$100,000.

In addition to the interim assistance of course though we have continued our major response through the Exceptional Circumstances assistance package. Now this package as well is over 90 percent funded by the Federal Government. The states' share of that package continues to decline and the Commonwealth is picking up almost the entire bill.

Since September last year, the Commonwealth has also introduced several initiatives, to help rural communities cope as the drought intensified.

These include providing the immediate income support that we provide as soon as an EC application is lodged and referred to the National Rural Advisory Council. So as soon as we are satisfied that on the face of it a case has been met, income support is available and interest rate subsidies are provided, something that has not been done in the past. So farmers are receiving assistance immediately without having to wait until an NRAC decision is made before the support is provided.

We have also brought forward the time at which an EC declaration can be made by using predictive modelling.

In the past farmers had to wait until they had a significant drop in income for more than one year, in other words essentially had to lose two crops before they could be eligible for any EC assistance. Now, using predictive modelling, if we are satisfied that the crop hasn't been planted, we know that they are not going to have an income in that year and we can bring forward the time when an EC declaration can be made. Or if a property has been destocked, we know that it is going to take some years before their income is going to flow again and so the EC declarations have been brought forward.

I am surprised therefore that there has been such criticism about allegedly tough new conditions for EC or that it has not been available as readily as in the past. There have been no rules tightened in relation to EC. There are no rules that have been changed to make it more difficult for farmers to get access to EC. But there have been many changes made by the Federal Government to enable farmers to get access quicker, to get access more generally and to a wider range of measures.

I have to say I have been somewhat disappointed by the criticism of some farm industry organisations about the provision of drought aid. As I mentioned earlier, the states have never done less and yet they have got away without any criticism at all. We have provided \$742 million in last night's budget for drought assistance and the NFF has been out there criticising us, suggesting that we have slashed expenditure on drought assistance. There was very little in the budget for drought assistance last year, this is all money that has been provided for the first time. What we have done is sat down and looked at the number of applications that we have received, we have looked at the take-up rates in relation to the interim assistance – it has only got one month to go so we know pretty well precisely what we are going to spend on that and the \$742 million is an accurate reflection, I guess for the first time, of what we anticipate the measures we have already announced will cost. It is not a cut, it is \$742 million of previously unprovided money.

If you want to criticise people for doing nothing about the drought look to the states, who between them have contributed virtually nothing. Plenty of announcements but when it actually comes to

delivering money on the ground there has been very little there. The state that has done the most has been Victoria. They have provided a meaningful assistance program that has provided real benefits to farmers, but they axed it almost immediately after the state election and so now Victoria's farmers have got nothing from their State Government.

In SA and WA, state expenditure on the FarmBis program for training farmers was slashed to provide some tiny assistance to farmers in those states in drought. And yet it seems to me that those state governments have escaped criticism. The Government that is doing all of the work, providing all of the funding, meeting the responsibilities, picking up the slack when the states walked away from their obligations has been the subject of criticism. If you have got to earn respect and commendation from Australian farm organisations by slashing aid to farmers, that is not sending a very good signal when I have to go to the Treasurer and ask for more and more money to assist drought-stricken farmers.

If we are going to be criticised every time we provide substantially new benefits, then that is sending a very wrong signal to those in the country who think that farmers should never be given assistance and that like other businesses they should stand on their own two feet. I do believe that this has been an extraordinarily generous response and that the Government does deserve some credit for that.

Now I know that everybody always wants more to be spent, I know everybody can always think of something more that can be done. I have got a wish list too of things that I might like to see done, but I think a \$742 million commitment, which is way beyond anything any Government has ever provided in the past does demonstrate a real commitment to deal with these issues in a very sympathetic way.

If I may just make one or two other responses to some of the criticisms that have been made about the EC program.

It is often said that the time taken to deal with applications is too long. Well I think we could improve the EC process, but I can't do that alone because it is the subject of an agreement between the Commonwealth and the States. But you need to know that the decisions we have made and the actions we have taken and the tremendous co-operation we have got from NRAC and people like Barry Buffier who do that work has meant that we have slashed by two-thirds the average time it takes to deal with an EC application.

We are taking one third of the time that has traditionally been taken to deal with EC applications. And yet we have had more applications than ever before. In the past eight months, 36 EC applications have been received, 19 of them since February.

This compares with just 13 over the three years to 30 June 2002. Another eight EC applications from NSW, Queensland, South Australia, Victoria and West Australia are expected soon.

On the 9th of May this year, 23 application areas consisting of 14 in NSW, 4 in Victoria, 4 in Queensland and 1 in South Australia, had been declared eligible for EC assistance. So there is some significant progress that has been made in that area.

And I might add that these are not empty announcements that deliver no money. By the beginning of May the Federal Government had already paid more than \$113 million in EC and interim income support payments direct to farmers. That is double what all of the states have provided in their total drought packages. We have already delivered and our commitments last for two years. Once farmers are declared to be in EC, even if it rains generously and we have perfect seasons from then

on, because we know that farmers also need assistance in the recovery phase and not just when they are bearing the burden of the drought.

In the past month alone, the number of farmers on EC Relief Payments has increased by over 30%.

The NSW government has lodged 18 applications for assistance and decisions have been made on 16 of them and 13 of those have been approved. Now I know also that whenever a decision is made not to recommend an application, that is also subjected to criticism and I can understand that people are disappointed when the answer is no.

But can I pass on a comment from the NRAC which I think is particularly important. It seems that lately some of the applications that have been coming in from the states have adopted a very broad-brush approach. They have moved in and naturally and correctly applied for the worst-affected areas first and those have perhaps been more readily able to meet the criteria. And now they seem to be going around and just filling in the gaps by simply submitting the areas not previously declared. As a result we have huge applications such as one that the NRAC had to refuse a few days ago which stretched from the River Murray to the Hunter Valley, three-quarters of the way up NSW. It was a huge application covering a broad range of industries and weather types and there was no doubt that some farmers in that area genuinely meet the criteria, but the application was damaged by the fact that there were obviously other farmers in the area for whom the seasonal conditions were comparatively good. Indeed I was interested to note that on the Country Hour when comments were being made about the fact that this application had not been approved there were many farmers who actually said: 'Well it is not too bad here, but somebody down the road is in a bad way'. And I think that is an honest reflection of the situation.

Now before the last state election in NSW, I wrote to Richard Amery, the then Minister, over one of the applications in Northern NSW where we were confronting the same difficulty. And we asked him to make sure that officials involved could talk through the areas that met the criteria so that we could refine out those that might destroy the capacity of others to receive the benefits to which they are entitled. Now within 24 hours, Premier Carr was on Sydney radio saying that I didn't believe there was a drought in NSW and scoffing at the idea that we might actually make decisions about which areas might need the assistance and which ones might not.

The reality is therefore that the NRAC had to make a recommendation which was not what everybody wanted and which meant inconvenience for people to self-assess in some areas whether or not they were eligible for the assistance. Had there been a co-operative approach, if there was a co-operative approach now with the state government to actually identify areas that met the criteria and dealing with them separately then I believe we could meet the legitimate demands of those who are entitled to the assistance without having their case damaged by other farmers whose seasonal conditions are not as bad.

So I appeal to the states, and this is not just NSW though it has obviously arisen here in the past few days, when putting applications together, be prepared to talk about the identifying the areas that really are entitled to the support. You don't have to have huge applications, we have declared one area in Queensland which was only one shire and we are certainly prepared to do that also in NSW if it means giving assistance to those who are genuinely in need.

I think it is important though that we do look in the longer term towards reforming our drought assistance measures to make them more timely and more cohesively provided. You simply won't get co-operation and an absence of point-scoring on this whole exercise unless Commonwealth and state governments are able to work together with communities in developing a response to drought. That has been absent far too much from the current process. When a declaration is made then

obviously there is silence, but when a decision has to be made by an independent umpire that some areas do not qualify then there is open season on political point-scoring.

If we could work through the issues we would avoid a lot of these circumstances occurring.

Once the back of the drought is broken, I have indicated I want to call together the farm industry organisations – the states can come if they want to – to try and talk through ways of making our assistance program better in the future because I am sick and tired of all of the angst that is associated with EC. It is tough enough if you are in a drought, it is tough enough to have to get rid of your animals or see your crops die without having these unseemly rows between governments about providing assistance. What I find particularly disappointing is that state governments that are doing nothing themselves act in unison to criticise the contributions that the Commonwealth has made without any recognition that they have also got a sharing obligation to provide support and indeed, historically the states have provided the first assistance in times of drought and only called on the Commonwealth when they have made a reasonable effort on their own.

Now we are getting EC applications from areas where the states have provided absolutely no help at all. I have got letters from Ministers acknowledging that they haven't actually spent a cent in areas that they are asking the Commonwealth to pour in millions of dollars and that kind of approach does not represent the kind of co-operation you need to deliver assistance in a very meaningful way.

This year's Budget makes a number of other contributions to agriculture in Australia.

The Triple-A package of programs was a four-year program to provide assistance to farmers and it expires at the end of this financial year. So in the year ahead we will need to have discussions with industry organisations to plan what should be in the AAA package to succeed this one.

This year's Budget announces an extension of the closing date for applications for assistance under Farm Help from 30 November 2003 to 30 June 2004 so that there will be no interruption to an assistance program for farmers facing particular difficulties. But this time next year the Government will need to make an announcement in relation to what it is going to do with programs for which funding expires, such as FarmBis, Farm Help and other initiatives which make up that program. And so I am looking forward to making progress with industry bodies on developing a new program based on the review of the AAA package for the years ahead.

Several states have slashed their funding for the FamBis program and so we will need to look comprehensively at whether farmers still want to have a FarmBis program. A skilling program designed to ensure that farmers have the capacity to deal with a changing environment.

(**TAPE BREAK**** Check remainder of speech against deliver)**

The Coalition will look at building on the package's achievements and will consult key stakeholders on future options for the 2004-05 Budget.

The Budget has also allocated over \$417 million in 2003-04 to manage and safeguard Australia's natural resources. I want to outline six key areas in some detail.

The first is \$250 million for the Natural Heritage Trust, including \$12 million for the Murray-Darling Basin Initiative. Community involvement in NHT projects since 1996 has paved the way for the next phase of the Trust, in which regional communities will identify their own priority issues under catchment management plans and take action to address them.

The Government is pleased to note that all 62 regions across Australia are now engaged in developing an integrated approach to natural resource management planning and are bringing forward strategies for targeted investment, to address salinity and water quality.

As part of this year's funding contribution to the NHT, the Budget allocates \$20 million for the Australian Government Envirofund, - the local action component of the NHT. The Envirofund provides grants of up to \$30,000 for community groups to carry out on-ground actions to target local environmental problems.

The next key area is \$107.6 million for the National Action Plan on Salinity and Water Quality to fund a range of community-based activities. Under the NAP, the Government has approved \$160 million joint funding and together with the States and Territories, has released more than \$70 million to regions for investment in statewide projects.

The third key area is \$38.3 million for the National Landcare Program. Landcare involves around 4000 voluntary groups, mainly in rural Australia. The funding in the 2003 Budget will maintain the momentum support gained through the Government's considerable investment in Landcare.

Key area number four is \$12 million to help combat illegal fishing in the Australian Fishing Zone around Heard and McDonald Islands. This funding will boost patrols by Customs, which are part of a wider Australian push to increase international and diplomatic efforts in combating illegal fishing in the Southern Ocean.

The fifth key area is \$5.2 million in additional funding to expand the national strategy to eliminate red fire ants. These funds have been brought forward to eradicate fire ants from the Brisbane area by 2006. If the fire ants were allowed to spread unchecked, the damage to Australia's plant and livestock industries, urban infrastructure and the environment will be significant.

The final key area I want to touch on is the \$4.6 million Commonwealth contribution to the Murray-Darling Basin Initiative (this is additional to the NHT component). Recognising the importance of the Murray-Darling Basin, governments in the Basin and the Commonwealth have agreed to coordinate their approach to dealing with resource management for sustainable use.

Other portfolio Budget initiatives include:

- \$2.5 million to help implement the recently agreed Action Agenda for Australian aquaculture;
- \$2.34 million as part of a new four-year program to maintain Australia's internationally recognised bovine tuberculosis-free status;
- \$1.2 million each in the 2003-04 and 2004-05 financial years to continue assistance through the Tasmanian Wheat Freight Shipping program for a further two years; and
- extension of Commonwealth funding for the Forest Industry Structural Adjustment Program (FISAP), which was due to expire on 30 June 2003, for a further two years. Approximately \$31 million of unspent FISAP funds will be available over the next two years to assist the native timber industry take advantage of the outcomes of the Regional Forest Agreements and promote investment and employment in many rural and regional parts of Australia.

The economic and cultural importance of our regions remains unquestionable. A number of the broader Budget initiatives will substantially benefit development in Australia's rural and regional areas. These include:

- the Government's investment of some \$1282.7 million on roads in regional Australia in 2003-04;
- the \$917 million Medicare package, which addresses the shortage of doctors in certain areas, particularly rural and outer-metropolitan areas; and
- improvements to the Job Network, which involve the introduction of the Active Participation Model.

In addition, the Government is combining its key regional development programmes to better support local ideas and aspirations. The new Regional Partnerships programme brings together some of the key Government regional development programmes.

This will make it easier for communities to gain access to funding for local projects with one programme, one set of guidelines and one application form.

The Government will spend a total of \$277.2 million over the four years from 2003-04 on the programme, which includes new funding of \$61.8 million.

The Government sees a bright future for agriculture once the drought abates. The evaluation of the effectiveness of the Triple-A package indicates that farmers are adopting a more 'business orientated' attitude to farming.

Through investment in research and development, Australia's image as a 'clean and green' producer is being protected, and Australian businesses are developing better ways of doing business, improving product outcomes and targeting their products more effectively on new and existing markets.

The Government's unprecedented investment in natural resource management, especially through the Natural Heritage Trust and the National Action Plan on Salinity and Water Quality, is addressing key environmental issues and identifying more sustainable ways to manage our farming systems.

Market access for Australian exports is another key area for the Government. Trade is vital to economic growth in rural and regional Australia and the next 12 months are shaping up to be one of the most defining periods ever for Australian trade negotiations.

The combination of ongoing trade liberalisation talks under the World Trade Organisation Doha Round, negotiations on bilateral free trade agreements with the United States and Thailand, and our involvement in a number of international trade disputes make the international sphere in 2003-04 a highly important and busy one.

I am confident that the strength and resilience of our agricultural, fisheries, forestry and food industries will see rural Australia emerge from the current hardships to embrace new and exciting market opportunities. Importantly, there are promising signs that the emotional and financial outlook for many farmers in 2003-04 will be considerably brighter than for the dismal year that has just passed.

Thank you for having me to breakfast with you this morning.