

Options for special recovery measures following a large-scale adverse event

4

2004 lower North Island recovery programme

4.1 >>> The Agricultural Recovery Programme (ARP)

The scale of damage, geographic spread and regional impact of the 2004 lower North Island floods prompted the Government to develop a special recovery measure called the Agricultural Recovery Programme (ARP). A similar programme was put in place after the Bay of Plenty floods that same year. The ARP provided direct financial assistance to farming businesses and was additional to the emergency recovery measures.

The ARP was targeted at:

- rebuilding essential on-farm infrastructure; and
- re-establishing crops.

Core components of the ARP included:

- money paid to farmers on the basis of receipts for work done;
- to be eligible, a farming business had to earn 51 percent of its gross income from agriculture, horticulture, viticulture and/or forestry;
- there was an “excess” of \$10,000 for the 2004 lower North Island floods, modified for the 2004 Bay of Plenty floods to \$5,000 or 10 percent of damage (whichever was greater), before payments were made; and
- there was no cap on the amount payable per farm.

Essential on-farm infrastructure items were eligible for 75 percent reimbursement. The qualifying items for rebuilding, repairing or re-establishing had to be uninsurable and essential, and included:

- boundary fencing;
- access (tracks, races, farm bridges, culverts);
- silt and water damaged pasture;
- water supplies (dams, reticulation, troughs);
- drainage;
- stockyards;
- effluent ponds; and
- on-farm flood protection (lower North Island only).

Crop re-establishment was eligible for 90 percent reimbursement. This was altered to 75 percent reimbursement for the Bay of Plenty 2004 floods. The crops included were:

- vegetables;
- orchard trees;
- arable crops (including forage crops); and
- plantation forestry trees.

The ARP provided a vital boost in morale in the rural sector, but its effectiveness in speeding recovery was less clear. It was also administratively challenging, with claims still being assessed two years after the 2004 event.



QUESTIONS

These questions seek feedback on the effectiveness of the Agricultural Recovery Programme (ARP). Please answer them if you were affected by the 2004 lower North Island or Bay of Plenty floods.

17. Was the ARP successful in speeding up recovery? Why/why not?
18. If yes, what part of the programme was most successful and why?
19. Did the ARP cause any unintended difficulties? If yes, what were they?

4.2 >>> Options for future special recovery measures

This section sets out options for the Government's future role in large-scale adverse event assistance, and seeks comment on them.

The effectiveness of these potential assistance measures for large-scale events should be considered in line with the "Four Rs" risk management approach, and the objectives of this review. The purpose of government assistance is to reach those who need it in a timely manner so that it speeds economic recovery (objective 6). It is not to cover costs:

- for items where it would be reasonably expected a primary producer should insure them (objective 5);
- where assistance would significantly reduce incentives for sustainable land management practices (objective 5); or
- where assistance would undermine the primary responsibility for recovery remaining with the individual (objective 1).

A special recovery measure would be put in place in addition to the general recovery measures and emergency recovery measures discussed earlier.

The options for the Government's role after a large-scale adverse event are:

- A: general recovery measures and emergency recovery measures only;
- B: general recovery measures and emergency recovery measures plus compulsory insurance (two alternatives are explored); or
- C: general recovery measures and emergency recovery measures plus direct business assistance (four alternatives are explored).

The intention is that the Government will decide on one option. It will publicise its choice widely so there is clarity about what can be expected when there is a large adverse event.

Options for the Government's role after a large-scale adverse event

Option A

>>> **Option A: General and emergency recovery measures only**

Under Option A, the Government would provide only the general recovery measures and emergency recovery measures (described in Tables 3.1 on page 12 and 3.2 page 14, but with any changes that arise

*Option A:
only the
general
recovery
measures and
emergency
recovery
measures*

from this review). This would mean that, in addition to any general off-farm recovery assistance such as the restoration of roading and welfare assistance, the available recovery measures targeted at the on-farm level would be:

- Rural Assistance Payments;
- New Start Grants;
- Enhanced Taskforce Green;
- grants to Rural Support Trusts;
- grants for Agricultural Recovery Facilitators;
- grants for technology transfer;
- grants for volunteer costs; and
- grants for communications.

Under this option there would be no additional special measures, even following an event of the magnitude of the 2004 lower North Island floods or larger.

Table 4.1: Advantages and disadvantages of the general and emergency recovery measures only option

Advantages	Disadvantages
Maintains incentives for robust risk management.	May not provide enough direct targeted assistance to speed economic recovery following a large-scale adverse event.
Has a low fiscal risk to the Crown – avoids the Crown becoming the “insurer of last resort”.	
Maintains equity between producers and between the rural and urban sectors.	
Has been tested in previous events and administrative systems are in place.	



QUESTIONS

20. Do you think the general recovery measures and emergency recovery measures provide the appropriate level of recovery assistance after a major adverse event?

*Option B:
compulsory
insurance* >>>

Option B: Compulsory insurance

It is important that primary producers take responsibility for mitigating the effects of adverse events by taking up insurance where possible. Primary producers can make decisions on insurance by balancing the cost of the premium with the potential risk.

Commercial insurance is available for a range of on-farm assets, including buildings, livestock, plantation forestry trees and some crops. However, no insurance is currently available for on-farm infrastructure items such as tracks and races, culverts and water supply systems. (An insurance policy that covered such items was available some years ago, but was dropped through lack of uptake.)

Two alternatives for compulsory insurance are set out below:

*A levy on
production?* >>>

B1: Compulsory levy to fund insurance

Under this alternative, a package would be agreed between the Government, one or more insurance companies and primary producers. Premiums would be funded by a compulsory levy on production. This would be a flat rate arrangement (potentially by sector) for all commercial primary producers and would not be based on risk.

Table 4.2: Advantages and disadvantages of a compulsory levy to fund insurance

Advantages	Disadvantages
Provides certainty that individual producers would have the resources to restore properties to productive capacity as existed prior to the adverse event.	Blunts incentives for risk management and sustainable land management, because low-risk producers subsidise high-risk producers.
Provides universal coverage.	Could promote risk-taking behaviour.
Provides for risk sharing among primary producers.	

Require individuals to pay insurance premiums?



B2: Require primary producers to take up private insurance

Under this alternative, the Government would require individual primary producers to manage climatic risk through private insurance. Insurance companies could be expected to make policies available given the enforced demand, and premiums would be based on risk.

Table 4.3: Advantages and disadvantages of requiring primary producers to take up private insurance

Advantages	Disadvantages
Provides certainty that individual producers would have the resources to restore properties to productive capacity that existed prior to the adverse event.	Potentially leads to very high premiums given the captive market, with premiums potentially unaffordable for high-risk properties.
Provides universal coverage.	Complex to implement, monitor and enforce.
Provides for risk sharing among primary producers.	Possibility that insurance companies would not make insurance available for all circumstances.
Retains incentives for risk management, as the premium would be based on risk.	



QUESTIONS

21. Do you think compulsory insurance is a viable option? Why/why not?
22. If you support some form of compulsory insurance, which option do you support and why?
23. Do you have any other comments regarding insurance?

*Option C:
business
assistance*



Option C: Direct business assistance

Option C would allow the Government to consider providing direct business assistance after a large-scale event. The aim would be to provide a “hand up” in recovery, rather than for the Government to become the “insurer of last resort” and provide compensation for all costs involved.

International obligations need to be considered when developing policy on direct business assistance. These include World Trade Organization (WTO) rules and New Zealand’s international trade agreements and policies. Under the WTO Agreement on Agriculture, governments are free to use certain non-trade distorting measures, including policies related to adverse events, provided specific criteria are met.

Four potential alternatives of delivering direct business assistance are proposed:

*Four
alternatives
proposed*

- C1: general cash grant;
- C2: general concessional loan;
- C3: targeted cash grant; or
- C4: reimbursed cash grant (based on the 2004 ARP model).

These four alternatives for direct business assistance have three key aspects in common:

1) Assistance targeting commercial primary production businesses

Only commercial properties generating income from agriculture, horticulture, viticulture and/or forestry would be eligible for assistance. This would exclude lifestyle blocks.

2) Assistance “excess”

A portion of the loss would be met by the landowner before there was any entitlement to assistance. The landowner would be expected to fund the first \$10,000 or 10 percent of total damage incurred, whichever was greater. These minimum thresholds or “excesses” are similar to those used in the 2004 ARPs (\$10,000 for lower North Island; \$5,000 or 10 percent for Bay of Plenty).

The purpose of an excess would be to ensure primary responsibility for recovery lay with the landowner and that a portion of the loss was borne by the landowner. This policy would also ensure that financial assistance did not reimburse lost production or provide compensation for all costs involved.

3) Capped assistance

Financial assistance would be capped at \$250,000 per business. This would ensure that the Crown acted fairly and reasonably in providing some assistance, while ensuring the primary responsibility for mitigating climatic change continued to lie with the individual/community.

The general cash grant and the general concessional loan (alternatives C1 and C2) would provide direct business assistance that was not directly tied to recovery costs.

Under the targeted cash grant and the reimbursed cash grant (alternatives C3 and C4) direct financial assistance would be targeted at essential uninsurable on-farm infrastructure. Assistance would be based on 75 percent of the recovery cost. Unlike the ARP used in 2004, this option would not apply to re-establishing crops or on-farm flood protection. The infrastructure targeted would be:

- boundary fencing;
- access (tracks, races, culverts);
- water supplies (dams, reticulation, troughs);
- drainage; and
- effluent ponds.



C1: General cash grant

Upfront cash grant per hectare damaged?

Under this alternative, the Government would provide a cash grant to eligible primary production businesses to assist with recovery. An assessor would determine the area affected and the grant would be determined by the number of hectares damaged, to a cap of \$250,000. The grant would be paid up front, calculated on a dollar sum per hectare basis.

Table 4.4: Advantages and disadvantages of the general cash grant alternative

Advantages	Disadvantages
Provides an immediate boost to morale.	Only provides a crude estimate of damage and could create equity issues between highly affected and less affected landowners.
Easy to understand.	Raises equity issues between the urban and rural sectors as to assisting one group and not another.
Simple to determine and administer.	Potentially encourages risk-taking.
Assistance would be delivered quickly.	Assistance might be spent on items unrelated to recovery.
Primary producers would have the flexibility to spend the assistance where and when it was most needed.	



C2: General concessional loan

Low interest loans?

Under this alternative, general concessional loans would be administered through one or more commercial banks and would be a registered mortgage against the farm properties concerned. These loans would be held at the current government bond rate (which is always lower than commercial rates for business or farm lending). Loans would be capped at \$250,000 and would be available only to commercial primary producers above a minimum threshold level or excess of \$10,000 or 10 percent of damage, whichever was greater.

Table 4.5: Advantages and disadvantages of the general concessional loan option

Advantages	Disadvantages
Could provide a boost to morale.	Could encourage borrowing to sustain unviable businesses.
Primary producers would have the flexibility to spend the assistance where and when it was most needed.	Could create equity issues between the rural and urban sector.
	Extremely complex to administer and this would add to its cost.
	Assistance might be spent on items unrelated to recovery.



C3: Targeted cash grant

*Cash grant
for assessed
damage?*

Under this alternative, there would be an initial damage assessment similar to an insurance assessment. Payments would be worked out on the basis of a fixed sum per type of asset (e.g. a fixed amount per 100 metres of fencing). Once assessed, the cash grant would be paid up front. This option differs from the general cash grant option in that it would reflect the actual infrastructure damaged, rather than being based on area damaged.

Table 4.6: Advantages and disadvantages of the targeted cash grant option

Advantages	Disadvantages
Recovery assistance would be tied to assessed on-farm damage.	Moderately complex to administer.
Recovery assistance would be delivered reasonably quickly.	Not as quick to deliver as a general cash grant.
Primary producers would have the flexibility to spend the assistance where and when it was most needed.	Raises equity issues between producers.
	Raises equity issues between the urban and rural sectors.
	Assistance might be spent on things unrelated to recovery.



C4: Reimbursed cash grant

Reimbursement for repairs?

This option is modelled on the assistance provided by the ARP for the 2004 lower North Island and Bay of Plenty floods. Under this option damage would be assessed and once repairs were made, the primary production business would be eligible for reimbursement. Assistance would reflect the actual infrastructure damaged and the cost of its replacement.

Table 4.7: Advantages and disadvantages of the reimbursed cash grant option

Advantages	Disadvantages
Ties assistance to actual damage incurred.	Complex and costly to administer.
Well understood by the rural community, as similar to the ARP.	Raises equity issues between producers.
	Raises equity issues between the urban and rural sectors.
	Delays with assistance because it would be tied to receipt of repair work.



QUESTIONS

24. Do you think the Government has a role in providing direct business assistance? Why/why not?
25. Do you think targeting any direct financial assistance to commercial primary producers is appropriate? Why/why not?
26. Do you think that any direct financial assistance should have an excess? Why/why not?
27. If yes, do you think that \$10,000 or 10 percent (whichever is greater) is an appropriate excess or minimum threshold? Why/why not?
28. Do you think that there should be a cap on any direct financial assistance? Why/why not?
29. If yes, do you think that \$250,000 per primary production business is an appropriate cap? Why/why not?
30. If you think the Government has a role in providing direct business assistance, which of the options outlined would you favour, and why?
31. If you favour targeted assistance, are there items of uninsurable on-farm infrastructure that should be added to or removed from the list?
32. Are there any other business assistance measures you would suggest?
33. Do you have any other comments regarding direct business assistance?