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Industries Assistance Commission Inquiry into drought assistance

Department of Agriculture and Food, Western Australia

Australia. Industries Assistance Commission

J. Ripley

Report to Drought Consultative Committee.

INDUSTRIES ASSISTANCE COMMISSION INQUIRY

INTO

DROUGHT ASSISTANCE

Western Australian Department of Agriculture

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INTRODUCTION

This submission outlines the extent of drought in Western Australia in 1982/83, examines the adequacy of drought assistance measures and, after canvassing alternative assistance measures, proposes a preferred package of drought assistance measures.

The issue of whether or not the non-farm sector in rural areas should receive drought assistance, and if so what type, is not addressed in this submission. Rather the framework of discussion is restricted to the farm sector.

THE EXTENT OF DROUGHT

A. Drought Declarations

As is shown in Figure 1 drought declarations in Western Australia in 1982/83 were confined to two agricultural areas - the north east of the wheatbelt (involving approximately 300 farms) and the Lower Great Southern region (involving about 1150 farms).

Parts of both these regions have experienced numerous droughts in recent years as Figure 2 suggests. The north-east of the wheatbelt in particular has been exposed to prolonged drought. Significant parts of the local government areas of Mullewa, Morawa, Perenjori, Dalwallinu, Koorda and Mt Marshall have been drought-declared in 5 of the last 6 years, with smaller sections experiencing drought in each of the 6 years.

By contrast the Lower Great Southern region has been less frequently exposed to drought. Areas of Ravensthorpe and Gnowangerup (around Jerramungup) have been drought declared in 3 of the past 6 years but most of the Lower Great Southern is relatively free of drought. Areas north of Esperance have been drought declared a few times in recent years.

The numbers of Western Australian farmers drought-declared in each of the past 7 years are estimated to have been:

1976-77	2 670
1977-78	2 510
1978-79	170
1979-80	1 304
1980-81	3924
1981-82	302
1982-83	1 450

In Western Australia recommendations for drought status are based on subjective assessments of the effects of drought on crop yields and finances together with consideration of the needs of livestock.

Subjectivity in drought assessment is not unique to Western Australia as information in Table 1 indicates:

Table 1: Bases of Drought Declaration

State	Basis
Western Australia	Subjective assessment of crop, pasture, stock, water, erosion and financial conditions.
Victoria	Rainfall as compared to average and with reference to its incidence; availability of paddock feed, fodder reserves and stock water; numbers and condition of stock.
New South Wales	If stock are not hand-fed or watered they will die.
Queensland	Effect of season on stock, pastures, crops and primary production generally.
South Australia	Subjective assessment of crop, pasture, stock and water conditions.

The plethora of bases for drought assistance in 1982/83 and their inherent subjectivity when applied has probably caused some inconsistencies in the levels of assistance provided to farms both within and between areas. These observations point to the possible need for a uniform and objective basis for drought declaration.

An objective basis for drought declarations would have obvious appeal. However, it does have real practical difficulties.

The impact of drought can be observed in its obvious effects on pastures, crops and animals. However, it is not possible to monitor performance of growth or stress as indicators of drought because the performance of plants and animals is much affected by other factors - notably management.

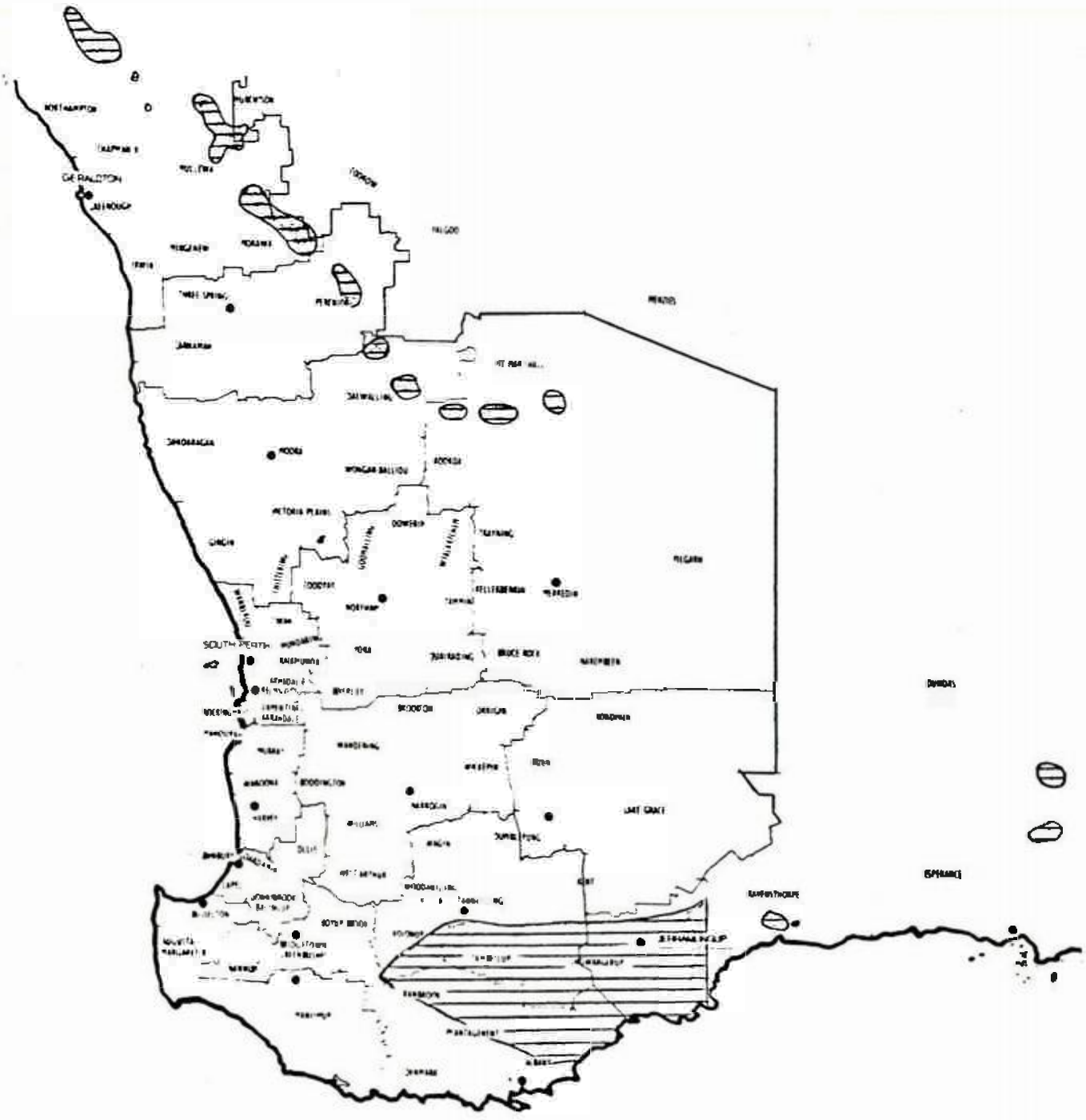
An alternative measure which has been used is rainfall. For example, a working party of the W.A. Drought Consultative Committee investigated objective monitoring of drought in 1977, and concluded:

"Following the receipt of a request for declaration, the Drought Consultative Committee should accept that where any two consecutive months in the growing season are in the first 10% rainfall decile, then prima facie evidence of drought exists..."

The use of this sort of formula can have serious shortcomings. One obvious problem for many new farming areas in Western Australia is that only limited rainfall records are available. For some areas records have been kept for only 5 or 10 years. These are drought-prone areas, to the problem of inadequate records can be a recurring one.

Another possible problem is the use of say, two consecutive months in the lower 10% of rainfall decile. It is quite possible, for example, to have good opening rains in April-May, followed by a very dry June-July, and then good finishing rains. Such a rainfall pattern could produce a bumper season.

Figure 1: Drought-Declared Areas in 1982/3



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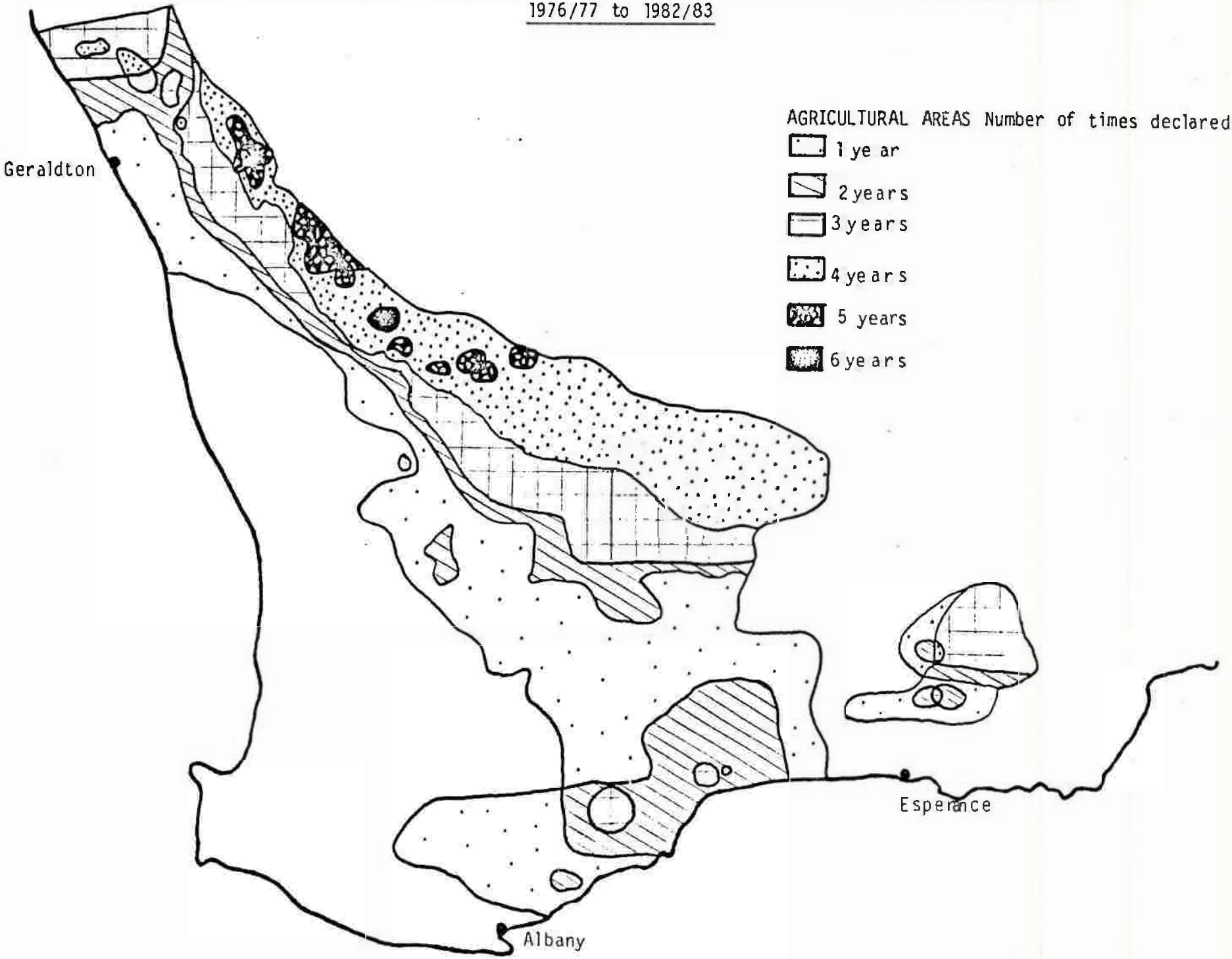
1976/77 to 1982/83



A third potential problem, at least in the less populated areas is variability within districts. Rainfall is measured in some areas, at widely separated locations. There is usually one recording point in a shire. The Western Australian experience has been that one part of a Shire can be clearly in drought while another part of the same Shire is experiencing a good season.

THE COST OF DROUGHT

As time and information constraints do not allow an estimate of all drought-induced costs and losses, only some drought costs are estimated.

In the north east of the wheatbelt drought costs mainly involve reductions in cereal revenues resulting from low yields. An estimate of revenue reduction was gained by first estimating yield loss. Co-operative Bulk Handling (CBH) provided comparisons of grain receivals at bins in drought-affected areas over two seasons. The CBH data gave indications of likely yield reductions in 1982/83. Knowing the distribution of drought-declared farms among local government areas, using average farm approximations (derived from ABS agricultural census data) and using CBH data and field adviser opinions, the 1982/83 cereal revenue decline was estimated at $18.5 million.

For the Lower Great Southern region a similar estimation procedure gave an estimate of crop revenue reduction as $13.0 million. Thus the estimated value of cereal yield losses due to drought in 1982/83 in Western Australia is $31.5 million.

An indication of the cumulative effects of drought is given in Attachment 1. This survey of farmers was first made after they had suffered three years of drought and was repeated three years later. No information is available on the initial position when the first drought occurred. However the rise in average debts in the second three year period is most significant rising from $84 770 to $175 936.

Other drought costs include costs associated with stock losses, reduced wool cuts, reduced lambing, reduced stock numbers and additional expenditure on fodder and agistment. No attempt has been made to estimate these costs or the multiplier effects associated with revenue losses and input changes; suffice to say these costs, especially in the Lower Great Southern where sheep-dominant enterprises prevail, are likely to be at least as large as cereal revenue reductions. Attachment 2 illustrates the longer term effects of drought on a livestock farm.

A RATIONALE FOR DROUGHT ASSISTANCE

Drought assistance is a form of temporary aid. It is aimed to sustain farmers and farm resources through a seriously adverse season or seasons. The aid is seen as temporary because, almost by definition, a drought is assessed relative to some measure of a normal seasonal condition. A return to normal seasons will remove the immediate cause of the problem which drought assistance addresses.

Droughts are, however, essentially a financial problem. (This statement is qualified later). From a policy development view, then, droughts can be considered as similar to any other factors, external to the farm business, which cause a pronounced short term reduction in farm returns. We return to this point in the discussion of policy measures.

While a drought is much like any other external factor in that its consequences are financial, it may be difficult in its impact on the capacity of the farm business to recover after the adverse event has passed. To an extent, capacity to recover depends on the severity of an event rather than its nature - a severe price fall may be equally difficult to recover from as a drought. However, a drought can be different when it leads to loss or damage of resources. For example, the loss of a farm flock in a national drought may mean that it will be several years before the flock number can be re-established. Again, injury to soils under drought conditions may take many years to rectify.

The arguments for assistance to farmers affected by droughts can be based on the sorts of efficiency considerations discussed above, or on welfare considerations, or from a pragmatic acceptance of some political/social realities.

Efficiency arguments have been acknowledged by the Industries Assistance Commission (IAC) in its 1975/76 Annual Report:

"When a severe fall in profitability results from temporary factors peculiar to an industry there may be a strong case, on efficiency grounds, for the provision of temporary assistance to a low cost industry to enable it to hold resources necessary for its long term development. In such cases assistance would avoid the cost of resource movements which would later need to be reversed". (IAC Annual Report 1975/76 p. 13). Such a statement of principle is in accord with the IAC's recommendation of short term assistance to the beef industry in 1974. The aim of this assistance "was to encourage these producers to remain in the industry who were in a position to operate profitably with low levels of assistance" (Approaches to General Reductions in Protection: Discussion Paper No. 2: Short Term Assistance During General Reduction in Protection).

This argument has not received univeral acceptance. Freebairn[1] argues, on resource efficiency grounds, against providing an industry with temporary assistance to retain those resources necessary for its long term development. He classifies resources into industry specific and non industry specific.

Freebairn argues that because industry specific resources have a low inter-industry opportunity value they may under conditions of a temporary decline in returns in one sector of an industry be absorbed by other sectors of the same industry not experiencing a decline in returns. Consequently, some if not all of the resources remain in the industry.

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1. Freebairn, J.W. "Pros and Cons of Temporary Industry Assistance". A.J.A.E. Vol. 22(3) Dec. 1978.

In many instances this situation does not apply. For example, under continuing and widespread drought resources such as livestock have little intra-industry opportunity value. Therefore such resources are likely to be lost from that industry. The argument may apply to some resources in some localised droughts. However, to argue for temporary assistance only under widespread drought could lead to inequitable treatment between farmers. It would also be administratively difficult.

The second case considered by Freebairn is the non industry-specific resources (unskilled labour, light motor vehicles). He argues that, not only are these resources more likely to leave the industry under conditions of a temporary slump, but they are also easier to replace when the downturn is reversed. Again, this argument is not generally valid. Under prolonged drought displaced unskilled labour, for example, is unlikely to be reabsorbed given the relocation costs of such resources.

We consider that such efficiency considerations are important. Our general view is that farmers in a drought situation may be forced to a position where they sacrifice long term considerations for short term survival strategies. This may mean that they sell or destroy stock despite the likely high cost of replacement; that they sell machinery despite low salvage values; that they overstock fragile lands despite long term consequence.

The purist would argue that the financial sector should cope with these situations. Banks should provide carry on funds to allow farmers to adopt the best long-term strategy. The reality is that banks are not able to take this view. They view with concern the low salvage value of drought affected farms, the resultant low equity position of farmers, and the apparent lack of security for the bank's funds. Banks tend to respond by providing less money when more is needed.

An additional argument based on efficiency considerations is compensatory assistance. Assistance to other sectors has eroded farmers terms of trade and made them less able to invest in drought management strategies such as IED's and drought insurance.

Welfare considerations provide a further justification for drought assistance to farmers. Assistance is often necessary to cushion farmer incomes from the effects of drought, or to compensate them for losses in asset values. In this context, drought assistance parallels assistance provided to the unemployed or to earthquake victims, for example.

Pragmatically it is recognised that Governments are committed, by precedent and social pressure, to assist those severely disadvantaged by large natural disasters.

Droughts are no different to floods, fires or cyclones in this respect.

We consider that the relevant question becomes what is the most appropriate form of assistance to farmers affected by drought.

AN APPRAISAL OF 1982/83 DROUGHT ASSISTANCE MEASURES

A. Assistance Categories and Levels

For 1982/83 the following concessions and financial assistance are available to farmers in drought declared areas of the agricultural districts of Western Australia:

1. Interest subsidy
2. Fodder subsidy
3. Agistment fees
4. Road and rail haulage
   - i) transport of grain and redelivery of wheat
   - ii) transport of hay
   - iii) stock forwarded to and returning from agistment
   - iv) transport of stock purchased

5. Loans to primary producers
6. Assistance in water deficient areas.

A description of these schemes is given in an appended document.

Amounts of financial assistance provided under the various measures from 1976/77 to 1982/83 are given in Table 2. Assistance in 1982/83 is only to mid-February 1983.

B. A Critique of Assistance Measures

An economic evaluation of the 1982/83 drought assistance measures reveals they suffer from several weaknesses which can be outlined as:

- poorly targeted

  The 1982/83 drought assistance should have been designed to identify and aid those inordinately disadvantaged by drought. However, the assistance measures were also of benefit to many who were unaffected by drought. For example, the subsidisation of fodder and agistment resulted in grain growers and farmers with agistment land sharing in the assistance benefits.

- discouraging risk-offsetting management

  If farmers can expect drought assistance from government then the incentive for farmers to adopt risk offsetting strategies is reduced. Farmers are not encouraged to:

  i) develop and hold grain and fodder reserves
  ii) hold reserves of cash, bonds, off-farm investments or income equalisation deposits
  iii) reduce stocking rates
  iv) purchase land in areas less susceptible to drought[2].

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2. For a whimsical account of the four new rules of good farm management see Chatterton, B. "Preparing for the Next Drought", Australian Farm Management Newsletter, Vol 9(10) Nov. 1982.

Table 2: Assistance Categories and Levels

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83
Freight subsidies on:							
Hay	49 134	27 668	27 504	113 041	170 268	4 905	)
Grain	34 308	2 402	1 276	1 094	26 382	1 804	)
Potatoes	-	9 352	-	-	-	-	)
Stock to agistment	-	22 192	34 474	56 740	252 740	19 809	) 54 526
Stock from agistment	42 848	145 094	156 804	103 935	510 697	12 802	)
Stock purchased for restocking	-	11 721	10 252	9 152	26 765	1 076	)
Stock to special sales	15 144	-	-	-	-	-	)
Provision of water	131 793	10 974	3 686	102 139	125 517	40 644	547**
Clearing sand drift						136 299	
Interest subsidy							n.a.
Fodder subsidy							45 439***
Agistment fees							0***
Loans to primary producers							
Drought delegated agency	2 375 420	19 640 940	1 208 300	11 688 400	14 666 500	)3 212 200	)3 746 000*
Sharefarmers & lessee's	565 250	2 893 160	313 200	1 433 115	1 351 500	)	)
Pastoralists	n.a.	655 500		292 990	1 006 101		0
Beekeepers	n.a.	114 000		22 000			0
Cyclone Hazel				12 000			
Unemployment relief to shire	625 300	825 595	-	191 913	-	-	-
Loans to small businesses				495 500	233 500		
TOTAL	3 839 206	24 359 118	1 755 496	14 522 019	18 369 770	3 429 539	3 846 512
No. of loan approvals							
Drought delegated agency	210	873	78	520	759	)	)
Sharefarmers & lessee's	54	162	21	100	79	156)	)115

* As at 17 February, 1983
** As at February 1983
*** As at 28 February, 1983

By depending on the government assistance, resource misallocation within agriculture is likely; leading to greater incentive both to farm in more drought susceptible areas and to adopt more risky management strategies. As an illustration; a farmer who seeks to minimise drought losses by maintaining low stocking rates and adequate fodder reserves may receive little or no government drought assistance. However, the farmer who maintains a higher stocking rate and low reserves of conserved fodder may receive greater government drought assistance. What many would believe to be poor management practices are not penalised but rather reimbursed.

- inequitable

The forms of drought assistance lead to inequities in the distribution of assistance. As examples, the farmer displaying sound conservation management is disadvantaged vis-a-vis the farmer less concerned with conservation. The subsidisation of all interest payments has meant no necessary relationship between the level of assistance received and the degree of disadvantage suffered from drought.

- inadequate

An inadequacy of the present drought relief loan system is that loans are made on a short term basis; that is effectively amortised over 7 years at 4 per cent interest. However, as the data of Table 3 show the immediate cash flow problems caused by drought could be eased by a loan over a longer period even at a higher rate of interest.

Table 3: Varying Terms for a $40 000 Loan

Length	7	8	9	10
Interest Rate (%)	4	7	9	11
Amortised Annual Payment ($)	6 664	6 700	6 672	6 792
First Year Tax Deduction ($)	1 600	2 800	3 600	4 400
First Year Tax Savings ($)				
Assume Taxable Income of $25 000	736	1 288	1 656	2 024
Assume Taxable Income of $16 000	491	859	1 105	1 350
Assume Taxable Income of $ 7 000	490	778	778	778

The advantage of a low interest loan is to some extent eroded by the smaller taxation deduction of interest payments. Even though a farmer with a loan at a higher interest rate over a longer term will pay more interest, in the initial years following a drought he may be advantaged through greater tax savings.

The size of benefit is proportional to taxable income. If taxable income is low tax savings from the longer term interest rate loan are less than tax savings when taxable income is higher. As most farmers have low taxable incomes following drought, they will only benefit slightly in initial years from loans with higher rates and longer terms.

consistent with other policy

Clearly, policies for drought should be as consistent as possible with other rural policies. One possible conflict exists between drought policy and soil conservation policy. Soil and water conservation have become accepted as matters of national priority in Australia. This priority is at odds with a policy of subsidising on-farm feeding of stock in a drought. Even where a subsidy is also extended to the off-farm feeding of stock it may well be that the balance of the two measures is not always neutral. For some farmers the several measures will net out as an inducement to retain stock on farm - which may have deleterious effects on soils.

In periods of drought when the RAS would receive numerous applications for assistance, Federal and State Governments could direct most of their natural disaster relief funds for drought to the RAS. The RAS could act as agents to identify those farmers most in need of carry-on funds, and with prospects of long term viability. Where the long term viability of a farm is judged not to be jeopardised by factors beyond the farmer's control, that farmer would become eligible for an RAS loan. An important feature of the existing RAS scheme is the application of a flexible interest rate policy - and this should be continued.

An advantage of chanelling assistance through the RAS would be the avoidance of the inequities and administrative difficulties of drought declarations. A case by case examination of farm finances would reveal individual needs for assistance; carry-on, household support or rehabilitation. Carry-on finace, for example, could be provided at levels and on terms necessary for a farm's long term viability - unlike the present arrangements where carry-on loans are limited to a maximum 7 year term.

The provision of assistance via the RAS has the advantage of being specifically directed to give most assistance to those most in need of assistance. While all money would be provided by way of loans (not grants) through the RAS there would be the ability to provide greater assistance in times of harsher droughts by an increased subsidy element in the interest rate charged.

B. Direct Subsidy

As a general proposition we have argued that drought assistance should be by provision of special loan funds for farmers.

There will be situations, however, where specific policy objectives can be identified as part of a general

drought assistance package. These specific objectives might best be addressed by specific policy measures.

One example would be the possible need in a national drought (as in 1982-83) to ensure that the national flock or herd was not too severely reduced in numbers. It may be adjudged that, without policy action, the national herd could be cut by, say, 20 per cent and this would cause a 30 per cent cut in productive capacity and effect processor viability for 8 years and lead to loss of export markets. Given this judgement, a specific policy action, such as a feed subsidy, may be considered a preferrable strategy to a more neutral form of assistance.

Another example of a specific policy consideration would be the committment to a national soil and water conservation policy.

In many pastoral areas of Western Australia (for example) a pastoralist in a drought situation may well not see economic justification, in the short-term at least, in actively de-stocking his property. Yet in terms of preserving a fragile ecology this may be the preferred strategy. Or from the point of view of soil conservation it may be the best long term strategy. In such a situation direct aid to assist de-stocking by agistment or other means may be an appropriate policy.

C. Insurance

Another drought measure that the Commission may wish to consider is a formal drought insurance scheme. We are uncertain as to whether this is a practical proposal or how it might be made to work. Farmers can currently take out informal insurance by the use of IED's, but they appear not to see this as an attractive investment. Farmers do, however, insure against other events such as hail.

This behaviour of farmers may be explained in terms of the high opportunity cost of scarce funds. However, a more likely explanation is that farmers do not see IED's as an insurance mechanism. IED's are closely linked with the taxation system and IED's are used as part of a taxation strategy.

Despite some reservations we suggest that the IAC give consideration to a mechanism of formal drought insurance.

Drought insurance schemes could offer a farmer a selection from a range of premiums, where the higher the premium the greater the insurance payout in a year of drought. The premium selected by a farmer would reflect his farming region's susceptibility to drought, his own risk preferences and his farm's financial status.

In principal, membership of an insurance scheme need not be compulsory. However, on the basis of experience with other natural disaster relief schemes it is likely that insured farmers would receive less assistance than uninsured farmers. To avoid or minimise this "moral hazard", all farmers and insurance agencies would need to know well in advance what government assistance, if any, would be available in drought. Pragmatically, it may be necessary to make the insurance scheme compulsory.

The scheme would also need to be based on an objective measurement of drought - for example, drought being defined to exist in any area where rainfall measurement indicating any two consecutive months in the growing season being in the first 10 per cent rainfall decile. Neither farmers nor insurance agencies should be able to manipulate the data or definitions required for objective measurement of drought and all definitions or measurement procedures should be unambiguous. All parties should have access to measurement results.

An advantage of an insurance scheme is the avoidance of resource misallocation costs that plague present measures of drought assistance. For example, present measures distort land markets by artificially raising or supporting land values in drought prone areas relative to areas free of drought. In contrast, premiums of the insurance scheme become part of operating costs and cannot artificially support land prices in drought prone areas if the premiums are solely on commercial considerations.

There is conflicting evidence as to the practicability of insurance schemes that include drought cover. For example, an all risk crop insurance scheme implemented for Western Australian wheatgrowers in 1974 was withdrawn after one year of operation. A compulsory banana crop insurance scheme was introduced in 1962 for Western Australian banana growers and it continues to operate.

Whether commercial insurance firms would consider a drought cover scheme as impractical or of limited profitability requires further examination by insurance specialists. If commercial firms were unwilling to introduce a scheme then there may be a case for government undertaking the scheme (if it is feasible) on a break-even basis where in any year costs of administering the scheme, which include an allowance for average expected payouts, equate to expected premium receipts and investment returns.

D. Interest Assistance

This submission has argued that the major form of drought assistance to farmers should be loan monies provided through the RAS.

A possible adjunct to this proposal, which the Commission might consider, is a system of subsidisation of interest rates. Drought funds would be used to subsidise interest costs on money borrowed commercially by farmers to alleviate the financial consequences of drought.

Under this proposal a farmer would still make an application to the RAS for money. His eligibility and finance needs would be assessed under the RAS in the same way as is done currently.

If a farmer is recommended to receive carry-on funds then the RAS instead of supplying the funds, pledges interest assistance. For example, a farmer may be assessed as requiring $50 000 to be repaid over 10 years at say 9 per cent interest. The interest assistance would be the difference between the RAS rate (9 per cent) and the rate (say 14 per cent) a bank would be prepared to charge on the principal borrowed over the same length.

The bank would be lending at commercial rates: The farmer would receive carry-on funds at a concessional rate. The advantage of using RAS funds for interest payments rather than principal lendings is that many more farmers could receive assistance. In periods of drought when social and political pressures mount to urge governments to provide assistance, RAS funds could be used to widen assistance by using the interest concession scheme, yet involve governments in little additional short term expenditure.

The weaknesses of the interest concession scheme are several. First, there would be an incentive for banks to charge RAS clients a higher rate of interest on carry-on funds than they otherwise would. However, this incentive could be offset by competition between banks for the RAS clients and by the RAS negotiating with individual banks to lower interest rate charges on carry-pn loans. Secondly, as with many forms of assistance, the RAS welfare assistance would be capitalized into the value of land in drought-affected areas relative to areas free of drought. Thirdly, as already noted, banks tend to become overly conscious of the security of loans during a time of drought. Hence, they will refuse to lend, even at full commercial rates.

E. Information and Extension Services

The main thrust of present drought relief measures is financial assistance. However, there is a case for broadening assistance to information and extension services. In times of natural disaster, such as drought, the demand for these services can exceed their supply. Farmers require the services in order to act swiftly to save stock, retain soil, reduce costs - in short, minimise the deleterious effects of drought.

Commonwealth and State Government funds could be used in several ways to increase information and extension services to farmers in drought affected or drought prone areas:

- additional funds for printing and disseminating information on drought assistance, drought management practices, soil and water conservation techniques, etc.

- special funds for travel and accommodation to increase the mobility of those advising farmers in drought-affected or drought-prone areas.

- special funds for the contractual employment of additional advisers. These advisers may be from other State Departments of Agriculture with expertise relevant to the local drought, farm consultants or farmers competent to advise in drought management.

- because it is likely that State departments will incur additional costs in re-organising their advisory services to better service drought-affected farmers, there may be a need for some of these costs to be recouped from State and Commonwealth Governments.

RECOMMENDATIONS

- Current subsidies such as the interest subsidy, fodder subsidy, agistment fees and haulage concessions, etc, be largely replaced with loan funds provided through the Rural Adjustment Scheme.

- Specific subsidies should be used, but only where a specific policy objective can be identified, for example for the conservation of soils, it may be desirable to subsidise off-farm agistment. Again, in a situation of national drought it may be desirable to subsidise stock feeding to maintain the national flock or herd.

- In periods of drought the major form of assistance should be through the RAS. Funds should be allocated on a case by case basis, following an examination of needs and abilities. Drought declaration need not be a pre-requisite for a farmer making application to the RAS.

- Special information and advisory services should be chargeable against drought assistance funds.

REPORT TO DROUGHT CONSULTATIVE COMMITTEE

by J. Ripley, 20 September, 1982

Drought Situation Morawa Area

I visited Morawa on 14, 15 and 16 of September at the request of the Drought Consultative Committee to interview drought affected farmers in the area. Farmers in the area had been notified of the visit and requested to bring in financial and other data relative to their situation. About 50 farmers were interviewed and details of their situation recorded.

The attached survey results show the details of survey averages for 1982 and they are compared with survey averages for the Morawa shire in 1979 and for farmers with drought loans in 1979. The farmers interviewed were mostly from the Morawa Shire with a few from Perenjori and Latham and some had properties in other Shires. The sample farmers were from the following major localities and areas:

Canna	8
Gutha	12
Pintharuka	8
Morawa South	6
Morawa West	3
Morawa East	5
Perenjori & Latham	5
	47

Those attending were mainly from the North and North East of Morawa. Two share farmers also attended the meetings but are not included in the results.

At the time of the interviews useful rainfall fell in the Morawa area so the influence of this rain was taken into account when making yield estimates. It must be emphasised that there is potential for significant inaccuracy in the estimates, and more accurate estimates will be available at the end of September. In the sample 6 farms estimated a yield producing sufficient only for seed wheat, the balance 41 estimate yields between 0.2 and 0.8 t/ha. The average estimated income from grains for the

harvest is about $41 000 which is about 30% of the normal expected income say $123 000. Grain estimated incomes are therefore down by around $80 000 per farm.

Taking into account present debt situation and anticipated loan repayments in 1983, and crop programme for 1983 cash requirements for 1983 were estimated. The average per farm peak debt was estimated at $87 000 which is about $46 000 above normal expected carry on finance availability. Included in the costs for 1983 are $20 000 H.P. repayments and about $9 000 other loan repayments. The costs exclude any repayments on drought loans.

The question of how hard farmers should be pressed to defer H.P. debts requires attention. H.P. repayments are now a significant component (24%) of the debt and deferment may only lead to future cash flow problems. Assuming some deferment of H.P. say 30% and some loan repayment deferment the peak requirement may be reduceable by $10 000 and so be lowered to $77 000. This is about $36 000 above normal working credit limits of $41 000.

The interest rate subsidy payable by the Federal Government will also reduce the lending required. At this stage it is not known if the subsidy is payable on deferred loans or deferred H.P. payments. This point requires clarification.

Should the interest subsidy only be payable if H.P. and other loan payments are met then the minimal deferral of H.P. or other loan repayments will be of maximum benefit to farmers.

The proposed $40 000 maximum drought loans should be adequate (provided yield estimates for 1982 are realistic) for most farmers drought affected in the Morawa Shire. Some farmers have requirements far in excess of the $40 000 available and will have to obtain substantial loan repayment deferal and increased normal lender funding. It is also estimated that three of those interviewed will have little prospect of servicing their borrowing commitments.

There were some farmers interviewed who indicated that they may have large income tax accounts for payment in 1983. Estimates of these were included in the costs but in most cases these will need verification by accountants.

The question of the situation of local business men was also raised. Apparently some of them have high levels of outstanding accounts and there may be a need to ensure that drought loans are applied to reducing these accounts as well as for general carry on.

At this stage it is not possible to estimate with any accuracy the number of farmers likely to require drought funding. The September rainfall has significantly reduced the potential number from the northern agricultural areas. There are about 270 farmers in the Morawa, Mullewa and Perenjori Shires and the number of applicants from these shires could be around 100.

SURVEY RESULTS

	1979 (Morawa)	1982	Planned 1
No in sample	96	47	
Total farm area ha	2 126	2 454	
Cleared area ha	1 595	1 945	
Sharefarm of lease ha	237	282	
Area planted (own farm) ha			
Wheat	669	1 046	1 210
Barley, Oats, Lupins	183	109	93
Area planted (leased sharefarm) ha			
Wheat	94	282	169
Other	3	-	
Total crop area	849	1 437	1 472

Estimated Grain Yields	
Wheat t/ha	0.35
Other crops t/ha	Negligible
Wheat to be delivered/farm t	387
Other crops	Negligible

Estimated Income/Farm Dec 1982 to Nov 1983

Wheat	40 635
Wool	11 351
Sheep	5 218
Pigs	1 532
TOTAL	58 754

Liabilities

	1982	%	1979 Farm With Drought Loans	%	1979 Morawa	%
Amount owing to:						
Trading Bank W/Ac	16 745	10	14 611	11	10 749	13
Stock Firm W/Ac	6 315		5 677		2 437	
Trading Bank T/L	13 006		14 444		8 394	
P.I.B.A.	2 501					
C.Dev.Bank	7 340		8 598		5 172	
Rural Adjustment	8 617		9 818		4 466	
Drought Relief Loans	42 590	24	29 378	21	18 940	22
Vendor	15 362		14 546		13 020	
Family & Other	20 782		11 846		7 214	
Hire Purchase	42 678	24	25 932	19	13 331	16
Sundry Creditors			2 074		1 047	
TOTAL	175 936		137 834		84 770	
Av. debt $/crop ha	122		107		95	

1982 Survey Per Farm Average Estimates

Estimated Peak Debt 1982	$33 073
Working Account Limit 1982	$36 457
Estimated Peak Debt 1983	$87 327
Estimated Working Account Limit 1983	$41 660
Loan Repayments 1983	
Banks, Vendors, RAA	$ 8 712 (Drought Relief Loans Excluded
H.P. and Lease	$20 341

ATTACHMENT 2

RURAL ADJUSTMENT SCHEME

LONG TERM and Y.I.Y.O. BUDGETS

Date ..... Name ..... No. .....

LAST 12 months (Actual)	INCOME Item / Quantity	STABLE		DROUGHT	+1	+2		
	Wool 75	425		48 530	30 148	51 928		
	Sheep Sales	21 600		21 800	0	0		
	TOTAL INCOME	97 025		70 330	30 418	51 928		
	Farm Production Costs							
	Fertilisers	13 000		13 000		8 000		
	Crop Costs (*a*)	300		300	300	300		
	Stock Costs—purchases	1 800			1 200	3 000		
	—other (*b*)	16 000		13 600	8 300	12 000		
	Fuel, oil	7 500		570 0	7 500	7 500		
	Labour	2 200						
	Repairs	5 000		6 000	6 000	6 000		
	Contract, hire, cartage							
	Rates, Land Tax, Water	600		600	600	600		
	Insurances	1 800		1 800	1 800	1 800		
	Licenses, Phone, Subs	1 200		1 200	1 200	1 200		
	Sundries (*c*)	1 200		1 200	1 200	1 200		
		400		400	400	400		
	Household, educ.	10 500		10 500	10 500	10 500		
	Taxation	4 600		400				
	Plant replacement	8 000		8 000	8 000			
	Loan Repayments	9 500		6 050	6 050	6 050		
	Interest—work a/cs	3000		3 000	5 000	9 500		
	Capital Development (*d*)							
	Inflation							
	TOTAL COSTS	87 600		77 750	58 050	68 050		
	Surplus/Deficit	+9 425		−7 420	−27 632	−16 122		
	RRA Borrowings							
	RRA Payments							
	Remainder							

(*a*) Crop Costs: Sprays $.....; Seed $.....; Insurance $.....; Cartage $.....; Grazing $.....; Hay $.....

(*b*) Stock Costs: Shearing $.....; Crutching $.....; Mules $.....; Vaccines $.....; Vet. $.....; Fodder $.....

(*c*) Sundries: Bank Charges $192; Accounting $495; Adviser $.....; Legal $..... $.....

(*d*) Capital Development: Clearing $.....; Fencing $.....; Water $..... $.....

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LIVESTOCK SCHEDULE

Name No.

Flock Herd

Year	STABLE FLOCK			DROUGHT			DROUGHT + 1			DROUGHT + 2		
	No.	$/hd	$	No.	$/hd	$	No.	$/hd	$	No.	$/hd	$
Opening EWES	3000			3000			2000			2800		
WETHERS	1000			1000								
HOGGETS	2100			2100			1000			1200		
RAMS	75			75			60			60		
Purchases RAMS	15	120	1800				10	120	1200	25	120	3000
Births	2100			1500			1200			1960		
TOTAL SOURCES												
Deaths EWES	150			300			100			140		
WETHERS	50			50								
HOGGETS	150			200			100			80		
Sales RAMS	15			15			10			10		
LAMBS				500	6.00	3000						
EWES	500	8.0	4000	1400	2.00	2800						
WETHERS	950	8.0	17100	950	8.00	7600						
HOGGETS	300	15.0	4500	1200	7.00	8400						
Closing												
EWES	2350			1300			1900			2660		
WETHERS												
RAMS	1650			700			900			1120		
LAMBS	75			60			60			75		
	2100			1000			1200			1960		
TOTAL USES												
PRODUCTION	No.	/hd	Total	No.	/hd	Total	No.	/hd	Total	No.	/hd	Total
EWES	2900	4.7	13630	2800	3.5	10080	1950	4.0	7800	2730	4.7	12831
WETHERS	950	5.2	4940	950	3.6	3420						
HOGGETS	2000	4.0	8000	2000	3.0	6000	950	3.5	3325	1160	4.0	4640
RAMS	75	6.0	450	60	6.0	600	50	6.0	300	60	6.0	360
LAMBS	2100	1.5	3150	1000	1.0	1000	1200	1.5	1800	1960	1.5	2940
TOTAL PROD.	8025	3.8	30170	6810		21100	4150					20771
PROCEEDS	30170 kg @ 250¢			21000 kg @ 230¢			13225 kg @ 230¢			20771 kg @ 250¢		
WOOL	NET. $75 425			$48 530			$30 418			$51 928		
SHEEP SALES	$21 600			$21 800			$ 0			$ 0		

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