

# Briefing Note

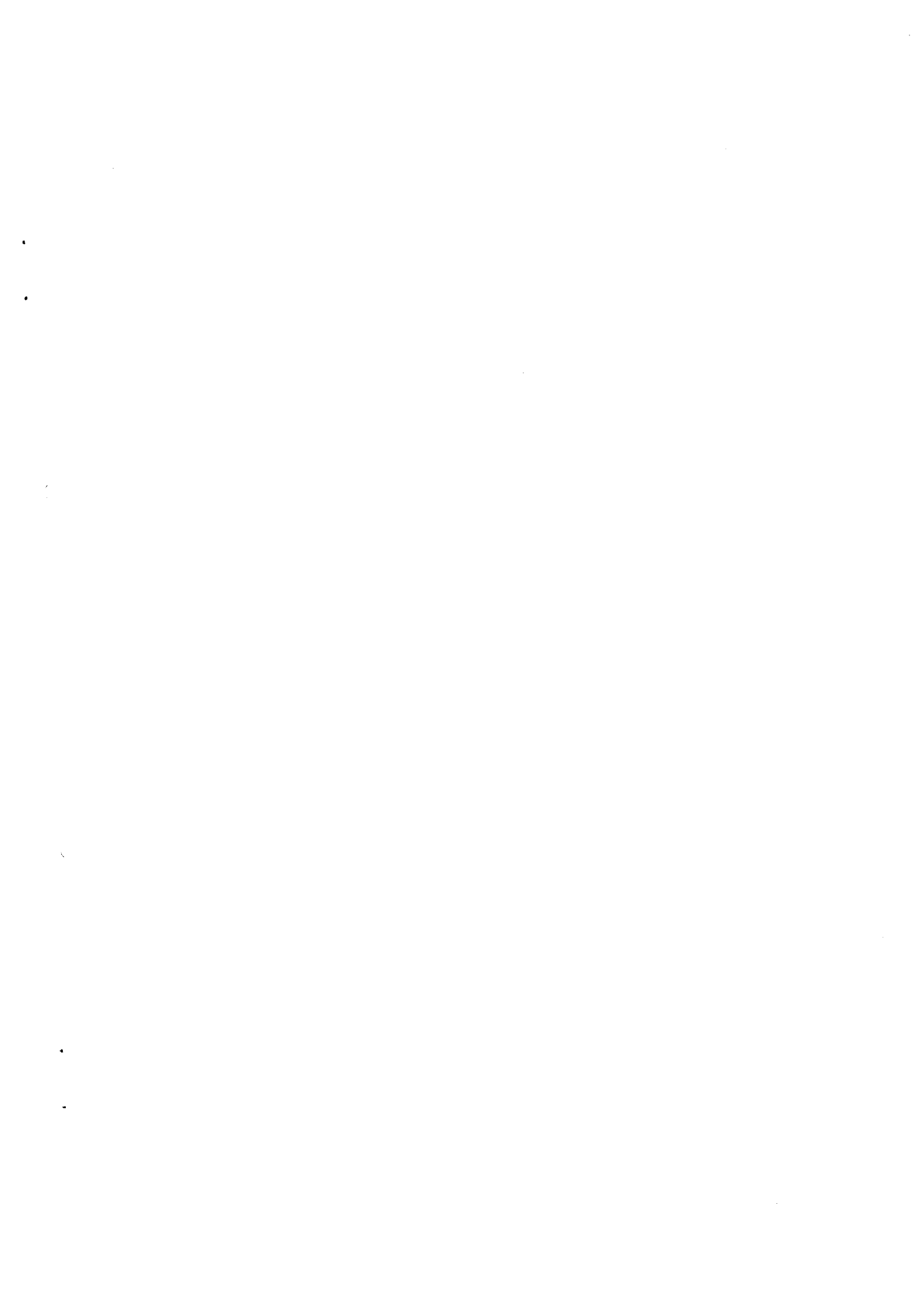


## Drought in New South Wales

by

John Wilkinson

No 020/94



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This publication was written by John Wilkinson, Research Officer in the NSW Parliamentary Library. Should Members or their staff require further information please contact the author.

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# 1 DROUGHT IN AUSTRALIA

## (a) Past Droughts

Sustained periods of dry weather have been endured by white settlers in Australia ever since the arrival of British ships in 1788. The first drought experienced by the colonists occurred only a year after their arrival and lasted from 1789-1791. Subsequent years of settlement have seen constant recurrences of drought occurring in the following years: 1798-1799, 1803, 1809-1811, 1813-1815, 1824, 1826-1829, 1838-1839, 1845-1847, 1857-1849, 1864-1868, 1877-1878, 1884-1885, 1888, 1895-1902, 1906, 1911-1916, 1918-1920, 1922-1923, 1926-1929, 1934-1942, 1946-1949, 1951-1952, 1957-1958, 1965-1968, 1970-1973, 1976 and 1979-1983. The Drought Policy Review Task Force established by the federal government in 1989 recognised in its final report that "drought is a natural and recurring condition in Australia."<sup>1</sup>

## (b) Present Drought of 1991-1994

The present drought developed in southern Queensland and northern NSW in 1991. Many farmers in Queensland and New South Wales have had no significant harvest since then. Currently about 80% of NSW is drought-declared with more than 5,000 farms in the state drought stricken.<sup>2</sup>

In early August 1994 the Premier and Deputy Premier of NSW visited drought-affected areas of NSW. The Premier subsequently announced that, in addition to the \$5 million in extra financial assistance promised by the Federal Government for drought-stricken farmers in NSW, the State Government

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<sup>1</sup> Clem Lloyd, *Either Drought or Plenty: Water Development and Management in New South Wales* (NSW Department of Water Resources, Sydney, 1988), pp.27,31-32,63,99,130,147,180,224, 249-250,285; Walter Boughton, "Atmospheric Processes and Runoff" in Grant McTainsh and Walter Boughton (ed.s), *Land Degradation Processes in Australia* (Longman Cheshire, Melbourne, 1993), p.48; J.J. Pigram, *Issues in the Management of Australia's Water Resources* (Longman Cheshire, Melbourne, 1986), p.35; Senate Standing Committee on Rural and Regional Affairs, *A National Drought Policy - Appropriate Government Responses to the Recommendations of the Drought Policy Review Task Force*, Final Report (Parliament of the Commonwealth of Australia, Canberra, 1992), p.1; *Effects of Drought on New South Wales* (NSW Department of Water Resources, Sydney, 1993), p.6.

<sup>2</sup> Virginia Trioli, "Dead Dry" in the *Sydney Morning Herald*, Spectrum, 20 August 1994, p.5A.

would allocate a further \$10 million to the Drought Transport Subsidy Scheme. The Premier also announced the appointment of five Rural Community Drought Support Workers who will have a \$250,000 budget to provide emergency cash grants for the household needs of families in distress. Other welfare measures announced by the Premier include the exemption of stamp duty payments for farmers who, in difficult circumstances, are refinancing loans.<sup>3</sup>

## 2 DROUGHT ASSISTANCE PAST AND PRESENT

### (a) Drought Assistance Administration before 1971

Constitutionally state governments are responsible for financial assistance in the realm of natural disasters but gradually a policy of Commonwealth government assistance has emerged. This is authorised under Section 96 of the Commonwealth Constitution which states that "Parliament may grant financial assistance to any State on such terms and conditions as the Parliament thinks fit."<sup>4</sup>

This policy approach was demonstrated during the Second World War when, as Edgar Dunsdorfs has written, "For the relief of farmers the *States Grants (Drought Relief) Act, 1941*, was passed. From £1m. made available, the states disbursed £985,623 in 1940-41 and 1941-42. In the previous year the *Loan (Drought Relief) Bill, 1940*, had empowered the Federal Treasurer to borrow moneys, not exceeding £2.8m., and to make loans to the states against interest of 3 per cent. Provisions for grants of the interest to the states was made. The loan had to be repaid in the course of seven years. After the drought of 1944-45, it was agreed at the Premiers' conference in 1944 to provide funds on a £1 for £1 basis by the Commonwealth and the states for the relief of cereal-growers."<sup>5</sup>

Smith and Callahan wrote in 1988 that "The main administrative units" for drought declaration purposes "are the Pasture Protection Districts (PPDs). . . The basic procedure for the declaration of agricultural drought has remained

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<sup>3</sup> Premier of NSW, Press Releases, 8 and 9 August 1994.

<sup>4</sup> D.I. Smith and S.D. Callahan, *Climatic and Agricultural Drought, Payments and Policy: A Study of New South Wales*, CRES Working Paper 1988/16 (Centre for Resource and Environmental Studies, ANU, Canberra, 1988), p.45.

<sup>5</sup> Edgar Dunsdorfs, *The Australian Wheat-Growing Industry 1988-1948* (Melbourne University Press, Melbourne, 1956), pp.294-295.



constant since 1957. A PPD can request that its district be drought declared. However, such applications require independent recommendation from state officials. The final decision is the responsibility of the NSW Minister of Agriculture."<sup>6</sup>

The Pasture Protection Districts in NSW were originally established by proclamation in 1903 under the *Pastures Protection Act 1902*. The 1902 Act was subsequently superseded by the *Pastures Protection Act 1934* which in turn has now been repealed by the *Rural Lands Protection Act 1989* which replaced the term PPD with Rural Lands Protection District (RLPD).<sup>7</sup> Just as with the former PPDs, each RLPD has a board and it is the board which initiates action for a district to be drought declared. The board's application must be supported by an independent recommendation from the board's district veterinarian or ranger, and by the NSW Department of Agriculture's Regional Director of Veterinary Services. There is no legislation relating to drought relief in NSW and the Government may vary individual drought relief provisions.<sup>8</sup>

#### (b) Drought Assistance 1971-1988

In 1971 the McMahon government formalised provisions for drought and flood assistance in the National Disaster Relief Arrangements (NDRA). Drought was categorised as a "major" disaster, which in turn was defined, in financial terms, according to Smith and Callahan, as a circumstance "necessitating payments of at least 10% of a state's base expenditure. Once a state had exceeded this annual base expenditure the Commonwealth met, in full, all the remaining expenditure on agreed relief measures. . .The annual base expenditure for each state government remained unchanged until the 1978-1979 budget. . . when it was doubled. . .However, the Commonwealth contribution to relief, other than for personal hardship and relief, above the base expenditure, was changed to 75%". Although the guidelines for Commonwealth payments to the states have been clearly specified from at least 1960, the occurrence of particularly severe droughts has often led to additional

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<sup>6</sup> Smith and Callahan, op.cit., p.51.

<sup>7</sup> C.M. Collins, *The Law of Fences and Pastures Protection*, 2nd. ed. edited by H.K. Insall (The Law Book Company, Sydney, 1984), pp.83-84; see also the *Rural Lands Protection Act 1989* of which Section 11 states that the functions of the board of each Pasture Protection District include "the making to the Minister of a recommendation that the district" be drought declared.

<sup>8</sup> Bryson Roberts, *Drought, Bushfire and Flood Relief*, Agfact AO 1.1, 1st.ed. (NSW Department of Agriculture, Orange, 1991), p.1-2.

aid from the Commonwealth. The *States Grants (Drought Assistance) Act 1966* and the *States Grants (Drought Reimbursement) Act 1968* are examples of such assistance. The former applied to New South Wales and Queensland and the latter to Victoria and South Australia. These Acts met all expenditures dispensed by those states on measures to combat the effects of drought on agriculture. The *Drought Relief (Primary Producers) Act 1982* extended Commonwealth subsidy payments for the cost of purchasing fodder for sheep and cattle for primary producers located in drought declared areas.<sup>9</sup>

The hazard of drought has attracted more State and Commonwealth funding, during the period 1971-1988, than all other hazards including the combined category of flood, cyclone and storm. Between the financial years of 1963 and 1988 total Commonwealth drought assistance was \$496 million, some 58% of all Commonwealth disaster payments. In the case of New South Wales the total disaster payments during 1962/63 to 1987/88, were \$220 million of which \$146 million (66.7%) was for drought aid.<sup>10</sup>

**(c) Elimination of Drought from the Category of Natural Disaster 1989-1990**

Phil Simmons, writing in 1993, commented that "There have been three major developments in drought policy in the last three years. The first was the removal of drought from the Commonwealth NDRA disaster legislation. The second was the publication of the Drought Policy Review Task Force (DPTRF) findings in 1990 that have contributed to the development of new attitudes towards drought relief. The third development was new Commonwealth legislation for drought policy emphasising the role of the RAS".<sup>11</sup>

Following the recommendations in the Interim Report of the DPTRF in 1989 the Hawke government announced in the same year that drought funding would be removed from the National Disaster Relief Arrangements effective from July 1989. As an alternative arrangement the government was able to reach agreement with the State and Territory Governments that, during financial year 1989-1990, drought assistance should be provided under the Rural Adjustment

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<sup>9</sup> Smith and Callahan, *op.cit.*, pp.45-47.

<sup>10</sup> *ibid.*, p.96.

<sup>11</sup> Phil Simmons, "Recent Developments in Commonwealth Drought Policy" in the *Review of Marketing and Agricultural Economics*, Vol.61 no.3, December 1993, p.445.

Scheme (RAS).<sup>12</sup> Since then drought assistance has been provided under the RAS.

### 3 CHANGING STRATEGIES IN DEALING WITH DROUGHT

#### (a) Drought as Rural Business Risk before 1900

Until the early 1900s droughts were essentially perceived as adversities to be endured by the would-be primary producers who were spreading over the land. Stephen Roberts wrote in his book on the squatting age in Australia that during the drought which struck eastern Australia during the 1840s "The losses, naturally, were enormous, and instances exist of squatters whose flocks sank from 100,000 to 6,000 in a couple of years, and of drought-bound western runs sold for a little rum or tobacco, with the sheep at a few pence a head."<sup>13</sup> Twenty years later the drought of 1864-1869 had a ruinous effect on the sheep runs in South Australia and Queensland: 235,000 out of 270,000 sheep died in the northern areas of South Australia and the newly established Bank of Queensland encountered difficulties when pastoralists defaulted on their loans. Another twenty years later NSW was struck by the drought of 1885 in which one property lost 53,000 out of 65,000 sheep and lambs: its unrepayable loan of £60,000 from the Commercial Bank of South Australia being a contributing factor to that institution's eventual collapse.<sup>14</sup> The worst drought of these times, in eastern Australia, was that of 1895-1903. During that period, which also coincided with a depression in international economic conditions, sheep numbers declined from 100 million in 1895 to half that number by 1903. Similarly cattle numbers declined from 12 million to 7 million.<sup>15</sup>

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<sup>12</sup> *A National Drought Policy - Appropriate Government Responses to the Recommendation of the Drought Policy Review Task Force*, Final Report, p.7.

<sup>13</sup> Stephen Roberts, *The Squatting Age in Australia 1835-1847* (Melbourne University Press, Melbourne, 1935), p.315.

<sup>14</sup> Stephen Roberts, *History of Australian Land Settlement 1788-1920* (Melbourne University Press, Melbourne, 1924), p.254; Trevor Sykes, *Two Centuries of Panic: A History of Corporate Collapses in Australia* (Allen and Unwin, Sydney, 1988), pp.98,132.

<sup>15</sup> H.G. Collins, *Rural Land Utilisation* (Commonwealth Institute of Valuers, Sydney, 1966), p.27.

(b) Drought Solutions: Land Planning and Irrigation before 1971

Different colonies chose different solutions to deal with drought. In South Australia, as Trevor Sykes recalled, "After the severe drought of 1865, South Australian Surveyor-General George Goyder had been sent 'to determine and lay down on a map, as nearly as practicable, the line of demarcation between that portion of the country where the rainfall has extended, and that where the drought prevails'. Goyder drew the line, noting that it extended considerably further south than he had expected. For many years the line was regarded as the demarcation zone between the agricultural and pastoral areas of South Australia."<sup>16</sup>

In Victoria the government was pressed to introduce irrigation as a solution to drought. Bruce Davidson has written that "In 1865 agitation following a year of drought forced the Victorian Parliament to pass a series of Acts which authorised the establishment of local governing bodies and permitted them to borrow money from the government to construct works for supplying water for livestock and irrigation in their districts. . . . Agitation during the drought of 1876-7. . . . caused the government to advance loans to several rural districts to construct water works to supply water for stock and domestic purposes."<sup>17</sup>

In NSW, according to Davidson, "The droughts of the early 1880s led to the appointment of a Royal Commission under Sir William Lyne which examined the water resources of the whole colony. . . . The only practical outcome of the Lyne Commission was the establishment of the Water Conservation and Irrigation Branch, initially within the Department of Mines".<sup>18</sup>

The severe impact of the 1895-1902 drought in NSW, however, led to the actual commencement of irrigation schemes within the colony. Clem Lloyd has remarked that "The *Australian Pastoralists' Review* described it as a prolonged and unexampled drought, 'a far-reaching national calamity', estimating total losses in New South Wales at £42 million. . . . The drought of 1902 prompted intense agitation by landholders for irrigation, with powerful lobby groups emerging along the Murray and its New South Wales tributaries."<sup>19</sup> The outcome of this agitation was that, in 1905, L.A. Wade, an engineer with the

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<sup>16</sup> Sykes, op.cit., p.120 and Roberts, *History of Australian Land Settlement*, p.254.

<sup>17</sup> Bruce Davidson, *Australia Wet or Dry: The Physical and Economic Limits to the Expansion of Irrigation* (Melbourne University Press, Melbourne, 1969), pp.50-51.

<sup>18</sup> *ibid.*, pp.60-61.

<sup>19</sup> Lloyd, op.cit., pp.180-181.

NSW Public Works Department was appointed to study the issue of irrigation in what was now the state of New South Wales and the *Barren Jack Dam and Murrumbidgee Canals Construction Act 1906* was approved by the NSW Parliament. Land resumption for irrigation in NSW and two years later the *Irrigation Act 1912* was passed under which Wade was appointed the first head of a newly established Water Conservation and Irrigation Commission (WCIC).<sup>20</sup>

Irrigation work in eastern Australia was accelerated in 1915 when the federal government and the state governments of NSW, Victoria and South Australia concluded the Murray River Agreement establishing the River Murray Commission. The commission, as Davidson wrote, "was empowered to build storages on the upper Murray and at Lake Victoria near the South Australian border and a series of weirs and locks on the Murray and Murrumbidgee Rivers."<sup>21</sup>

The renamed Burrinjuck Dam became operational in 1927 and the area under irrigation in NSW expanded considerably during the 1920s. According to Roy Powell, the entire area irrigated in eastern Australia reached 200,000 acres by 1930. In the 1930s the economic depression, in Davidson's account, "slowed but did not halt the expansion of irrigation. In 1933. . .the New South Wales W.C. and I.C. started building Wyangala Dam to store water on the Lachlan River. . .the completion of the Hume Reservoir in 1936 allowed irrigation in Victoria and New South Wales to expand in the early 1940s. Between 1939 and 1946 the total area of irrigated land in Australia increased from 814,000 to 1,406,000 acres." After the end of the Second World War irrigation was extended even further and Davidson wrote in 1969 that "Between 1955 and 1967 the storage capacity of reservoirs used for irrigation in Australia was increased from 3,690,000 to 12,350,000 acre feet. During the same period the area irrigated increased from 1,750,000 to 3,200,000 acres."<sup>22</sup>

### (c) Irrigation Reconsidered and Drought Defined as National Disaster

As early as the beginning of the twentieth century geographers in Australia had issued warnings about the constraints on rural production imposed by drought. Professor John Gregory (Professor of Geology and Mineralogy at the

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<sup>20</sup> Colin Munro, *Australian Water Resources and their Development* (Angus and Robertson, Sydney, 1974), pp.135-144.

<sup>21</sup> Davidson, *op.cit.*, pp.75-76.

<sup>22</sup> Roy Powell, "Farm Investment" in D.B. Williams, *Agriculture in the Australian Economy*, 2nd.ed. (Sydney University Press, Sydney, 1982), p.280; Davidson, *op.cit.*, pp.82-87.

University of Melbourne from 1900-1904) and later Professor Thomas Griffith Taylor (Professor of Geography at the University of Sydney from 1920-1928) cautioned that policy makers should not be over optimistic in their estimations of how far dry conditions in Australia could be overcome. Griffith Taylor wrote in 1940 that in his opinion "more than three-quarters of Australia is probably too dry and hot for agriculture".<sup>23</sup>

Even by the 1880s farmers in Australia had begun to take the uncertain rainfall conditions into account and some settlers in the dry areas of eastern Australia had begun to move to the wetter coastal areas to take part in the newly developing dairy industry.<sup>24</sup>

By the 1960s agricultural economists had begun to sound warnings about the contrast between the amount being spent on irrigation and the returns from irrigated agriculture. Professor Samuel Wadham wrote in 1964 that "All the state authorities dealing with irrigation on the grand scale have been compelled to acknowledge severe losses at some stage of their operations." Bruce Davidson wrote in 1969 that for the period 1947-1965 "the total value of Australian agricultural output, valued at 1965 prices, increased from \$1,583 million to \$3,059 million, an increase of 93 per cent. The rise in value of irrigated products of \$192 million was only 13 per cent of the total increase." Davidson added that,

The wisdom of providing large amounts of capital for constructing irrigation works was not seriously questioned until 1963, when it was pointed out that the diversion of water from the Snowy to the Murrumbidgee River and the construction of the Coleambally Irrigation Area on the Murrumbidgee could not be justified on economic grounds. In the same year it was shown that the large irrigation scheme started on the Ord River in 1958 would only be able to operate if farmers received subsidised prices for their crops and obtained water from the state free of any charge for capital invested in the reservoir. In 1966 the Commonwealth Treasury insisted that any future requests by the states for financial assistance for irrigation projects must be preceded by

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<sup>23</sup> See T.M. Perry, "Climate and Settlement in Australia 1700-1930: Some Theoretical Considerations" in John Andrews (ed.), *Frontiers and Men: A Volume in Memory of Griffith Taylor 1880-1963* (F.W. Cheshire, Melbourne, 1966), pp.149-151; Griffith Taylor, *Australia*, 2nd.ed. (E.P. Dutton, New York, 1943), p.299.

<sup>24</sup> Warwick Frost, "Government, Farmers and the Environment: Australia's Wet Frontier 1870-1920", paper delivered at the *Economic History Society of Australia and New Zealand Conference*, Armidale, July 1994, pp.4,19.

detailed economic investigations.<sup>25</sup>

On an overall level the essence of the economists' concerns, as one primary producer has acknowledged, is that "dams and irrigation systems should never have been built because they would never be able to pay their way". This is because economists "define the returns as the income generated from water sales and claim the income should cover the capital costs of dams and distribution systems as well as operation, maintenance and depreciation costs and, on top of that, provide a return on the investment."<sup>26</sup> On a particular level, it had already been made clear, as far back as the time of the Lyne Royal Commission into water conservation, held in NSW in the mid-1880s, that irrigation could only benefit certain elements of the rural sector. Several graziers who addressed the Commission pointed out, according to Davidson, "that it was not worth irrigating to feed sheep during a drought".<sup>27</sup>

The result of this questioning of the value of irrigation as a strategy for dealing with dry conditions was, as Keith Campbell observed, "an inevitable reduction in political support for public expenditure on irrigation".<sup>28</sup> As support for further irrigation declined, policy strategies for dealing with drought appear to have turned towards dealing with the onset of severe dry conditions on an occurrence by occurrence basis with the categorisation in 1971 of drought as a national disaster.

#### (d) Drought Reclassified as Business Risk: 1990s

Towards the end of the 1980s critiques also began to emerge regarding the sums of government money being spent on drought relief through the National Disaster Relief Arrangements. One of the most important was the Smith and Callahan study referred to above, published in 1988. The authors extensively computer-analysed drought relief payments from 1971 onwards, examining, in five Pasture Protection Districts (Armidale, Bega, Bourke, Cobar and Wagga Wagga), "the number of primary producers who received drought subsidy payments, the average number of payments they received in each year and the

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<sup>25</sup> Samuel Wadham and Gordon Wood, *Land Utilisation in Australia*, 4th.ed. (Melbourne University Press, Melbourne, 1964), p.248; Davidson, op.cit., pp.89-91.

<sup>26</sup> R.W. Thompson, "The Economics of Water: Implications for NSW and Southern Queensland", paper delivered at the *Water Options 2000* Conference (Moree, 1994).

<sup>27</sup> Davidson, op.cit., p.62.

<sup>28</sup> K.O. Campbell, "Land Policy" in Williams, op.cit., p.236.

average annual payments to claimants." A major feature which emerged in the study was "the relatively small number of total producers who lodged any claims. For those in the five study areas that did claim, the annual overall payment for the drought years 1980-83 was approximately \$2,500." Projected on a NSW-wide basis this represented "some 15-20% of all farmers in drought declared areas of the state in the period 1980-83."<sup>29</sup> Smith and Callahan's overall conclusions in relation to drought were that,

- In policy terms it could be argued that an average of one year in every five does not represent a "disaster", i.e. it is not an unusual occurrence requiring special financial treatment. Such an occurrence interval is much less than for other disasters such as flood or bushfire.
- The key question that arises is the degree to which the farming practice, whether grazing, dairying, or cropping, is out of step with what would be considered the normal climatic pattern.
- There is a widely held belief that a large proportion of those claiming subsidy payments are the poorer managers whose farming practices are not well adjusted to the prevailing water balance and soil conditions in their area.
- The likelihood for such measures for severe droughts in the future adds a disincentive for landholders to undertake farm management measures for future events.<sup>30</sup>

It is not surprising to find that the three volume final report of the Hawke government's Drought Policy Review Task Force recommended the following new approach to drought in farm policy strategy:

drought is a natural and recurring condition and therefore is a normal commercial risk that should be included in the management decisions of Australian rural enterprises.<sup>31</sup>

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<sup>29</sup> Smith and Callahan, *op.cit.*, p.63.

<sup>30</sup> Smith and Callahan, *op.cit.*, pp.51,93-101.

<sup>31</sup> *A National Drought Policy - Appropriate Government Responses to the Recommendations of the Drought Policy Review Task Force*, Final Report, p.1.



In 1992 the then Federal Minister for Primary Industry and Energy, Simon Crean, reaffirmed this in a departmental press release as follows:

The key to the successful management of drought is preparedness through property management planning including risk management. . . The Government will facilitate this process through the revised Rural Adjustment Scheme (RAS), and the improved Income Equalisation Deposit Scheme (IEDs), which includes the new Farm Management Bond (FMB).<sup>32</sup>

Phil Simmons had commented that "The era of subsidised feed, agistment, transport and the like, with its associated inefficiencies . . . may be over in the Commonwealth political arena."<sup>33</sup>

#### **4 THE IMPORTANCE OF THE RURAL SECTOR TO THE NATIONAL ECONOMY**

##### **(a) The Rural Sector's Contribution to Exports**

It is an acknowledged economic reality that the rural sector - agriculture combined with forestry, fishing and hunting - now account for only a small part of Australia's Gross Domestic Product: 3.6% While this is so in relation to the rural sector's share of domestic output in Australia, on the other hand the sector's contribution to Australia exports is still very significant. Australia is still the largest single exporter of wool in the world and, until the recent drought, has been the fourth largest exporter of wheat in the world. Exports of beef from Australia during 1991-1992, according to the chairman of the Australian Meat and Livestock Corporation, were second only to coal in Australian export earnings.<sup>34</sup>

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<sup>32</sup> Simmons, op.cit., p.452.

<sup>33</sup> *ibid.*, p.453.

<sup>34</sup> Barry Pestana, "Agriculture in the Australian Economy" in National Farmers Federation (ed.), *Australian Agriculture*, 4th.ed. (Morescope Publishing, Melbourne, 1993), p.9; Wool Industry Review Committee, *Wool: Structuring for Global Realities* (Australian Government Publishing Service, Canberra, 1993), p.48; Robert Milliken, *The Changing World of Australia's Farmers* (Simon and Schuster, Sydney, 1992), p.30. For the comments of the chairman of the AMLC on beef export earnings (valued in financial year 1991-1992 at \$2.8 billion) see "Pro-Grainfed Claim a Myth: AMLC Leader" (part of a special report on the AMLC) in *The Land*,

## (b) Effect of Drought on the National Economy

Drought can therefore still have a significantly adverse impact on the Australian economy if there is a dramatic downturn in the rural sector. During 1982-1983, when the 1979-1983 drought was at its peak, lost rural production was estimated at \$2.5 billion and the flow-on effects, through the impact on rural businesses, food processing and other sectors, increased the overall costs of the drought to about \$7.5 billion.<sup>35</sup> During 1982-1983 the drought was estimated to have led to a 1% decline in total national output. The decline in agricultural output itself was about 24%. In the livestock industry, national herd numbers fell by about 2 million during 1982-1983. The national sheep flock declined by about 5 million.<sup>36</sup>

## 5 PLANNING FOR DROUGHT - ASSISTANCE AVAILABLE TO FARMERS

### (a) Drought Management

Farmers themselves recognise that droughts are part of running a business on the land. In an interview in the *Sydney Morning Herald* the owners of "Barrakee", a sheep and wheat property in northern NSW, acknowledged that "You put up with droughts - that's part of being on the land."<sup>37</sup> P.J. Walker, in his paper on managing for drought, has written that "drought is one of the risks involved in carrying out a commercial business in a variable and largely unpredictable climate. . .to best cope with drought, management must be closely attuned to climatic conditions, land resource condition, financial and forage reserves, the financial status of the enterprise, and prevailing economic conditions." Walker divides his advice into the following categories:

- *Financial.* Landholders who enter into extended commitments for the purchase of property within a few years of the onset of drought are in a vulnerable position. To cope with a prolonged drought a landholder must begin with a good equity - he or she must not be over-committed.

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3 December 1992), p.3.

<sup>35</sup> P.J. Walker, *Managing for Drought*, CaLM Technical Paper 1 (Department of Conservation and Land Management, Sydney, 1992), p.5.

<sup>36</sup> *Effects of Drought on NSW*, p.14.

<sup>37</sup> Carmel Dwyer, "Hope Dries as Drought Drags On" in the *Sydney Morning Herald*, 22 August 1994, p.3.

A good margin gives a landholder a margin within which he or she can plan his drought strategy and possible plans to restock. When a landholder assesses his or her overall financial position they should examine their cash or borrowing resources. Where adequate finance is available for agistment, or to obtain feed, an estimate should be prepared of how long financial resources will last. It is important to conserve finance from high income years in some form that can be used in poor years. This might be in the form of commercial investment, short-term realisable assets, off-farm income producing assets, or sale of produce, stock or assets. Since 1976 the Federal Government has operated various forms of Income Equalisation Deposits (IEDs) and last revised the scheme in 1989 providing a taxation link. IEDs and income tax averaging are intended to reduce the variations in income and tax payments due to the frequent fluctuations in income from farming. Presently IEDs are fully tax deductible in the year of deposit. Deposits become assessable for income tax purposes in the year of withdrawal, while interest payments on the principal are taxed each year.

- *Farmland Planning.* Development of strategies for drought management is best based on an entire farm plan: one which identifies different land types, location of shelter-belts, areas of erodable soils, degraded areas which need attention, fences, watering points, harbours for pests and other infrastructure. Such a plan could be used to pinpoint the following areas of concern: areas which should be destocked first; areas where stock can be fed without damaging the land resource; priority areas for pest control; areas where additional fencing, water or trees, are required; areas where pasture or groundcover need improving; areas which could be managed to help wildlife to survive.
- *Groundcover Management.* This is a key element of farm management and is critical for a number of reasons. Apart from producing feed, groundcover is important for the following purposes: protecting the soil from erosion and deterioration of surface structure; increasing infiltration of water into the soil; producing organic matter and turnover soil nutrients; stopping seeds, nutrients and organic matter from blowing or washing away; and protecting seeds and developing seedlings.
- *Fodder Conservation.* This is a central element of preparing for drought. Fodder may be produced on the farm or purchased, and it can be stored as grain, hay, silage, or as "living haystacks" in the form of saved pastures, drought-resistant crops or pastures (such as saltbushes) or native fodder trees.

- *Stocking Rates.* In grazing districts, the prevailing stocking rate will largely determine the amount of groundcover and feed reserves that are available during a drought. This, in turn, will determine how long stock can be maintained with supplementary feeding (if necessary) and how well and for how long soil can be protected. Heavily stocked properties are likely to endure the effects of drought long before a similar lightly stocked property and will take longer to recover after the drought breaks. Maintaining a lighter stocking rate provides at least four possible benefits for carrying capacity in drought periods: it may overcome the effects of dry spells which can force landholders to unload, feed or lose livestock if a higher stocking rate had been pursued; by having more feed available than required for good seasons, landholders may be able to preserve fodder for use in periods of severe feed shortages; understocking during good seasons can make animals physically better prepared to meet severe feed shortages and more dry feed may be available for them; districts next to a drought-stricken area can make their unused margin of feed production available for agistment or can purchase additional stock.<sup>38</sup>

**(b) Drought Assistance**

The main forms of relief available to stock owners whose properties are declared drought-stricken and are within a drought-declared area are as follows:

- *Transport subsidies* for drought movements of water, fodder and livestock administered locally by Rural Lands Protection Boards. Landholders applying for transport subsidies are required to comply with the conditions set by the NSW Government. Road freight subsidies are available under certain conditions for the following movements: stock to agistment; stock to further agistment; stock returning from agistment; replacement stock movement; fodder movement; stock to saleyards (Western Division only); water cartage. The NSW Government has spent \$32 million on transport subsidies since the drought began in 1991 and, as mentioned above, announced on 8 August 1994 that it would allocate an extra \$10 million to the Drought Transport Subsidy Scheme which provides a rebate of 50% to farmers for drought-related transport of water, fodder and livestock.<sup>39</sup>

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<sup>38</sup> Walker, op.cit., pp.10-19.

<sup>39</sup> Premier of NSW, Press Release, 8 August 1994.

- *Financial assistance* is provided by the NSW Rural Assistance Authority (RAA). Under the present 1992 version of the Rural Adjustment Scheme, according to a submission by the federal Department of Primary Industries and Energy to the Senate Standing Committee on Rural and Regional Affairs, "risk management is considered an inherent component of farmers' normal business planning and management. Nevertheless, the Government recognises that there may be exceptional events, such as extraordinary drought conditions, which farmers cannot reasonably be expected to factor into normal farm planning/risk management activities. . .Accordingly the new Scheme makes provision for the Minister to determine that exceptional circumstances exist and, in that event, for assistance to be made available to eligible farmers through interest subsidies of up to 100% of the cost of commercial financing for specified periods. . .In the period since 1 January 1993, when the new scheme was introduced, some \$72.8 million has been made available under exceptional circumstances provisions. This assistance has included. . .\$19.3 million for farmers in New South Wales and Queensland affected by severe drought conditions."<sup>40</sup> On 9 August 1994 the Federal Government approved the immediate release of \$14 million in additional emergency financial assistance to drought-stricken farmers in Queensland and New South Wales: \$5 million. The Federal Government also approved an additional \$1.39 million to increase the amount of financial and family counselling in the drought affected areas of New South Wales and Queensland. On 26 August 1994 the Federal Government released the policy guidelines for primary producers applying for financial assistance under the drought exceptional circumstances provisions of the Rural Adjustment Scheme in New South Wales. Senator Collins, the Minister for Primary Industries and Energy, stated that, in assessing the eligibility of a farm enterprise for an interest subsidy under the scheme, the Rural Assistance Authority should be satisfied that the farm enterprise is in financial difficulties due to extreme drought conditions now and for two of the past three years. The Minister urged all drought affected farmers in New South Wales who considered themselves eligible to contact the Rural Assistance Authority.<sup>41</sup>

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<sup>40</sup> Department of Primary Industries and Energy, *The Rural Adjustment Scheme*, Submission to the Senate Standing Committee on Rural and Regional Affairs, May 1994, p.10.

<sup>41</sup> Federal Minister for Primary Industries and Energy, Press Releases, 9 and 26 August 1994.

## 6 SUMMARY

Approaches towards primary production in Australian dry conditions have come full circle since British settlers first moved on to the land in the 1800s. In the early days of production on the land the risk was generally up to the producer with substantial losses simply having to be endured when drought struck. After the long drought of 1895-1902, however, state governments allowed themselves to be persuaded, by the outcry from producers, to apply significant amounts of taxpayers' money to building dams and large-scale irrigation works as a means of supporting primary production in dry conditions. Forty years later, it began to emerge that the returns from irrigated production - both to producers and to state governments (from producers) - were not substantial enough to validate the provision for irrigation of large sums of public money.

As a consequence of this reconsideration of policy towards primary production in drier areas, the federal government then decided, during the 1970s and the 1980s, to focus on the emergency aspects of the problem through categorising drought as a "disaster" and providing relief in extended circumstances. Finally, once more in response to an economic re-assessment of a dry conditions strategy, the Federal Government has abandoned this provision of emergency relief and placed the onus on primary producers to make preparations for drought as part of a conventional commercial approach to production on the land.

In the meantime there has been an endeavour to develop a national water policy. In 1963 the Australian Water Resources Council (AWRC) was formed to co-ordinate research into Australia's water resources. The Council comprised the federal Minister for Primary Industry and the relevant Ministers for water resources in each of the states. In 1978 the Council issued a statement, *A National Approach to Water Resources Management*, which was adopted by the AWRC and endorsed by the federal government and by all the state governments.<sup>42</sup>

Most recently the issue has been considered at the February 1994 meeting of the Council of Australian Governments (COAG) which looked at a report by Sir Eric Neal, commissioned by COAG, outlining a strategic framework for the delivery of water services or, as COAG termed it, a framework for the Australian "water industry". In particular the Council of Australian

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<sup>42</sup> Australian Water Resources Council, *The First National Survey of Water Use in Australia*, Occasional Papers, Series no.1 (Department of National Development and Energy,, Canberra, 1981), p.2.

Governments agreed on the "adoption of pricing regimes based on the principles of . . .full-cost recovery".<sup>43</sup>

The rural sector is still important to Australia particularly in the area of exports - despite its diminishing role in total domestic output. Both the federal and state governments are committed to providing emergency relief for primary producers in periods of uncommonly extended drought and this has been underlined by the commitment of the Prime Minister on 15 September that the federal government would "put in place some systemic support" to deal with emergencies such as this and by the commitment of the NSW Government, in its recent budget, to continue its own funding of emergency drought relief for farmers.<sup>44</sup> Overall policy however, at both a federal and at a state level, is committed to positioning both primary production, and water service delivery, on a commercial basis and this is, and apparently will be, the approach in the future to primary production in dry conditions. Whatever the outcome of immediate measures to help primary producers in coping with the drought, long-term policy will increasingly focus on emphasising to producers that the onus is on them, as people engaged in business on the land, to take into consideration the regularity of dry periods and to be commercially responsible for making adequate provisions to cover such eventualities.

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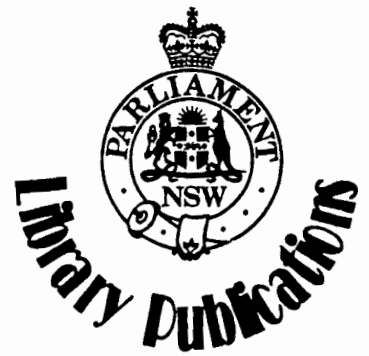
<sup>43</sup> Council of Australian Governments, *Communique*, Hobart, 25 February 1994, pp.3,19.

<sup>44</sup> Tim Stevens and Lisa Mclean, "PM: We Won't Forget the Bush" in *The Australian*, 16 September 1994, p.1 and Hansard, 14 September 1994.





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