

## **State Government support for WA farmers experiencing adverse seasons in 1998 to 2001: A comment**

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## **Abstract**

In response to a series of adverse weather events, in parts of the cereal crop belt from 1998 to 2001, the State and the Commonwealth Governments implemented support measures for farmers in the cereal belt of Western Australia.

A critique of the State Government Adverse Seasonal Conditions in the Agricultural Sector (ASCAS) support packages is presented.

The schemes are expensive, could adversely affect the normal adjustment process, have subjective boundaries, deliver grants to some multi millionaires, attract a small element of clearly ineligible claimants, and in 2001 the second ASCAS package was provided prior to excellent late winter and spring rains.

Key words; adverse weather, drought relief policy

## **Background**

A series of adverse climatic events impacting on broadacre farms in WA led the State Government to introduce a grant scheme in late 2000.

A serious drought during the 2000 season in the cereal crop belt followed a flood in some of the northern agricultural areas in 1999 and severe frost events in the south-east agricultural area in 1998 and 1999. There were also floods in January 2000 adversely affecting the harvest from the 1999 crop in the south-east agricultural areas. These events triggered the Adverse Seasonal Conditions in the Agricultural Sector (ASCAS) State Assistance Package.

Farmers who could demonstrate in two of the three years (1998 to 2000) that their farm business expenditure was greater than 85% of their farm income due to adverse weather conditions, would be eligible to receive up to \$5,800 in assistance. Due to the limited size of the grant, eligibility criteria relating to viability and equity were not included. Farmers were defined as usually having more than 50% of their income and contributing more than 50% of their labour to the farm.

The ASCAS grant could be used for any one or a combination of the assistance measures. The aim of the package was to assist farmers to retain livestock while minimising the risk of land degradation due to overgrazing. This was to be achieved by restricting the stock to a relatively small area of land able to withstand heavy stocking rates or removing the animals from the property. Funds were not available to support hand feeding of stock on a broad acre basis on light sandy soils prone to water or wind erosion.

Farmers receiving grants were directed to use local materials and labour where possible. The Government was keen to have as much of the grant as possible spent locally. It was a limited attempt at social engineering. The State Government was cognisant that rural businesses were also suffering extensively from the drought. There was no grant available directly to rural or urban businesses adversely affected by the drought.

The State Assistance Package was extended for one month to 31 August 2001 due to very poor opening rains in 2001 and was named the Adverse Seasonal Conditions Assistance Scheme (ASCAS II). Details in this paper include payments made from both packages and are referred to as ASCAS. In the second package eligibility criteria required farmers to have had their farm business expenditure exceeding 85% of combined actual income for the two years 2000 and 2001. In 2001 the calculation of operating expenditure over income to be greater than 85% had to be an estimate as the application had to be submitted by the end of August 2001. Some farmers were ineligible for the first ASCAS package but were eligible for the second ASCAS package.

**Table 1**  
**Specific Assistance Measures**

<b>Purpose</b>	<b>Explanation</b>	<b>Conditions</b>
<b>Agistment</b>	Subsidies for agistment and transport to agistment or transport to sale	<ul style="list-style-type: none"> <li>• 90% of cost of transport to and from agistment</li> <li>• The agistment</li> <li>• 50% of the cost of transport to sale for stock sold because of the drought</li> </ul>
<b>Feedlot infrastructure and feed</b>	Subsidies for feedlot feed and for the construction of a feedlot	<ul style="list-style-type: none"> <li>• Feedlot site had to be approved</li> <li>• Feedlot materials and labour</li> <li>• Grain and fodder</li> </ul>
<b>Soil testing</b>	Subsidy for assistance with soil testing for fertiliser decisions for 2001	<ul style="list-style-type: none"> <li>• Soil tests</li> <li>• Sampling costs</li> </ul>
<b>Dams</b>	Construction and repair	<ul style="list-style-type: none"> <li>• Dam and catchment construction in areas affected by the 2000 drought</li> <li>• Dam and catchment repair for damage from the January 2000 floods</li> </ul>
<b>Pastures</b>	Re-establishment for pastures destroyed by the January 2000 storms and 2000 drought	<ul style="list-style-type: none"> <li>• Seed purchased</li> <li>• Seeding costs</li> </ul>
<b>Water</b>	Domestic and stock water for farms seriously affected by the 2000 drought	The cost of water and its transport

Season 2000 was the smallest harvest, on a statewide basis, since 1987. The decline in the 2000 harvest compared to the previous five-year average was the largest decline since the

1969 harvest. The years 1995 to 1999 had been exceptionally favourable for crop production (see Table 3). State average wheat production was 1.9 tonnes per hectare or greater in three of those years and 1.75 tonnes per hectare for the other two years. These were years of record yields. The five-year run to 1999 was an unprecedented period of exceptionally good crop production. Prices for wheat were also high ensuring farmers, on average, had an extremely good five-year period. Most farmers should have been equipped to handle the downturn that occurred in 2000. On average the state's wheat farmers did very well up to 1999, although there were areas that missed out on the extra good years.

The State Government wished to provide assistance to farmers who they felt, through no fault of their own, were seriously affected financially by the drought in 2000 and may have suffered through frost and unseasonal rainfall events in the couple of years prior to 2000. Although the ASCAS grant was small it provided an indication that the Government was concerned for those farmers. A main concern was for farmers to retain the nucleus of their breeding flocks without seriously jeopardising their land resource.

**Table 2**  
**Breakdown of Expenditure within the ASCAS package\***

<b>Purpose</b>	<b>Expenditure</b>
Agistment and associated transport	\$846,913
Feedlot infrastructure and feed	\$1,628,971
Pasture	\$985,605
Soil Testing	\$299,289
Dam construction and cleaning	\$2,090,457
Water Cartage	\$329,300
<b>ASCAS - TOTAL</b>	<b>\$6,180,536</b>

\*Grants were paid to approximately 2000 farmers

Over fifty per cent of ASCAS applicants came from six shires, parts of which were later declared to be in the Exceptional Circumstances area, a Commonwealth/State assistance scheme. The other applicants came from another 60 shires throughout the crop sheep belt.

### **Economic Justification for Assistance**

The provision of services by government is warranted when there is likely to be a significant cost to the community if the Government does not act. For example, where there is market failure, governments may have a role to make a financial contribution provided benefits exceed costs. Often this is the case with some services such as research and development or public health where private entrepreneurs may be unable to recoup the costs of their service delivery. Sometimes government involvement in the elimination of certain weeds, pests and or diseases is also justified where benefits outweigh costs.

The provision of assistance to farmers after drought does not qualify under a market failure test. Even if the quality of land resource is considered there is no public benefit. The only benefit is to the farmer, a private benefit. The encouragement for farmers to adopt lot-feeding practices is a normal extension activity and does not warrant financial inducement for the practice to be adopted.

If the conditions for farming become unfavourable it would be inappropriate for any Government to attempt to keep farmers on the land, farming unprofitably. Australia continually berates the US and European Governments for their subsidisation of uneconomic farming practices. The market place is the preferred mechanism determining whether farming should continue or not. Untrammelled market signals will ensure more efficient farmers take on a farm where a previous occupant has failed.

The move to more efficient farming has long been a feature of WA agriculture. In the 1950s 141 farms were produced from the clearing of 250,000 acres in the Jerramungup area (Cameron, 1963). If an economic farming unit today was approximately 4,000 ha (10,000 acres), the number of farms in the same area would now be only 25. There would have been 116 farming units abolished in the period of about 50 years. Jerramungup's recent run of poor seasons only affects the rate of change but does not affect the overall tendency to bigger more economic farms.

Larger farms, particularly in the cropping and to a lesser extent in the broadacre livestock industries, have generally been able to capture more benefits from new technologies and have achieved much higher growth over the past two decades. Higher productivity growth for larger farms has been very important in improving the financial performance of large farms relative to that of smaller farms. ABARE survey estimates show that at practically any scale of operation, the more efficient and profitable farmers tended to be expanding farm area, while those who were managing less profitable operations tended to be the ones selling land (ABARE, Australian Commodities 2002).

The provision of drought relief can only be supported on welfare grounds. Consequently drought relief should be identified as welfare support. There are provisions for welfare support under the existing Commonwealth CentreLink programmes. Farmers who need to exit farming can be provided with financial support to relocate out of farming. There are asset restrictions attached to this support.

Social security system support targeted on family incomes is a more direct and effective way of meeting society equity concerns than is drought assistance (Freebairn, 2002).

### **Arguments against *ad hoc* drought relief payments**

Drought assistance increases the return to agriculture above market returns. Such subsidisation causes over the longer run too much labour, capital and other scarce resources to be drawn into agriculture away from other parts of the economy. Australia's world class economic growth over recent decades has been achieved in part by removing selective industry assistance. Drought assistance would be a retrograde move for a productive economy (Freebairn, 2002).

1. The eligibility criteria resulted in some farmers just missing out. One farmer may be suffering the same as his neighbour but is ineligible because of a line on a map. Other parts of the criteria can also throw up anomalies when professional assistance can help one farmer access the support and the next farmer applying on his own will not be as familiar with the criteria and will not be able to demonstrate that he is eligible.

2. As well as the inadequacies of the eligibility criteria there are farmers who apply for funds when they are clearly not eligible. Although attempts to sort the assistance scheme were minimal, still administrators had to be vigilant against wrongful provision of grants.

The ASCAS scheme provided finance to farmers with significant assets. Governments provided grants to multi-millionaires.

3. Government money has a cost associated with its collection. It has been estimated that it costs about 15 cents to collect a dollar (Fullerton, 1991). As well as the cost of the collection of consolidated revenue there is the cost associated with the conduct of the scheme. This could be in the order of 25%. For every grant of \$5,000 the cost to the State is about \$7,000. The \$6 million expended on grants to farmers in the State ASCAS packages has a real cost to the community of \$8.4 million.

4. The effect of the ASCAS packages on the ability of farmers to remain in farming was only marginal. The State/Commonwealth EC scheme would have had a more significant effect. The EC scheme provided, up to \$100,000 per annum for two years, interest relief. However any assistance scheme hinders the ability of more profitable farmers from taking up farms that run at low profit. This in turn adversely affects the profitability of the farm sector. The Department of Agriculture's objective of increasing the State's gross value of agricultural production is adversely affected.

The slowing down of exiting decisions by farmers could also be detrimental to the farmers concerned. It may give them false hope and hinder their successful transition out of farming in the future.

5. Weather conditions can change dramatically after a decision for support is made. The second ASCAS package ran for one month in August 2001. The opening rains for that year were as bad as ever experienced. However after the late rains in July, follow-up rains in August and spring enabled the state to record a very reasonable year. The state average for wheat in 2001 was 1.66 tonnes per hectare. When ASCAS II was implemented the outlook was more like a crop of less than 1 tonne per hectare. The high price for wheat produced the second highest year for farmers in terms of revenue received from wheat in 2001. (See Table 3 below.)

The 2001 rainfall events subsequent to the decision to extend the package rendered the July decision to be premature. Estimates of returns made in August were substantially lower than actuals. The State Government extended the ASCAS package before the 2001 harvest had been determined.

**Table 3**  
**Western Australia State Average Wheat Yield and Revenue, 1990 to 2002.**

<b>Crop Year</b>	<b>State Average Wheat Yield (t/ha)</b>	<b>Wheat Price (\$/tonne ASW)</b>	<b>Average Total Revenue (\$/ha)</b>
1990	1.50	127	190
1991	1.46	184	269
1992	1.63	193	314
1993	1.74	162	282
1994	1.50	200	300
1995	1.75	249	436
1996	1.75	193	338
1997	1.90	193	367
1998	1.93	185	356
1999	1.98	190	376
2000	1.31	225	295
2001	1.66	243	403
2002	1.0 (est.)	274	274

From M O'Connell, 2001

### **Conclusion**

A \$6 million State Government drought support package cost the State approximately \$8.4 million. Yet economic grounds for the drought support package were negligible. Support for drought stricken farmers should be seen as welfare.

The recent ASCAS packages suffered from having lines on maps arbitrarily eliminating some applicants. There was inappropriate use of grant money received, as well as grants being provided to asset rich farmers.

The effect of the grant would have been marginal in keeping farmers on the land longer than would otherwise have been the case. The State/Commonwealth Exceptional Circumstances grant would have greater impact.

Finally, provision of funds, for ASCAS II, prior to the finalisation of the season, resulted in the second best year in the last decade having a drought package. If the package had not been considered until after harvest it is not likely to have been implemented.

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