

STATEMENT BY THE PRIME MINISTER,
THE RIGHT HONOURABLE SIR ROBERT MENZIES, K.T., C.H., Q.C., M.P.,
IN THE HOUSE OF REPRESENTATIVES, THURSDAY 26TH AUGUST, 1965.

THE DROUGHT

As Honourable Members will know the Government has for some time been giving attention to the drought situation in Central Australia and parts of Eastern Australia. We have had representations from the Premiers of New South Wales and Queensland, including proposals that the Commonwealth provide special financial assistance towards certain schemes of drought relief being undertaken by the States. There have also been representations from various interested organisations and individuals. The Government has given consideration to these matters and I should like to inform the House in general terms of the action that has already been taken in the Commonwealth sphere and to indicate some further steps the Government proposes to take.

In this statement I am referring primarily to the drought in New South Wales and Queensland, and not to the drought that has persisted for a number of years in Central Australia. Although some of the measures to which I shall be referring are applicable equally to the two States and to the Northern Territory, the Commonwealth's position with regard to drought in the Territory is a special one arising from its direct responsibility for Northern Territory matters. My colleague the Minister for Territories will be making a separate statement dealing with the question of the drought in the Northern Territory.

Naturally, in our approach to the whole matter we have had well in mind the consequences of the drought for the nation and, more particularly, the plight of those who are suffering from the drought in a direct and personal way.

The drought has had serious and widespread effects and some of these will continue. However, provided the drought does not extend into the coming season, the indications are that it should not have a seriously adverse effect on the overall economy in terms of loss of total rural production and export proceeds from primary products. Fortunately, the drought has already broken in certain areas.

particularly the dairying areas along the coast but even in those areas the aftermath of the drought will have severe consequences for individual farmers. A serious position remains in inland sheep and wheat and cattle areas of northern New South Wales and southern Queensland despite some partial relief rains. The position could further deteriorate in those areas if the drought continues during the coming spring and summer with further heavy losses for the individual primary producers concerned.

The provision of assistance for drought-affected primary producers is, under the constitutional division of responsibilities, essentially a matter for the State governments concerned. The State Governments of New South Wales and Queensland have introduced various special measures of assistance such as the provision of special loans at concessional rates of interest and freight concessions on the carriage of fodder and livestock, and have asked the Commonwealth to participate in the financing of these measures. Proposals for Commonwealth participation in drought assistance schemes for the benefit of individual primary producers have also been put before us by a number of organisations.

The provision of assistance such as this is properly a State responsibility and the States have the administrative machinery to handle it. After careful consideration, we have decided that it would not be appropriate for the Commonwealth to participate directly in the financing of such measures nor do we think it would be a proper function for the Commonwealth to participate in making loans to individuals or providing other forms of direct financial assistance, to those who may be having difficulty, for reasons such as drought, in financing their business activities.

At the same time, we are very conscious of the strains that special drought measures might put on the finances of the two States. When the new financial assistance arrangements for the next five years were evolved at our meeting last June with the Premiers,

it was accepted that the arrangements would stand unless there was a major change in the financial position of a State through circumstances beyond its control. If, as a result of action related to the drought, the States of New South Wales and Queensland find it necessary to meet abnormally large calls on their budgets that are established to be beyond their financial capacities, we will be prepared to consider assisting them by means of general purpose assistance grants. I am advising the two Premiers in these terms.

There are two matters which do lie within the Commonwealth's particular sphere of responsibility and which have a bearing on the position of those suffering from the drought. I refer to taxation and the question of access to trading bank finances. In our consideration of both these matters we have been concerned to do whatever we reasonably can to help primary producers affected by the drought, in relation to both their needs for carrying on until the drought breaks and the problems they will encounter in rehabilitating their properties, especially by way of re-stocking, to get them back into shape for the resumption of normal production operations after the drought breaks.

In the consideration of taxation measures, we have found that the present provisions of the income tax law, and the administration of that law by the Commissioner of Taxation, already go a long way towards meeting the taxation problems of those affected by the drought. It needs to be borne in mind that, by and large, taxation concessions are neither direct nor immediate in their effects on tax-payers' incomes and that being related to income, their benefit is greatest to those primary producers with large incomes, paying high rates of tax, and least to producers with small incomes, paying low rates of tax. There is thus limited scope for taxation concessions as an appropriate means of helping drought-affected primary producers.

With regard to profits arising from forced sales of live-stock because of the drought, a matter which has been the subject of

numerous representations, the law already gives the primary producer the right to elect to have those profits spread over five years, i.e., over the period during which in more normal circumstances they might be expected to arise. A producer who makes such an election would be liable to tax on only $1/5$ th of his additional profits in the year in which such profits arise. Subsequently the profits so spread must be applied wholly or principally to purchase replacement livestock. Expenditures on replacements being themselves deductible, the amount of abnormal profits carried over into the second and succeeding years need not, depending on re-stocking rates, involve any addition to a primary producer's tax liability in those years. In addition, of course, if a primary producer considers that the provisional tax notified in his assessment is too high, he may seek adjustment of that tax on the basis of his estimate of his current year's taxable income.

The cost of purchasing fodder used to feed livestock, which has also been the subject of several requests, is already deductible in the year of acquisition, so that primary producers who are forced to buy-in additional fodder to maintain their stock may deduct as normal practice, the whole of the purchase price. Similarly, the cost of producing or purchasing a reasonable quantity of fodder for stockpiling against emergencies is deductible for income tax purposes.

Concern had been expressed in several quarters at the possible inability of some drought-affected producers to meet their tax liabilities by the due date. The Commissioner of Taxation, who is responsible for the administration of the income tax law, has discretion under the law to grant extension of time for the payment of tax, and has assured the Government that he applies this discretion sympathetically when considering individual applications by primary producers in financial difficulties because of the drought.

A particular problem that has arisen concerns the position of primary producers who, because of the drought, have shorn their flocks twice within the 1964-65 income year. As the law now stands, woolgrowers so placed are required to account for the proceeds and expenses of two wool clips in their 1964-65 income tax returns; there

is no provision in the law whereby proceeds of the second clip, net of direct expenses, can be transferred to the 1965-66 income year.

To meet the situation, the Government has decided to introduce an amendment of the law so as to permit primary producers concerned to elect to reduce their 1964-65 income by the amount of the net proceeds of the second clip and to carry that amount forward into the 1965-66 income year.

I turn now to the question of access to trading bank finance. The Reserve Bank has kept itself closely informed of developments in the drought situation, particularly with regard to the demands of primary producers affected by the drought for finance from the banking system.

Preferential treatment is extended to the rural industries under the traditional policies of both the Reserve Bank and the trading banks, and the trading banks have assured the Reserve Bank that the demands for bank finance arising from the present drought are being dealt with sympathetically. As the implications of the drought became clearer, the Reserve Bank informed banks that in providing necessary finance for purposes arising from the drought, additional lending might be undertaken outside the general limitation on new lending commitments.

The trading banks have been asked to continue to keep the Reserve Bank informed of the extent of demands for drought finance upon them. The Reserve Bank is closely watching the situation, including the trading banks' continuing ability to provide additional loan finance to drought-affected clients.

We recognise of course that the measures of drought relief which the States and ourselves have introduced or contemplate do not deal with the long term problem of drought mitigation measures.

The unfortunate consequences of the present drought have served to stimulate an awareness of the ravages that droughts in this country can cause, from the standpoint of both individual

primary producers and the nation as a whole, and there is general acceptance of the need for further action to mitigate the effects of droughts that will, inevitably and unhappily, continue to occur from time to time in the future. Already, following discussions in the Australian Agricultural Council, the C.S.I.R.O., the Bureau of Meteorology and the Bureau of Agricultural Economics are undertaking investigations into drought mitigation. We further intend to put to study the question of the role the Commonwealth and its agencies might play, within the sphere of Commonwealth responsibility, in the devising and execution of measures to mitigate the effects of future droughts.