



***Public Submission
To
Productivity Commission***

“Inquiry into Government Drought Support”

***By
Murray Dairy – August 2008***

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INTRODUCTION:

Northern Victoria and the Southern Riverina remains one of Australia's largest dairying regions, with some 2300 farms producing 2.1 billion litres of milk annually. This represents some 34% of Victoria's milk production, 20% of NSW milk production and 22.5% of the nation's milk production.

The dairy industry directly employs around 7500 people in Northern Victoria and the Southern Riverina, in both farming and processing. There are 16 dairy factories in the region including milk processing, dairy manufacturing and milk collection plants.

The dairy industry in the region is highly dependent on irrigation water to produce high quality fodder, provide drinking water and to operate a dairy milking operation.

Unfortunately the recent drought and low irrigation water allocations has had a significant impact on dairy farms throughout the region. The Murray Dairy region is the only dairying region across Australia to have 99% of farmers affected by drought (see table below).

Region's Affected by Drought – Dairy 2008 Situation & Outlook								
Murray Dairy	West Vic	Gippsland	Tasmania	Southern & Central NSW	Northern NSW & Sth Qld	Far Nth Qld	South Aust	West Aust
99%	Not stated	87% (drought or flood)	Not stated	80% (drought or flood)	87% (drought of flood)	37% (drought or flood)	Not Stated	Not Stated

Dairy 2008 Situation and Outlook also noted that 71% of farms in the region extended debt (35% long term and 36% short term).

The Dairy Industry and Water Use:

The dairy industry's reliance on water makes it vulnerable to drought and climate variability. A shortage of high quality pasture has an immediate and early impact on milk production and income. Buying, transporting and feeding out large quantities of high quality of feed are an expensive operation. However, with recent water shortages, the dairy industry has invested on-farm and significantly increased water use efficiency.

At the time of writing, Goulburn-Murray Water's (G-MW) allocations remain at zero. G-MW's seasonal outlook announced on 15th August is proposing the following scenarios for the Murray and Goulburn system:

Murray System			
Inflow Conditions	15th Oct 2008	15th Dec 2008	15th Feb 2009
Average	26%	46%	61%
Dry	0%	0%	3%
Goulburn System			
Inflow Conditions	15th Oct 2008	15th Dec 2008	15th Feb 2009
Average	37%	59%	68%
Dry	7%	12%	17%

The above figures clearly indicate that drought continues to impact on farm families and their rural communities across the region. Ensuring farmers and farming related businesses receive adequate Government support during these difficult times is vital.

Managing Change:

Drought has rapidly accelerated change in what has been a dynamic operating environment across the region. Farmers have a new set of management challenges and the complexity of questions has escalated. Farmers are doing business in a climate of increased variability and they need advice and support to run more flexible systems as they interchange key inputs within systems.

However, these challenges have driven significant innovation and adaptive management changes in feeding and water use management.

In an environment with many challenges and uncertainties, Government must provide strong support and information that will allow dairy farmers to adapt to the increasingly complex decision-making required as well as assisting them to understand the implications for their business, risk management strategies and choice of farming system.

Dairy farmers across the region need time and assistance to adjust to changed policies and new challenges, learn new strategies and rebuild some of the buffers and resources required to be prepared for a changing climate.

Murray Dairy believes that until there has been demonstrated recovery from the current effects of the drought that the existing Government Drought Support initiatives should be continued. With this in mind, Murray Dairy welcomes the opportunity to provide comment on the Productivity Commission's 'Inquiry into Government Drought support'.

DROUGHT SUPPORT INITIATIVES:

Interest Rate Subsidies:

Murray Dairy believes the current business support measures under EC arrangements continue to remain effective. The provision of an interest rate subsidy has allowed dairy farmers in the region to continue farming, maintain stock, which has acted to preserve genetic resources.

The impact of the drought would have been more severe if the interest rate subsidy had not been available for dairy farmers. Without this the region would have seen many more dairy businesses leave the industry. The vast majority of farmers in normal circumstances have sound dairy farm businesses, the severity of this current drought is beyond what any one has ever known or expected.

Additionally the subsidy enhances farmer's capacity to recover from drought as it maintains the economic activity of the dairy farm (such as employment). The interest rate subsidy has also acted as a buffer in this ongoing drought to help dairy farmers start to readjust from very dependant irrigated pastures to a management system which will take some time to evolve.

The EC interest rate subsidy offered to small business has also assisted them during the recent economic downturn resulting from the drought. Farms and small businesses are interlinked. The small businesses cannot operate without the farms and farmers cannot operate without their services.

Maintaining the EC interest rate subsidy to both farmers and small businesses is essential in helping to protect our rural communities from these challenging times. There is little down side risk for the Government in the continuation of the EC interest rate subsidy in that there are 3 broad outcomes for a business applying for an EC interest rate subsidy.

1. The farm business is viable in a normal season and currently generating a profit – not eligible for an EC interest rate subsidy
2. The farm business is viable in a normal season but not currently generating a profit – eligible for an EC interest rate subsidy
3. The farm business is not viable in a normal season – not eligible for an EC interest rate rebate

The ultimate beneficiary of the EC interest rate subsidy is therefore the financial sector directly, viable dairy businesses and the communities in which these businesses operate.

EC Relief Payments:

EC Relief payments have allowed dairy farmers in the region to operate their household at a reasonable level. Continued support for farming families in the form of relief payments is essential as these difficult times continue.

The ultimate beneficiary of EC relief payments is therefore the communities in which these businesses operate.

\$20,000 Irrigator Grant:

The \$20,000 grant has been very well received across the region. Dairy farmers have had the flexibility to undertake a variety of on-farm works with the grant. Irrigators in the region have tended to make improvements on-farm by laser grading and other earth works that have improved water delivery efficiency. Other works have also included laying poly pipe to increase water troughs for stock, buying pumps and investing in water automation technology to help improve water use efficiency.

This grant has not only allowed farmers to increase on-farm efficiencies but also provided work to small business that would traditionally have little work during drought. Laser grading and water technology implementation generally occurs in good financial years, the availability of the grant has therefore provided a benefit to the entire community and we believe it should continue.

Dairy businesses have benefited and will continue to benefit from the improvements made to their infrastructure into the future as a result of this grant, it has also been beneficial to the communities in which these businesses operate.

Exit Grant:

The uptake of Exit grants across the region continues to be low. Rural financial counsellors in the region have indicated that farmers may well be interested in exiting but are choosing not to as the exit package has serious tax implications. The grant is not tax exempt and depending on individual circumstances many would be confronted with a high taxation bill in the year after exiting.

Murray Dairy believes there is an urgent need for clarity on the taxation treatment of the grant given farmers can still apply for the grant until the end of June 2009.

Rural Financial Counsellors:

The region has a number of Rural Financial Counsellors that have assisted farmers in accessing EC support. Given low water allocations are being predicted and the continuation of drought, Murray Dairy believes it is critical that funding for rural financial counsellors continues.

Taking Stock, Taking Action:

The DAFF funded *Taking Stock, Taking Action* program has allowed farmers in the Murray Darling Basin to have a free session with an advisor of their choice regarding the running of their businesses. This one-on-one support has been very effective to help farmers make sound business decisions during these difficult times. Funding for this program is due to cease on 30th September 2008.

Murray Dairy believes the access to free farm advisors has assisted many dairy farmers in the region with the management of their farm during these difficult times.

Murray Dairy therefore supports the continuation of funding for free advisors to assist dairy farmers with a business case approach.

DROUGHT POLICY AND CLIMATE CHANGE:

As stated previously, Murray Dairy believes that the Federal and State Governments should continue to support drought policy in its current format until there is demonstrated recovery from the current drought.

While the issue of climate change continues to gain momentum it is unrealistic to expect farmers to jump from drought survival to climate change preparedness. Government must support and provide incentives to assist farmers with this structural change.

More importantly it is not appropriate to label all climate change policies as drought support. Murray Dairy believes that climate change adjustment tools such as research and development, risk management tools, water management and education and training must be maintained in non-drought years if they are to obtain results.

Governments must adopt a strategic approach if they are to seriously deal with the implications of climate change and drought.

REMOVING THE EC TRIGGER:

The Productivity Commission notes research conducted by the Bureau of Meteorology and CSIRO which questions the appropriateness of the existing trigger approach used to declare instances of severe drought, Given a changing climate, the study suggested that ..."future drought policy may be better served by avoiding the need for a trigger at all".

Murray Dairy is concerned that the removal of the EC trigger puts the dairy industry in the region at risk. Governments around the world are only now beginning to seriously discuss climate change and agriculture must be given time and support to move into the new operating models that climate change demands. An EC trigger has allowed farmers to clearly understand when Government assistance is available and when.

ADDITIONAL DROUGHT INITIATIVES:

Murray Dairy believes it is vital that the current drought initiatives remain in place but also feels that additional drought initiatives should be considered.

Income Contingent Loans:

Murray Dairy believes there is merit in the Government exploring HECS styles loans for farmers. This approach would involve farmers receiving assistance in the form of a subsidized loan which is later repaid if and when income recovers.

Income Contingent Loans should only be available after there has been demonstrated recovery from the impacts of the current drought and only if there has been a separate EC event.

Murray Dairy believes that involvement in its Dairy Business Networks (which aims to have dairy farm businesses more aware of their underlying performance) may be seen as a prerequisite for eligibility for this scheme.

Co-contributions within the Farm Management Deposit (FMD) scheme

One of the issues with the current drought support initiatives is that individual businesses that have implemented a conservative approach to the operation of their business are not eligible for some drought initiatives.

For example a conservatively geared business is eligible for a lower EC interest rate subsidy, while a business that has diversified or that has invested in FMD's may need to liquidate the assets prior to being eligible for drought support.

To encourage a proactive approach to Exceptional Circumstances (or climate change), government should consider co-contributions within the FMD scheme that provided additional incentives for farm businesses to prepare for adverse conditions.

Into the future this will encourage a “preparedness” rationale within the agricultural sector rather than what some have described as a “welfare” rationale.

Murray Dairy believes that involvement in its Dairy Business Networks (which aims to have dairy farm businesses more aware of their underlying performance) may be seen as a prerequisite for eligibility for this scheme.

Increased Research and Development:

Murray Dairy believes there is merit in expanding research and development focusing on drought and climate variability. Dairy farmers in the region need the most accurate and relevant information regarding the operation of their business in the current climatic conditions.

Water Charges:

With limited irrigation water available in recent years, farmers continue to argue they should only have to pay for the irrigation allocation they receive. A typical dairy farm of 250 cows would generally have 4-500 megalitres of water entitlements which costs approximately \$15-20,000.

While some state Governments are offering water rebates in varying forms, the payment of undelivered water remains a contentious issue.