

DROUGHT SUBMISSION TO VICTORIAN GOVERNMENT

10TH SEPTEMBER 2007

United Dairy Farmers of Victoria District Councils 1, 2 & 3

The United Dairy Farmers of Victoria District Council 3 arranged an emergency drought meeting Monday 10th September with fellow dairy farmers from District Council 1 and 2.

District Councils 1, 2 and 3 essentially covers the Northern Victorian irrigation region with branches from the following areas.

District Council 1	District Council 2	District Council 3
Cohuna/Gunbower/Leitchville	Kyabram	Benalla
Dingee/Calivil	Rochester	Cobram
Echuca	Stanhope	Katandra/Invergorden
Kerang	Tatura	Katunga
Koondrook/Swan Hill		Nathalia
Lockington		Strathmerton

The issues and drought support measures identified in this submission were all discussed at our emergency drought meeting.

We all source our water from the Murray, Goulburn, Campaspe, Loddon and Broken systems and therefore have provided comment on concerns relating to these systems.

We are all volunteers within the District Councils and work to further the issues of our local dairy farming community.

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Introduction:

The current drought facing the Northern Victorian dairy industry is unprecedented. Many had hoped this week would provide much needed rainfall, however this has not eventuated.

The extreme grain and fodder shortages are increasing prices so significantly that many dairy farmers are making decisions to exit the industry.

The severity of this drought in comparison to the 2002-03 and 2006-07 drought can be articulated by combining the water allocations on the Goulburn and Murray system and dividing by two.

2002-03 Drought	2006-07 Drought	2007-08 Drought
Murray – 129%	Murray – 95%	Murray – 5%
Goulburn – 57%	Goulburn – 27%	Goulburn – 17%
$186 \div 2 =$	$122 \div 2 =$	$22 \div 2 =$
93%	61%	11%

With the previous droughts, Goulburn system dairy farmers were able to source feed from farmers on the Murray system who had a much higher water allocation. For the first time ever we have both the Murray and Goulburn systems on extremely low water allocations and there is little opportunity for dairy farmers to source feed within the region.

Having just gone through the 2006-07 drought as well as 10 years of dry conditions before this, farmer's financial and fodder reserves are depleted.

Some dairy farmers have already indicated they are not prepared to take on any more debt as a result of this drought. Research completed by Murray Dairy found that financial losses incurred on typical dairy farms in the region last year ranged from \$80 000 to almost \$270 000¹.

There are numerous reports that increased numbers of dairy cows are being slaughtered. Unfortunately this measure jeopardizes the future of the dairy industry as it will take many years to re- build dairy herds.

The dairy industry is the largest agricultural employer in Northern Victoria and unfortunately many dairy farmers are indicating they cannot afford to maintain their staff. This places significant pressure of the viability of the local economy and community.

It is therefore crucial that Government ensures the productive capacity of the dairy industry is not run down to a point where it impedes its ability to recover to pre-drought levels.

Ensuring dairy farmers remain in business will ensure rural communities maintain the flow on benefits. The message is quite simple: Supporting Victoria's dairy industry will help minimize the impacts of drought on Northern Victorian communities.

¹ RMCG, *Seasonal Impact, September 3rd 2007*, Pg iii

The Northern Victorian Dairy Industry:

Northern Victoria is the largest dairying region in Australia, with some 2300 farms producing 2.1 billion litres of milk which is about 22% of national production (2006/07). Dairy Australia recently estimated that the value of farm milk production in the region was \$829 million².

The industry contributes 50% of the farm gate value of agriculture. The value adding processing industries in the region add a further \$3 billion to the economy of which dairy contributes 55%.

The industry across the region directly employs in the farm and processing sectors 7,000 people, with a further 12,000 people employed indirectly in trade and service industries.

The Northern Victorian dairy industry is the largest water user in the region, using 67%³ of the water.

Dairy was the largest exported commodity in 2006 with a value of \$2.15 billion . Victoria accounted for 87% of the value of Australia's dairy exports with powdered milk and cream, worth \$1 billion, making up almost half of this value. Other valuable contributors were cheese exports (\$669 million) and butter (\$184 million)⁴.

- **WATER AVAILABILITY:**

Over 90% of dairy farms in Northern Victoria are dependent on irrigation⁵. Water allocation therefore has a significant impact on the potential of dairy farms to produce their own fodder.

With the unprecedented low allocations on all water systems in Northern Victoria, there is little opportunity for dairy farmers to source feed from within the region.

Allocation outlooks for the different irrigation systems as of 3rd September 2007:

Murray – Current Allocation 5%

Inflow conditions	15th Oct	15th Dec	15th Feb
Wet (1 chance in 10)	52%	69%	100%
Average (5 chances in 10)	33%	52%	52%
Dry (9 chances in 10)	16%	20%	22%

Goulburn – Current Allocation 17%

Inflow conditions	15th Oct	15th Dec	15th Feb
Wet (1 chance in 10)	72%	95%	100%
Average (5 chances in 10)	52%	68%	72%
Dry (9 chances in 10)	27%	37%	43%

² Dairy Australia, *Dairy 2007- Situation & Outlook*, Pg 69

³ G-MW, *G-MW Water Plan 2006/07 – 2007/08*, Pg. 17

⁴ Goodall, K., Department of Primary Industries, February 2007.

⁵ Dairy Australia, *Dairy 2007- Situation & Outlook*, Pg 69

Campaspe – Current Allocation 0%

No allocation outlooks were provided for the Campaspe system on the 3rd September. G-MW noted that significantly wetter than average inflow conditions were needed to meet full-season commitments and provide allocations for the remainder of the season.

Temporary Water Market:

It is now considered that the price for temporary water entitlements will become price prohibitive for use in the dairy industry as the pool price for temporary water on the 30th August is already \$862 per megalitre. At such a high temporary water price some dairy farmers would consider selling some of the water that is made available to them through their allocation.

However with extreme fodder shortages, dairy farmers are trying secure their own fodder by watering their own pastures. Many dairy farmers on the Goulburn system have been irrigating in recent weeks to ensure their pasture can make silage or hay.

- **GRAIN:**

Despite a good start to the sowing season with widespread rain in late April, May and June, August unfortunately was very dry. A dry August has impacted on national harvest predictions and combined with a sharp increase in the world market, grain prices have risen significantly over the past month.

The grain price in Northern Victorian is currently \$356 per tonne, some local retailers are offering "lock in" prices of \$420 per tonne for the next 6 months. In an average year grain is approximately, \$220 - \$240 per tonne. This dramatic increase is putting extreme pressure on dairy farmers and forcing many to consider their future in the industry.

A typical dairy farm of 250 cows requires 2.7 tonne⁶ of grain per cow. The current and projected grain price is forcing many to consider the viability of their business.

- **FODDER:**

Fodder is very important for keeping cows on farm as it provides fibre that is required for a balanced diet. The limited amount of fodder currently available will undoubtedly impact on farmers' ability to keep their cows.

In an average year, most dairy farmers are able to produce sufficient fodder by irrigating their pastures. Unfortunately with such low water allocations dairy farmers will not be able to produce their fodder and this will have to be purchased outside the region.

A typical dairy farm of 250 cows requires 2.7 tonne⁷ of fodder per cow. Current fodder prices are around \$300 per tonne, which again is impacting on farmers ability to remain in business.

Access to quality fodder was one of the biggest challenges in the 2006-07 season with prices that surpassed what was experienced in 2002-03. The dry and warm August is

⁶ RMCG, *Seasonal Impact, September 3rd 2007*, Pg 9 & 12

⁷ RMCG, *Seasonal Impact, September 3rd 2007*, Pg 9 & 12

starting to have an impact on potential fodder yields that will again put pressure on fodder reserves.

If grain crops fail, many will be made into hay which will help to bolster fodder availability. Unfortunately, this places extreme pressure on dairy farmers need for grain.

- **MILK PRICE:**

Projections for milk price are the strongest seen for many years as world markets hit new record highs.

Unfortunately, many dairy farmers in the region were relying on a higher milk price to help reduce debts from the 2006-07 drought. An independent report prepared by RMCG for Murray Dairy found that the financial losses on farm ranged from \$300/cow to over \$1000/cow as illustrated below⁸:

Region	Profit/Loss per farm after all costs	Profit/Loss per cow after all costs
Goulburn	- \$243,472	- \$974 per cow
Murray	- \$82,863	- \$1068 per cow
Campaspe/Loddon	- \$267,022	- \$331 per cow

A Typical Dairy Farm in Northern Victoria:

FARM SIZE: 250 COWS					
Feed	Amount required	Price	Total	Average cost of feed in non-drought year	Additional costs as a result of drought
Fodder	2.7 tonne per cow x 250 cows	\$300	\$202,500	\$45, 000	\$157,500
Grain	2.7 tonne per cows x 250 cows	\$350	\$236,250	\$94, 250	\$142,000
The typical dairy farm in Northern Victoria will face \$299,500 in increased feed costs as a result of the current drought.					

CONCLUSION:

Maintaining dairy herds during the drought is the best long term outcome for farmers, industry and the wider community. However, increased short term costs as a result of the drought total to almost \$300 000. Some dairy farmers are already choosing to cull their cows to reduce costs. This impacts significantly on farm equity and farmer's ability to quickly recover from the drought.

Government must provide assistance to ensure farmers have the productive capacity to effectively recover from the drought. We believe the assistance measures outlined overleaf would provide some relief to the Northern Victorian dairy industry.

⁸ RMCG, *Seasonal Impact, September 3rd 2007*, Pg iii

Drought Support Measures:

- **FEED FOR COWS:**

Dairy farmers across Northern Victoria are facing unprecedented feed shortages. There needs to be a co-ordinated approach to ensure there is sufficient feed available to the region. With little rainfall predicted this week, farmer's pastures will deteriorate significantly and the demand for feed will increase dramatically. Government must co-ordinate a program that brings fodder and grain into Victoria.

1.1.1 Fodder:

With many dairy farmers unable to irrigate their properties, the demand for fodder will be immense.

Government needs to source fodder to ensure the survival of the dairy industry in Northern Victoria.

1.1.2 Alternative Feeds:

The importation of Palm Kernal Extract last year helped to supplement many dairy farms across Northern Victoria. In 2006 when it was first introduced it cost \$220 per tonne, the cost has risen significantly and is now \$300 per tonne.

We believe that the further use of Palm Kernal will be vital to managing this drought. However any other alternative feeds also need to be brought into the region.

1.1.3 Grain:

A major input cost to dairy farmers is grain. With the weather forecast showing little sign of significant rainfall the grain harvest will obviously be impacted.

Again, Government must co-ordinate a program to ensure grain is available to dairy farmers across Northern Victoria.

- **FARM BUSINESS SUPPORT:**

1.1.4 Shire Rates Support:

In 2006, the Victorian Government announced a 50 per cent concession on municipal rates and charges for 2006/07 to farmers currently assessed to be in Exceptional Circumstances and receiving Centrelink EC relief payments.

The criteria that farmers must be receiving Centrelink payments unfortunately leaves some farmers ineligible. We believe this support measure could be improved if it was extended to cover farmers also receiving the EC Interest Rate Subsidy.

Shire rates are arguably a business expense, similarly the EC Interest Rate subsidy is a business support measure. The EC Interest rate subsidy is therefore a better measure as to whether farm businesses should be entitled to a Shire Rate subsidy.

1.1.5 Continued Production Grants:

The costs of maintaining dairy herds during the summer months ahead will be extremely challenging. While an increased milk price is some relief, the current lack of fodder and grain has increased prices to a point where many dairy farmers are considering the viability of their businesses. The next two months presents a small window of opportunity for dairy farmers to purchase feed and they must have sufficient funds to be able secure feed to continue farming.

In 2002, the Victorian Government provided \$20 000 grants and we believe these should be reintroduced. Farmers need financial support to allow their businesses to maintain production.

1.1.6 Drought Apprenticeship Retention Bonus:

We welcomed the drought apprenticeship retention bonus that the Government made available in 2006.

The dairy industry is the largest on-farm employer across Northern Victoria with some 3,640 staff. By comparison horticulture employs 1,618 and mixed farms employ 550 staff.

We would encourage the Victorian Government to reintroduce and increase the bonus to \$5000 for each apprentice.

1.1.7 Drought Staff Retention:

Similar to the apprenticeship bonus, we believe that dairy farmers should also be encouraged to retain staff not just apprentices. The drought increases the need for labour with fodder having to hand-fed, however many farmers cannot afford to retain them.

Retaining staff on-farm ensures people remain in rural communities which allows them to contribute to their local economy.

We believe a staff retention grant should be introduced that is equivalent to the New Start Allowance.

1.1.8 Low Interest Loans:

- Dairy farmers believe that financial assistance to the dairy industry through low interest loans would help to relieve some of the current financial pressures.

- **WATER**

1.1.9 Irrigation Water Rebate for Water not received:

We firmly believe that irrigators should only have to pay for the water allocation they receive.

While the Victorian Government provided a \$5000 rebate in 2006 to water users receiving less than 50% of their entitlements, it provided little to relief to the dairy industry in Northern Victoria.

We acknowledge that the Victorian Government was correct to claim that 75% of water users had their total water bills paid for, however it fell well short of delivering any benefit to larger water users (ie dairy farmers) that arguably generate the bulk of the wealth for the region.

It is estimated that there are 2909 farm business in the Goulburn and Murray Irrigation District. These farms make up 27% of Goulburn-Murray Water's total customer base, yet use over 80% of the water.

The majority (73%) of G-MW's customers are small users (20-100 megalitres) which includes hobby farms, lifestyle properties, part time (income supplemented) properties and mixed dryland farms. Therefore the 2006 water rebate only targeted the small users and left larger farms with significant water debts.

A typical dairy farm of 250 cows would generally have 4-500 megalitres of water entitlements, which costs \$15- \$20 000.

Assistance for 2007-08 in regards to water bills needs to be better targeted and support given to the larger farms that generate the majority of the agricultural output for the region.

1.1.10 Pumping Waranga Basin:

We were very pleased with the Government's decision to fund \$4.3 million to pump Waranga basin last year. This provided an extra 7% allocation or 86 000 megalitres of water to farmers on the Goulburn system.

G-MW has already indicated that the current allocation on the Goulburn is partly the result of rainfall and pumping the basin. We believe that if pumping occurs, then Government should fund this.

1.1.11 30 000 Megalitre Water Quality Reserve:

The Goulburn system has a reserve of 30 000 megalitres for water quality that is managed by the Goulburn Broken Catchment Authority.

At the beginning of 2007, the Victorian Government announced that 7000 megalitres would be sold on watermove, the water market exchange.

We did not support this decision, we believe the 7000 megalitres should have been allocated to farmers and they had the choice to then sell this portion and generate an income.

It has been acknowledged by some Department of Sustainability and Environment staff that the decision to sell the water on watermove was simply to provide water for the horticultural industry.

This blatant bias towards the horticultural industry is not acceptable. The Government needs to make decisions that benefit all water users.

We suggest that if water is of a suitable quality by January 2008 then 10 000 megalitres be released to farmers as increased entitlement.

1.1.12 Murray System Environmental Water:

The Murray system currently has water being put away for the Barmah-Millewa Watering, as well as environmental water savings generated under the Living Murray Initiative. In fact the Murray Darling Basin Commission recently purchased 20 000ML, of which 6000 came from Victoria.

We believe that given this water is not needed until 2009, then some of this water should be allocated to farmers as increased entitlement.

1.1.13 Carryover:

In 2006, the Victorian Government introduced Carryover for one year as a once-off drought response measure.

The model introduced was heavily criticised by the dairy industry as it seemed to offer no benefit to any other industry but horticulture and urbans.

The 2006 Carryover Model:

- Irrigators could carryover 30% of the volume of their high reliability water shares;
- Any carryover above 30% of high reliability water shares would automatically be carried over against low reliability water sharers.
- A deduction of 5% of the volume of water carried over was made to account for evaporation losses.
- There was no guarantee on the delivery of water carried over.
- The volume carried over plus the seasonal allocations could not be more than 100% of water entitlements.

Carryover into the Future:

Given the carryover model is being reviewed, it needs significant revisions to ensure it benefits all irrigators and not just horticulture and urbans.

We need to allow the grazing industries to manage risk and plan their businesses with some degree of certainty.

Consultation over this issue needs to commence shortly to ensure farmers can make plans if it is to continue.

Qualification of Rights:

We understand the horticultural industry is placing increasing pressure for water rights to be qualified for their permanent plantings. Given carryover was introduced which provided the horticulture industry an opportunity to mitigate drought risks we do not support any move by Government to qualify rights for one industry over another.

Irrigators own a water entitlement with the same level of security and reliability across commodities. These water entitlements all have the same capital value. Therefore water is distributed according to its reliability across all water users. Any further re-distribution of water should occur through the water market.

1.1.14 Stock and Domestic Water:

The small irrigation allocations on the Murray System as well as the shortening of the irrigation seasons on both the Goulburn and Murray system will put pressure on stock and domestic water supplies. We suggest that steps must be taken to ensure that farmers have sufficient stock and domestic water throughout the season.

1.1.15 Dairy Washdown:

Again with a shortened irrigation season we need to ensure that dairy farmers have sufficient water for dairy washdown.

1.1.16 Autumn Watering:

Dairy farmers will have no choice but to dry off their farms and will no longer irrigate their pasture. Experience on the Goulburn system would indicate that watering up pastures in autumn is crucial to ensure pastures are re-established and dairy farms can recover from the drought.

Government must take steps to try and ensure that water is available for an autumn watering.

1.1.17 Groundwater Transfer Charges:

The water market is an important tool for the dairy industry when trying to manage scarce water resources. The temporary transfer of groundwater within particular zones allows farmers to sell on their water to those that need it. Unfortunately, G-MW has increased the charge to temporarily transfer groundwater by \$490. In 2006 it cost \$65 to transfer groundwater, it now costs \$550.

At a time, when the transfer of water helps to mitigate drought impacts, farmers should not be faced with this \$490 increase.

- **EC DECLARATION:**

1.1.18 EC Declaration Extended:

In October 2006, the Federal Government extended all EC declarations across Northern Victoria to March 2008. The difficult season upon us will require this EC declaration to be extended further.

We suggest that DPI staff work with local farmers to develop a case for this EC declaration to be extended beyond March 2008.

We would also welcome any lobbying by the Victorian Government to the Federal Government for this EC declaration extension.

- **OTHER REQUESTS:**

1.2.1 Goulburn & Murray Farmer Representation:

We understand that DPI has re-established its drought taskforce. It is essential that this taskforce includes dairy farmers from the Goulburn and Murray systems.

1.2.2 DPI Resources:

Further information will be required by farmers regarding options and costs of sourcing fodder, animal welfare and assistance with EC applications.

1.2.3 Community Support:

Adequate community support must be in place to ensure that farmers are aware of assistance available. Community events, such as barbeques are also an effective way of farmers coming together and sharing their stories as they endure the drought.

1.2.4 Rural Financial Counselors:

The Government must ensure there is sufficient Rural Financial Counselors across Northern Victoria.