CORRECTED VERSION

RURAL AND REGIONAL COMMITTEE

Inquiry into the capacity of the farming sector to attract and retain young farmers and respond to an ageing workforce

Beechworth — 4 August 2011

Members

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Mr A. Katos

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Witnesses

Mr K. Jones, director, and
Mr P. Bridge, general manager sustainability, Murray Goulburn Co-operative.
The CHAIR — Welcome, Ken and Patten, to this hearing of the Rural and Regional Committee’s inquiry into the capacity of the farming sector to attract and retain young farmers and respond to an ageing workforce. I hereby advise that all evidence taken at this hearing is protected by parliamentary privilege as provided under relevant Australian law. I also advise that any comments made outside the hearing may not be afforded such privilege. Before you start, please state your name and address and then state whether you will take questions as you present or whether you would prefer to have questions at the end of your presentation.

Mr JONES — I am Ken Jones of [----], Gundowring. We are happy to answer questions whenever the committee would like to ask them. We are happy to enter into discussion.

Mr BRIDGE — I am Patten Bridge of [----], Osbornes Flat, but I am also representing the Murray Goulburn Co-operative in this discussion. It is probably worthwhile saying who we are representing here, because this deputation is really from the north-east Murray Dairy network, which is specifically involved in a project at the moment called the Alpine Valleys Dairy Pathways Project. In that context, although Ken and I both have direct links with Murray Goulburn, Murray Goulburn as a separate entity will be making a submission to this inquiry. The invitation to talk this morning was more specifically around the Alpine Valleys Dairy Pathways Project, if that is useful. There is also an apology from Stuart Crosthwaite, who is the chair of the north-east Murray Dairy network and also chairs the steering committee that is associated with the Alpine Valleys Dairy Pathways Project.

Mr JONES — Perhaps before we get into too much detail, I will say that we identified the opportunity for growth in dairy in this particular region. About 18 months ago we started to look at proposals as to how we could grow the industry, and Patten has some information on how we went about that. We believe there is an opportunity for communities, the dairy industry and the government to work together to achieve the growth opportunities that we see in dairy.

We have a profitable dairy region, and we have been able to remain profitable even though there have been some hard times along the way. Most of the farms have still been able to achieve a profit during tough times. We have been fortunate that we are not in the greater northern region, where there has been such an effect caused by a lack of water and by drought. Although we have had a couple of droughts in a decade, they have not had the same impact as they have had on other farmers in the northern region. We feel we are pretty fortunate, and we see that as an opportunity for this region to perhaps grow and be more effective in dairy.

Mr BRIDGE — I will take you through the story because I think the relevance to the terms of reference is pretty direct. I think the lessons we have learned already and the questions we are asking fall pretty squarely in relation to the terms of reference of the inquiry, so as briefly as possible I will take you through the journey and then open it up to questions. That might be the best way to tackle it. I was not sure whether or not there would be an overhead projector, so in the absence of that you have this presentation in front of you. In relation to the scope of the project, north-east Murray Dairy handles the four major river valley regions: the Upper Murray, the Mitta and Kiewa, the Ovens, and the King. In terms of scope, we are talking about a high-rainfall dairy area. It is predominantly non-irrigated dairy farming, as distinct from our northern irrigation colleagues, who are obviously much more dependent on irrigated agriculture.

I will go through some of the features of dairy in the north-east, and it is probably worth dragging this out. The dairy farm monitor survey, as you would know, Paul, lumps dairy from the north-east in with dairy in the north, so sometimes the actual features of dairy in the north-east are lost, given that it is quite a different agriculture system. I will go through some of the key facts about that. There are about 220 dairy farms in the region. They produce around 220 million litres of milk, so the actual figures are a bit over an average of 1 million litres per farm. An interesting feature in relation to the importance of that is that 10 per cent of the arable land in the region is producing over 30 per cent of the farmgate income — that is, 10 per cent of the arable land is in dairy and it is producing over 30 per cent of the farmgate income.

Clearly there is an important issue here around the capacity of dairy to compete very strongly. If you add that up, you have around $88 million of pre-farmgate income aligned back to dairy. There are about 38 000 dairy cows. If you do the sums on the income-generating capacity, if you were going to take the dairy cows out and replace them with beef cows, you would have to put about 220 000 beef cows on the deck. We see, because of the capacities of the region from a biophysical point of view — rainfall, soil type et cetera — that there is absolutely no reason why you could not double the dairy output for the region. In fact it is the goal of this...
project to take it from 220 million litres to 400 million litres. That is the longer term goal of the project, but, as you will see, one of the major issues we have to get our heads around is the issue of people.

Leading on from that, I would like to take you through a bit of a snapshot. One of the valleys we are looking at is the Mitta Valley, and this graph reflects the trend in the Mitta Valley over the last 10 years. It is only a snapshot of the Mitta Valley; it is the upper Mitta Valley. If you know the region, it is basically from where Lockharts Gap comes into the valley — that is, from Fernvale and Tallandoon up to the top. It is the catchment area that supports the communities of Eskdale and Mitta Mitta. You have schools and service support areas for that Eskdale and Mitta Mitta area. What you will see is that over the last 10 years we have gone from 37 dairy farms down to 23, so we have lost 15 dairy farms. Milk production from that region has also dropped by around 15 million litres, which is significant when you translate that to the amount of income that is flowing around that small community.

It is interesting that at the start of this project it was the people in the Mitta Valley coming to us and saying, ‘We’re very concerned about the future of our valley from an economic point of view’. Dairy has been there for a long time. It has a long and stable future. It is still performing well economically, but we are seeing farms drop off. We have some pretty significant questions to ask about what the valley could do to stem that decline and put some additional support in behind rebuilding dairy. From all the examinations we have done about alternatives, it would seem that dairy is the most obvious long-term good bet for rebuilding the economy of the valley, so they were asking, ‘What can we do as a valley to contribute to that growth?’.

Mr Howard — What do we see are the reasons for those farms moving away from milk?

Mr Bridge — That is a great question, because there is a bit of a conundrum there. Can I get to your question as I go forward?

Mr Howard — Okay. Sure.

Mr Bridge — Our response to that was: okay, let’s just have a look at the comparative economics of dairy for the region. We commissioned a consultant, John Mulvany, to do a report which basically asked two questions. How does dairy in the north-east stack up compared to dairy in the other three major dairy regions — the irrigated north, Gippsland and the Western District; how does dairy in the north-east stack up against the other major grazing enterprises? We can table that report if you would like a copy of it. The snapshot of that response is that dairy in the Alpine valley stacks up very well from a return on assets perspective with Gippsland and the west. It obviously performs significantly better than the north because of the impact of the drought over the last 10 years. In essence, if you are making a decision about where you choose to dairy in Victoria, there is no reason you would not look at north-east Victoria in a comparative sense.

Mr Jones — I will just briefly comment on that. My question is how can you get a result like that when we know that carrying capacities in the Western District and Gippsland are heavy. It is built around land values. We are still fortunate that the land values for agriculture here are a lot cheaper than other areas of the state. It is as simple as that. So the return on investment is significantly affected by that, and we are seeing the high performing farms returning 7 per cent and 8 per cent. I think the longer term average is 7 per cent, so it is a significant return on investment.

Mr Bridge — But perhaps as importantly and more worryingly, once all the costs of production were taken into account, including labour, dairy was outperforming grazing by 3 to 1, yet the trend was away from dairy and into grazing. You have some relatively significant issues here. What is driving the system if it is not just economics? Where do the lifestyle factors come in? Where are the issues around succession? Where are the issues around what the next generation is looking at when they are looking at the dairy industry and making decisions about whether they want to invest in that future? In essence, that has really been the birth of this project.

We have defined three things that we think we need to be able to tackle. In some ways there has been a lot of discussion around the fact that the world needs more food, and we are pretty interested that we have a whole heap of pretty high rainfall, good-quality soils that are potentially very good agricultural production areas that are really just chugging along fattening beef cattle at the moment. It would seem to us that if we cannot double the amount of dairy of this area, then our capacity to double the amount of food that we are producing out of Australia, as an example, is not going to go too well. Some of these are pretty fundamental questions.
What are the three things that would need to happen to take dairy production in the north-east from 220 to 400 million litres? We are pretty clear about those. One is that we have to be able to demonstrate transparent and sustainable profitability for the industry. The bottom line is that people have to be clear that their investments are going to be returned in terms of the profitability of their farming systems. At the end of the day, this is all about making a buck for the investment, and that raises a number of questions about how you support that.

The second thing is that the lifestyle and working arrangements that sit in and around those predominantly family farms need to meet the expectations of generation Y. Again, there are a number of challenges around what we will need to do differently to support that.

The third is that the communities that work in and around these farming systems need to be supportive of dairy and need to recognise its value and acknowledge its contribution to the overall wealth of the community so that there is strong support for what that growth would look like. There has to be that close association with the community. To that end, the project that we are working on is basically tackling those three deliverables. Our intent is to look at the systems that support the profitability of dairy farming, and there is an education and extension component to that. Essentially it is almost like revamping or retuning the extension model for the north-east, Ken, particularly the role of north-east Murray Dairy in that.

**Mr Jones** — One of the things that concerns us is where DPI fits with agriculture in general but particularly in the dairy structure at the present time. We have seen a decline in delivery services over time, but there are still programs that are available and that we have been able to roll out. We have been able to encourage a number of the younger people on farms to participate in these things, like Pastures for Profit and business networks that are being run with Dairy Australia funding and that are supported by other funding. We have seen those farms really drive ahead in productivity and profitability, so we know we can achieve these things if we can get to the right group of people. That is the reason that we have deliberately targeted younger people on farms — not perhaps the owners of the property but the sons and daughters who are working on those farms. Longer term I see a great opportunity for the whole industry to tap into that, but we need a bit more resourcing through DPI to support that ongoing thing.

**The Chair** — We heard this morning from the previous group that extension is probably a bit lacking in this area. Would you be saying that if there were greater extension we could actually drive productivity, which would drive the interests of the younger people?

**Mr Jones** — Absolutely, Paul. We have had a great example of this. There was a young fellow who started in the Wodonga office of DPI specifically on dairy. He was very involved and was one of the people who negotiated to get all the young people involved in these activities. He has now finished and gone back to his parents’ farm in the Cobram region, and DPI have not replaced him. There is no dairy extension person for this region.

**The Chair** — Are they planning to?

**Mr Jones** — No, they are not. That is one of our great concerns. We see that there is an opportunity to bring younger people into the region from university, give them a couple of years training and then put them into areas where they can work with generation Y, as we have said, and encourage them to participate. We have quite clearly seen growth and profitability in every farm where we have encouraged that generation of people to get involved.

**Mr Bridge** — To add to that, I think there is a little bit of transitional stuff happening with DPI in discussions around what sort of extension models it wants to support, and this wholesaling concept has been part of that. There does not seem to be a clear definition of exactly what that means, but from the discussions we have had it is clear DPI is quite open to talking to us about how it can engage. We have seen that as an opportunity to perhaps define that, because the work that Ken and his team have done has been very solid over that time. If we can demonstrate that we can add value to what DPI can contribute, then we can probably do some good work around building those models in a useful way.

There are some structural issues around that profitability stuff. Land is pretty tightly held in the north-east, and when we are talking about the future of profitable dairy, one of the themes is likely to be an increase in farm size. The ability to get access to the arable land in these tight river valleys is really important. If we have
planning laws which are promoting land being chopped up into smaller, unprofitable bits for lifestyle properties, it really starts to become a major issue in relation to building the future of what I would have thought was potentially an economic powerhouse for the region. So there are some issue in there as well.

**Mr Jones** — With the growth of the size of a business you need a workforce, and some of these restrictions may also affect how many people can actually live on that property with regard to dwellings and so on, so they are all issues for agriculture going forward, and we need to think through those processes to enable businesses to grow and be able to have the workforce to enable optimising the business opportunity, I guess.

**The Chair** — So while we do not want small blocks we may want more than one house on a block for workforce reasons?

**Mr Jones** — And that is particularly what we are running up against. Some of the discussions we are having now are that we want to grow our business but we cannot find housing for those people in the immediate vicinity. That is an issue.

**Mr Katos** — Obviously with the figures you are presenting you are saying that dairy is more profitable than grazing, but people are still moving into grazing. Do you believe that is more around lifestyle? Rather than having to work the seven days a week, two times a day milking, obviously the grazing does not have the demands on the young people.

**Mr Jones** — Yes, but I think most of those grazing properties are held — we talked about tightly held land and the generations of people who have had these properties, but there is also the secondary group of people that are retired from dairy and because of the workload they are spending their last 10, 15, 20 years of farming just growing out some beef cattle. But as you see generational change, there is not enough money in that enterprise to be able to maintain a successful business, and that is where we see the opportunity for growth as those things change. Paul, you would be familiar with that.

**Mr Bridge** — It is certainly more of a young person’s game, and the demographic is showing that the average age is growing higher, so in some ways we might be seeing a demographic blip that some of our existing dairy farmers have made good money out of dairying, their kids have gone off, done other courses, got other options and are saying, ‘Do I want to dairy farm like my parents?’ And the answer is sometimes no. But they do not have to farm like their parents. There are some structural changes and some things that are happening around lifestyle and size and the way we make decisions around dairying that the next generation can take on board.

There are some great examples of some young farmers coming in who are doing that, so I suppose one of our challenges is to actually make it clear that you do not actually have to do things like your parents did. You can restructure your business and look at the way that is happening so that you can have some lifestyle benefits as well as having a very successful dairy business.

**Mr Howard** — I suppose to do that, though, you are saying those changes require a fair bit of capitalisation, do they? And is that one of the issues?

**Mr Jones** — I would have to say that that is one of the restrictions in that most of the people who have made a lifestyle decision just to milk for a certain period of time, perhaps without encouraging their families to participate — it is all affected by the infrastructure on that farm, and I mean a dairy, for instance. If the dairy infrastructure is inefficient, we have to find a way to put a proposal to those people to say, ‘Well, if you grow that particular sector of your business, the whole of your business can grow’. So there is always something that can restrict the ability of a business to grow, and that is one of the main ones: the actual dairy itself.

**Mr Bridge** — We have actually identified that this whole issue of building equity for people coming in is a major issue. It is not very transparently understood, and we think that we really need to revisit some of the farm business models that exist there and, in a contemporary sense, ask how they are stacking up in terms of new questions of equity.

What we have heard in the discussions we have had is that some of the old sharefarm agreements just are not stacking up in terms of people giving more preferences to lease agreements and issues around just farm employment. All of that raises more questions about the level of skill required to help a lessee and lessor
actually get to a profit agreement and where is the professional input into that and who allows that? How do you oil the wheels to make that happen well? They are very important questions, just as the questions around succession are important. How do we actually give people the comfort that they can, once they are deciding to leave dairying, make some choices about how to still leave this land that is well suited to dairy, available to dairy, without necessarily just turning it into a beef cattle fattening exercise?

The CHAIR — We are getting right towards the end. Are there any more points?

Mr BRIDGE — No. Perhaps the only other point was the community engagement point. We do not see that any of this is achievable without a very strong understanding and input from the communities that are dependent on the income generated from these farms, and we are not going to get growth without that support, so the strategies we are employing are very much around building those linkages as well.

Mr JONES — Can I just make another point? We have been our own worst enemy in dairy over a period of time with publicity and whatever. But one of the other things we have identified is education and access to careers teachers. I think there is an opportunity for us to have greater influence or input into some of the careers children are advised of. Agriculture tends to get written off, and if we look at the opportunity for financial growth in agriculture, it is very significant. I do not think there is a broad understanding of that at all. I see that there is great scope for us to find a way to intervene in that area.

The CHAIR — All right. Does the committee have any last questions?

Mr HOWARD — I do, because the issues you have raised — you have put more questions out there than answers, and I am looking for some answers from you in terms of what is the solution to getting farmers to see the way those leasing arrangements might work or those transitioning arrangements might work.

Mr BRIDGE — Shining a light on it is part of it. What we are planning to do is that we have already got, for instance, a focus group in the area that is based on a lease farm, so we are bringing exposure into how those sort of arrangements can work. We have some fantastic models. In one of our lease agreements the lessee is actually funding the building of the new dairy on the farm and taking the capital expense of funding that dairy on the basis of a 10-year agreement. So there are some really contemporary exciting things happening around some of those shifts, and part of our job I think is to bring our experience into looking at those, making sure they are fair, transparent and reasonable, and shining some light on it.

Mr HOWARD — And who is organising the light shining?

Mr BRIDGE — That is what this project is about. It is a collaboration. Local government has put some strong support into it; Regional Victoria has put some initial support into it, DPI, Murray Goulburn, the dairy factories, Dairy Australia, through the People in Dairy program, are collectively coming together, using this as a bit of a case study. We have got it to this point, but what we are going to need is to put in some relatively serious resources in probably the next 12 months to bring it all together and to actually get the momentum behind making it all happen, and that is exactly the stage we are at at the moment: trying to identify those resources.

The CHAIR — Any last questions or statements?

Mr JONES — No, I think we have covered it all, but I guess a bit of support and identifying that gap in DPI access in this region are two of the main things.

Mr BRIDGE — Probably my last statement is that I have not quite worked out how to engage the energies of Regional Development Victoria — the whole regional economics. It seems to me that dairy is crucial to regional economic development, to understanding how that can work better and to understanding how we can engage that support around what we are doing to send those messages out to the rest of the state. That is probably a bit of a question mark. I would like to feel that there is just as strong a role for the state government in terms of regional economic development as there is necessarily in just individual farm profitability and dairy development.

The CHAIR — Thanks very much for your contribution. In about a fortnight you will receive a draft transcript. You can make any obvious corrections but the substantial tone of your evidence will not be changed.
Any changes will have to be approved by the committee. Once again, thank you very much for your time and your evidence today. It is appreciated.

Witnesses withdrew.