

13 December 2019

Future Drought Fund Consultative Committee

Submitted online via <https://haveyoursay.agriculture.gov.au/future-drought-fund>

To Whom It May Concern,

Thank you for the opportunity to respond to the Drought Resilience Funding Plan of the **Future Drought Fund** (the Fund). Dairy Australia welcomes the Prime Minister's recent announcement of long-term funding to build resilience across the agricultural sector and regional communities to drought.

Dairy is the fourth largest regional industry in Australia and makes a crucial contribution to the Australian economy, and particularly to our regions. In 2018-19, the Australian dairy industry produced some 8,795 million litres of milk from 5213 dairy farms, and with a farm gate value of approximately \$4.4 billion, much of which is returned directly into local regional economies. Significant private and public funds have been invested in local irrigation schemes to improve efficiencies over the last 20 years, with water use per litre of milk produced decreasing significantly over this time. Dairy's impact in regional Australia is enhanced by the fact that the processing of dairy products is predominantly regionally based. The nature of the industry also means that more than 80 per cent of milk receipts earned by farmers are re injected into regional communities, creating many flow-on economic opportunities.

The dairy sector is in a period of unprecedented and rapid transformation, both nationally and regionally. There are well-known factors contributing to this transformation, including climate change, water policy reform, volatility of input costs and challenging commodity markets. The operating environment for Australian dairy is outlined in the **Australian Dairy Plan** and its foundation document, the Australian Dairy Situation Analysis.

The Australian Dairy Plan is an industry led initiative to set priorities for the next five years and beyond to create a more profitable, confident and united dairy sector. The plan is being developed by four partner organisations comprising Dairy Australia, Australian Dairy Farmers, Australian Dairy Products Federation and Gardiner Dairy Foundation, with the Hon. John Brumby AO serving as Independent Chair. It is the first time that key dairy organisations representing the whole industry supply chain have come together to form a single national plan with an agreed vision for success, commitments and initiatives. The draft plan published in December 2019 is based on one of the largest consultation exercises ever conducted by the dairy industry and the views of over 1,500 people who took part in 25 workshops across Australia earlier this year.

Commitment 4 of the draft Australian Dairy Plan is to intensify the focus on farm business skills to improve profitability and better manage risk. Australian dairy farmers manage highly complex, decision-intensive animal production systems in an environment characterised by very high and increasing levels of volatility. Australia's rising levels of climate volatility are contributing to levels of volatility in feed and water costs that were unimaginable twenty years ago.

The dairy industry has a number of programs and initiatives (some in pilot) which can be scaled up and more effectively co-ordinated to support farmers better manage these challenges. There is also a role for government in supporting on-farm infrastructure that helps manage risk and volatility. While there are some precedents (e.g. the Tasmanian Government co-investing in community water schemes that aim to 'drought proof' the state and the Victorian Government making small scale grants available for farm infrastructure that improves drought management and preparedness), **there are opportunities to work with government to extend these initiatives with the support of the annual \$100 million Future Drought Fund.**

A more unified and strategic approach to collaborating with government on initiatives to stimulate industry growth, reduce costs and remove barriers, will better enable dairy to support the Federal Government's 2030 goal of \$100 billion in farmgate agriculture output.

Dairy Australia is largely supportive of the funding Principles outlined in the Drought Resilience Funding Plan—agreeing in particular that “**sound business planning, risk management and innovation** will help the sector respond to the challenges of the future including climate change and more frequent droughts”.

We make the following additional specific comments, however, to ensure the Fund is broad-based and facilitates the initiatives our industry has identified as being critical to future-proofing.

Public Vs Private Good

Dairy Australia seeks clarification of Funding principles 2 and 4 to ensure that enterprise-level funding can be provided under the Drought Resilience Funding Plan.

For dairy farms, investment in enterprise-level on-farm infrastructure is a key opportunity to improve business resilience, including investment in feed, shelter and water infrastructure. The Australian Dairy Plan has identified that on-farm infrastructure helps manage risk and volatility. A traditional analysis would say that the benefit of these investments are captured by the individual business. However, the investment also serves the broader public good by ensuring a sustainable dairy industry continues to thrive in Australian regions and that Australian milk and milk products continue to contribute vital nutrition to the Australian diet, as well as benefits to the local community and economy through employment supporting local populations. Any assessment of project value used for the Fund should consider this broader range of benefits.

Expected Return on Investment

In relation to principle 12, evaluation and any test of Return on Investment (RoI) for projects needs to take a broad view that includes tangible and intangible benefits, such as food security and benefits to the life and well-being of a community – both of which can be enduring (principle 9).

Recognition of existing investment in co-investment criteria

The Principles should recognise existing private, industry and government financial and in-kind support as 'co-investment' and principle 16 should be clarified accordingly.

Easy and accessible for communities

Dairy farmers are currently experiencing challenging conditions in many locations, whether in drought-declared regions or not, due to a combination of rising costs and tight margins. Funding Principle 7 'aim to deliver programs through a user-based lens and, where possible, a community-led or co-design approach' needs to recognise the reality that communities may be exhausted by the current drought, and unable to consider future resilience until they recover from their current hardships. Developing 'community-led' or 'co-designed' projects may not be possible for some time and it may be necessary to find alternative ways to engage with these communities.

Geography

The drought also impacts on those regions which may not be themselves 'drought declared'. Key impacts of drought on non-drought-declared regions can include:

- increases to prices for key feed and other commodities, driven up by increased demand in drought hit areas.
- Reduced stream inflows from areas downstream of drought declared regions. For example, the Southern Connected Murray Darling Basin has seen significant drops in stream in-flows, which has resulted in reduced, and in some cases, zero, water allocations. This has also driven the price of water up to levels unsustainable for many types of agriculture.

Future-proofing activities need to occur in all dairy regions and not just those in current drought-declared areas.

Resilience and Recovery

Following a drought event, it can be a period of years before soils and ecosystems return to their previous levels of productivity. Returning to intensive production before this recovery occurs can cause further damage. For this reason, any support that promotes ecosystem and soil resilience should be provided over suitable time-periods. The Fund should be scoped to include support for households to hold-off on returning the area to productive use while this recovery occurs.

Thank you again for the opportunity to respond to the draft Drought Resilience Funding Plan. I look forward to the finalisation of the funding principles and further discussion on the development of the programs and projects to deliver on the fund. We see particular opportunity to jointly progress some of the initiatives of the Australian Dairy Plan. Dairy Australia will continue to offer support to this process, including access to our extensive stakeholder and technical networks, all of which will contribute to the success of this Fund.



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