

Morrows Knows

Australia's Dairy Industry

Many of us take for granted the convenience of the food available in supermarkets and often forget where our food has come from, the farmer.

Farming has been a major contributor to Australia's economy since the earliest days of European settlement. In the first half of the 20th century, agriculture accounted for around a quarter of the nation's output and up to 80% of Australia's exports¹. However, we are currently witnessing the destruction of many of our primary industries with agriculture in steady decline in recent decades.

Close to home, there has been particular focus on the Dairy Industry in South West Victoria. Dairy industry deregulation has seen supermarkets prosper at the expense of the industry. And while consumers pay less (you may recall the Coles campaign offering milk for \$1 a litre) the dairy farmers are worse off by as much as \$1.5 billion a year.²



Some statistics on the dairy industry:

- South West Victoria is Australia's largest dairy region production over 2.1 billion litres of milk in 2012/13³
- Dairy producers average just 3 – 5% return on their capital according to Australian Bureau of Agricultural and Resources Economics and Sciences
- The number of dairy farms has fallen by two thirds over the last three decades from 21,944 in 1979 to 6,398 in 2013⁴
- The number of national dairy cows has fallen from 2.2 million in 1999 to 1.6 million in 2013⁴
- Milk production has been in decline since 1999 when Victorian production was 6.8 billion litres to 6 billion litres in 2013⁵
- Rural debt is approaching \$64.5 billion nationally⁶

Rural debt has more than doubled over the past decade largely due to the purchase of land, farm improvements and capital investments. Whilst banks offer a range of products for rural borrowers, the conventional forms of lending criteria do not fit the rural sector due to the volatility and risks associated with farming. Farmers are, therefore, paying higher interest rates on reducing profits which has resulted in contested loans and foreclosures.

Based on their experience and involvement in South West Victoria, Mike Hamblin, a Partner in Warrnambool Veterinary Clinic, one of the largest veterinary practices in rural Victoria (longstanding clients of Morrows), Gary Smith, a Partner & Chartered Accountant for a firm that specialises in dairy farm accounting, together with Alistair Hamblin a Principal of Morrows, have made extensive submissions to the Senate Economics Legislation Committee in support of a new

restructuring board for the agricultural industry.

The proposal is to establish an Australian Reconstruction and Development Board (ARDB) within the Reserve Bank of Australia which would:

- Offer funding arrangements for the Australian agricultural sector
- Report on and help develop the financial viability of the sector, and

Address situations which have resulted in debilitating financial arrangements in the sector. The ARDB would seek to address these issues and ensure the Agricultural industry is sustainable and profitable. This would encourage and reward those with experience and skills to move back into rural areas where there is plenty of work.

Mike, Gary and Alistair noted in their submissions that our government has recognised that Australia needs to take advantage of the opportunity it has with the Asian food boom and to ensure our own food security. The world has a massive challenge ahead meeting the food needs of 9 billion humans by 2050 and Australia has a great opportunity to take a role as a net food exporter.

Morrows would like to recognise the passion, dedication and effort of Mike and Gary in preparing their submissions to the Government and other activism. It is only through the combination of each and every small effort by individuals that change can be achieved.

¹ *Productivity Commission, 2005, Trends in Australia Agriculture, Research Paper, Canberra.*

² *'Milk: do we want it?', 4 April 2013, The Land, Dr Ian Lean.*

³ *Reserve Bank Amendment (Australian Reconstructions and Development Board) Bill 2013, Submission 110, Gary Smith, Coffee Hunt Chartered Accountants*

⁴ *'Cows & farms', Dairy Australia*

⁵ *Victoria Milk Production December 2013, Dairy Australia*

⁶ *Reserve Bank of Australia Statistics, June 2013*

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