



24 October 2006

To whom it may concern,

**Re: Letter of support for drought assistance**

The Australia Fodder Industry Association (AFIA) is the national peak body for the Australian fodder industry. Many of our non-primary producer members provide contracting services to the fodder industry and are not eligible for Exceptional Circumstances assistance.

While not classified as primary producers, the income of these people is impacted by the drought in the same way as primary producers, yet they do not have access to the same level of assistance.

As a service to our members, we provide this letter to be included in drought-related applications for income and other support. We urge you to consider their application in light of the information provided below.

**The Fodder industry**

Australia produces, on average, eight million tonnes of fodder each year, produced by around 20,000 farmers. The production is worth around \$1.1 billion with 85 per cent being used domestically and 15 per cent being exported.

Fodder is conserved either as hay, straw or silage. Hay is made by mowing, drying and baling pastures and crops; silage is made by mowing pastures and crops and storing under anaerobic (oxygen deprived) conditions.

Fodder is an important part of animal production systems. It can be used as either part of a regular stockfeed ration, it can be used to supplement stock-feed through normal seasonal variation such as summers in southern Australia, and it can be used in extreme circumstances as emergency stock feed as in the current drought.

**Contractors**

Fodder production requires a number of processes including cutting / mowing the pasture or crop, raking, baling, stacking and transporting. In many cases these tasks are done by contractors.

The contractors who perform these tasks provide their own machinery, including mowers, tractors, conditioners, balers, trucks etc.

The cost of this machinery varies depending on size, age and condition, but it is not unusual for one piece of machinery to cost many hundreds of thousands of dollars. This means many contractors carry the burden of significant fixed costs such as interest on borrowings and maintenance costs.

The business structures of fodder contracting businesses are varied. They include: pure contractors (contracting is the sole source of income), farmer contractors (farm owners who are also contractors) or contractors with other businesses (such as transport) attached.

### **Impact of current drought**

Feedback from our industry suggests the current drought has reduced contractors' revenue by up to 90 per cent. Reduced crops and pastures mean there is simply not the material (crops and pastures) available to be baled or made into silage.

As contractor revenues are cut, capital repayments, staff salaries, and other running costs still need to be paid - in an average year fixed costs are estimated at about 40 per cent of revenue. As a result, AFIA expects some contractors to go out of business and contractor employees to lose work.

In addition to having less work available forces of supply and demand are expected to reduce the price contractors can charge. Many farmers own fodder making equipment and they may turn to contracting for off-farm income. When this happens, they often don't consider the full cost of contracting and charge below market rates for services.

In effect this is a 'double whammy' for contractors. The drought has reduced both the work available to them and the price they can charge for their services.

### **Summary**

The Australian fodder industry relies on contractors to perform many of the functions needed to produce, store and transport fodder. Their businesses are often highly geared and rely on throughput to sustain their businesses.

This year will see volumes and revenues for contractors reduce significantly as the drought takes a strangle hold on Australian agriculture. This will be a particularly difficult year for contractors, some of who will be needing assistance to remain in business to the following season.

If any additional information is required, please call AFIA on 03 9890 6855.

Regards



Colin Peace  
Executive Officer