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Australian Dairy Industry Council Inc.

15 November 2012

Tony Windsor MP
Chair
House of Representatives Standing Committee on Regional Australia
Via email: ra.reps@aph.gov.au

Dear Mr Windsor,

Re: Water Amendment (Water for the Environment Special Account) Bill 2012

The Australian Dairy Industry Council (ADIC) welcomes the opportunity to make a submission to the above inquiry. The dairy industry supports investment in on-farm works as a means to recover water for the environment under the Murray Darling Basin Plan, as facilitated by this Bill. However, it has serious concerns about some aspects, in particular the provision for buybacks to recover some or all of the proposed additional 450GL. These concerns are detailed below.

Background

Dairy is the largest irrigation-based livestock industry in the Murray Darling Basin, and accounts for a quarter of Australia's total milk production. The Basin dairy industry has a farmgate milk value of around $980 million and regional processing worth $2450 million in value-added dairy products.

More than 12,000 people in the Basin rely on dairy for their livelihoods, including farm and factory workers, tanker drivers, dairy machinery technicians, financial services, vets, feed brokers and suppliers, farm equipment suppliers, agronomists and farm advisers.

Water availability and affordability are the dairy industry's key issues with the Murray Darling Basin Plan. As it stands, more than 1000GL (long-term annual average) in entitlements have already been bought back from irrigators. Almost 900GL of this has been sourced in the southern connected Basin, where it represents about 11% of the annual average water availability – and includes about 17% of Victoria and South Australia's high reliability entitlements.

For dairy, the loss of this 900GL from the consumptive pool already means an uphill battle and higher costs to get milk production back to the pre-drought levels that support the 16 major milk factories and their jobs located in the Basin in northern Victoria, NSW and South Australia.

It is not just higher costs and greater scarcity of water on the market during future dry spells; the type and location of entitlements recovered also affects the viability of shared irrigation districts. This is because reduced water deliveries mean water companies must increase charges to cover the revenue shortfall.

In short, a significant pain of adjustment is already inevitable, even if no more water is transferred from the consumptive pool across to the environment.

Water Amendment (Water for the Environment Special Account) Bill 2012

1. Legitimacy of this approach

This Bill sets up a special account to appropriate $1.77 billion over 10 years from 2014 to 2024, to be spent on recovering up to 450GL more water for the environment and relaxing system constraints such as the rules designed to minimise flooding risks on private and public land.

The Committee has been specifically asked to consider the legitimacy of this approach; that is, whether it is lawful, or in accordance with established rules, principles or standards.

The Bill is lawful, to the extent that it is an appropriation Bill that specifically raises money for a specific purpose; it is not without precedent; and, while it is binding on a future Government, it is not binding on a future Parliament which always has the option to repeal or amend it.

However, the dairy industry does not believe the Bill as currently drafted is in accordance with established principles in relation to the Basin Plan; that is, the optimisation of social, economic and environmental outcomes. Nor is the Bill in accordance with the principle described by the Water Minister Tony Burke in his second reading speech on the Bill, namely that:

> *"... the Plan being proposed by the Murray Darling Basin Authority stipulates that additional water beyond the benchmark should only be acquired through methods that deliver additional water to the environment without negative social and economic consequences such as infrastructure."*

As such, the Bill requires amendment to accord with established principles. Its legitimacy in this context also depends on whether the as-yet unseen Basin Plan referred by the minister does in fact satisfactorily resolve several outstanding issues; these are discussed in following sections.

2. No more buybacks.

Section 86AD(2)(a) lists what the $1.77 billion can be spent on, including on-farm works, water-efficient infrastructure, increasing the release capacity of storages and negotiating flood easements. Section 86AD(2)(b) goes on to separately provide for buybacks to achieve the Bill's objectives. The Government has assured stakeholders the intent is only to allow 'flexibility', where some on-farm works and irrigation infrastructure efficiency programs might include a purchase component. However, the Bill itself does not explicitly make this link.

The Bill's explanatory memorandum (paragraph 4) specifies the additional water will be recovered in a way that has no negative social or economic impacts on Basin communities. A clause that potentially allows 450GL to be primarily obtained through buybacks is not consistent with this intent.

Further, future governments will not feel bound by the good intentions of those in office now. This clause enables a future Government to abandon on-farm works and irrigation efficiency programs and revert to buybacks to recover the additional 450GL. This is not acceptable.

It is worth noting that the current $300 million On-Farm Irrigation Efficiency Program does not include buybacks as a component, and it has been very successful in attracting participants and delivering water savings. There is no need for future on-farm programs to include the 'flexibility' of buybacks as a component, unless the intent is to continue buybacks by stealth.

Recommendation 1: Clause 86AD(2)(b) allowing more buybacks be removed from the Bill.

3. Detrimental social or economic impacts on the wellbeing of Basin communities.

Paragraph 86AD(2)(c)(ii) provides that the $1.77billion fund may include payments to address any detrimental social or economic impacts on the wellbeing of any community in the Murray Darling Basin, associated with projects to recover water savings, purchase entitlements or relax constraints.

It is unclear what impacts the Government has in mind; the resources required are very different depending on whether third-party impacts arising from relaxing constraints are being addressed or the profound direct and indirect social and economic impacts that undermine a community's viability.

Either way, it is doubtful whether adequate funding would be available under this Bill, given that the priority appears to be recovering water and relaxing constraints first, and then addressing negative social and economic impacts as an afterthought.

Determining the direct and indirect adverse impacts of the Basin Plan is a complex exercise. For example, recovering water through on-farm works has both positive and negative implications, and these need to be well understood in order to inform program design. Otherwise, the Government runs a serious risk of paying to address negative impacts that could have been avoided in the first place and when it may be too late to save a community from sliding into economic unviability.

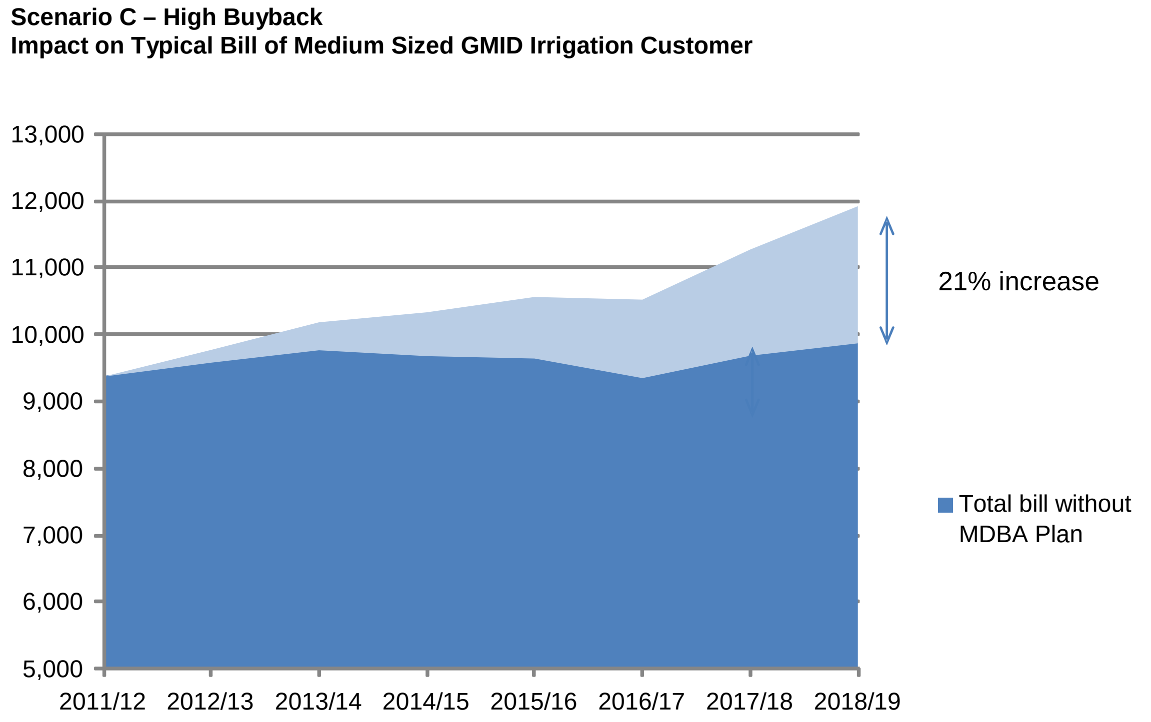
By way of illustration, the Bill's support for recovering water through on-farm works is a welcome investment in regional development and increased farm productivity. As such, it is a meaningful structural adjustment payment that will pay social and economic dividends far in excess of the original investment. This is because it will help keep farmers, regional processing and farm service industries in business, and therefore support the overall wellbeing of the community and national economy.

However, it does need to be remembered that even on-farm works have a downside, because farmers transfer a portion of their entitlements to the Government equal to the savings they achieved. In this way, like buybacks, on-farm works will contribute to a smaller collective pool of water entitlements available for irrigation overall.

This has cost implications in dry seasons, when less water is available on the temporary market to alleviate low allocations. It also has cost implications for shared irrigation districts, because less water delivered to farms means less revenue, forcing water companies to raise prices to cover the shortfall.

There is a real danger that a farmer may upgrade his farm to produce more with less water under the on-farm works program, only to be unable to afford to have his water delivered because of increased system charges.

The Goulburn Murray Irrigation District (GMID) in northern Victoria, where most Basin dairy farms are located, is a case in point. Goulburn Murray Water (GMW), in its April 2012 Basin Plan submission[1] to the MDBA, estimated that the loss of another 355GL from its collective pool would drive a 21% increase in prices for a typical medium-sized irrigation customer (Figure 1) by 2019. This 21% price rise will be over and above the increased costs of operating the modernised irrigation system.
The Basin Plan as it currently stands, plus the proposed additional 450GL, translates pro-rata to around another 470GL of water being removed from GMW's collective pool through buybacks and farmers' entitlements transferred to the environment under the on-farm works program.
Figure 1: Price impact of losing another 355GL from GMW collective pool



The dairy industry supports on-farm works as a means to recover water for the environment and at the same time equip farmers to remain productive in a water-scarce future.

However, it makes sense for the Bill to require a socio-economic assessment to be undertaken as part of each water saving or constraints proposal, so that any potential negative impacts can be identified and mitigated early as part of the overall program design.

Recommendation 2: The Bill be amended to include a provision requiring that all programs be subject to a socio-economic impact assessment as part of the approvals process.

4. Covering the gap to 2750GL first

The dairy industry emphasises that there is a still an 890GL gap to cover just to reach the 2750GL benchmark, before any additional water is recovered towards a 3200GL target. The Government is yet

[1] Goulburn Murray Water Proposed Murray Darling Basin Plan submission, 16 April 2012. http://submissions.mdba.gov.au/(S(iep1k3of4yr5ze4ueqod4yb1))/SubmitterFeedback.aspx

to explain how it intends to cover this remaining 890GL gap in a way that minimises negative social and economic impacts; neither has the Government committed funding to this end.

The dairy industry is concerned that this Bill focuses on enabling to the Sustainable Diversion Limit to be adjusted in one direction only – that is, towards a 3200GL water recovery target. We are also concerned that the Bill intends this objective to be achieved only through the recovery of water entitlements when there may be scope for additional environmental offsets as well.
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Further, the Bill seeks to achieve this outcome before the Government has explained how it will close the current 890GL gap to 2750GL first.

The dairy industry believes environmental outcomes similar to or better than the proposed 2750GL benchmark can be achieved with a 1500GL cap on buybacks, at least 600GL of savings from infrastructure, and at least at 650GL in environmental works and measures (EWM).

On 1 November, the Water Minister took a step in the right direction by writing to the Murray Darling Basin Authority with suggested changes for the Murray Darling Basin Plan. His suggestions include measures to recalibrate the MDBA's models and the Plan to make it easier to achieve 650GL in offsets and ensure that the SDL can be adjusted by the full amount.

However, paragraph 13 in Annex A of the Minister's letter also allows the Government to revert to buybacks to cover the 890GL gap, if there are any shortfalls in savings from infrastructure projects or environmental works and measures.

This is unacceptable because, taken in conjunction with Section 86AD(2)(b) of the Water Amendment (Water for the Environment Special Account) Bill 2012, it means that both the 890GL gap and the additional 450GL could be recovered primarily through buybacks.

As mentioned earlier, future Governments will not be bound by the good intentions of the current Government. They will be guided by the letter of the law, whether in the form of the Basin Plan or the Water Amendment (Water for the Environment Special Account) Bill 2012.

It is essential that Parliament does not support a law to achieve an additional 450GL before it knows whether the 890GL gap will be covered satisfactorily. It will not know this until it has the opportunity to scrutinise the Basin Plan and associated documents such as the InterGovernmental Agreement.

Recommendation 3: Clause 86AD(4) be amended to enable additional water recovered to count first towards closing the gap to the 2750GL benchmark target, if required.
Recommendation 4: Parliament defer voting on the Bill until after it has considered the Basin Plan and associated documents such as the InterGovernmental Agreement.

Recommendation 5: Parliament defer voting on the Bill until the Government has committed unequivocally to finding at least 650GL in environmental offsets, committed the funds to do so, and ensured that MDBA models will enable the SDL to be adjusted by the full amount.

Recommendation 6: Parliament defer voting on the Bill until the Government has ruled out buybacks to cover shortfalls in environmental works and measures, infrastructure savings and on-farm works.

Conclusion
The dairy industry is uncomfortable with the Water Act being amended to give effect to a Basin Plan and IGA that no one has yet seen, on a 'trust us' basis that the Plan and IGA will contain all the appropriate safeguards.

On this basis, we believe it is imperative that Parliament, stakeholders and the community have the opportunity to consider the IGA and the Basin Plan before the Water Act is amended, to be confident that these documents clearly and unambiguously set out how the following will be delivered:

- The 2750GL target to be met through a combination of a 1500GL cap on buybacks, at least 600GL in infrastructure savings, and at least 650GL in environmental offsets.
- The MDBA will count all savings from infrastructure, current and future on-farm works and environmental offsets towards closing the gap to 2750GL first, before any water is counted towards a 3200GL target.
- That the MDBA will consult with and have regard to the Basin Officials Committee on the works and measures, and comply with all reasonable requests from the Basin Officials.

The dairy industry strongly urges the Committee to give serious consideration to the merits of the changes and commitments recommended in this submission.

The dairy industry also urges the Committee to recommend that the Senate defer the Bill until such time as the Senate, stakeholders and the community can evaluate the Basin Plan that will be brought to Parliament, including details of the SDL adjustment mechanism.

We would welcome the opportunity to present at public hearings on these issues. In the meantime, please do not hesitate to contact us if any further queries,

Yours sincerely

[redacted]

[redacted]

Mr Chris Griffin
ADIC Chairman
[redacted]

Mr Daryl Hoey
ADIC Basin Response Taskforce Chair
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