



Australian Dairy Industry Council Inc.

Australian Dairy Industry

Represented by Australian Dairy Industry Council Inc.

Response to the Productivity Commission's Issues
Paper for its

Murray-Darling Basin Plan: Five-year assessment

Contact

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Introduction

The Australian Dairy Industry Council Inc. (ADIC), the peak advocacy body for Australia's dairy industry, welcomes the opportunity to contribute to the Productivity Commission's (PC's) five-year assessment of the Murray-Darling Basin Plan (MDBP). Conducting an independent assessment of progress towards implementing the plan's actions consistent with legislated timeframes is a critical part of the public policy cycle.

The dairy industry is a major part of Australia's regional economy. In 2017-18 approximately 5,789 dairy farms (Dairy Australia 2017) are expected to produce around \$4.3 billion¹ of milk generated from a herd of 1.5 million managed by over 26,000 staff (ABARES 2018). This is a \$700 million increase from 2016-17; making dairy the third largest industry in Australia's \$60 billion agriculture sector (ABARES 2018).

While most dairy production is located along Australia's coastline, where pasture growth depends on natural rainfall, there are several inland dairying areas reliant on irrigation schemes. It is the irrigated areas of northern Victoria, southern New South Wales and smaller numbers of farms around Forbes and Wagga Wagga in New South Wales, Toowoomba and Warwick in Queensland and Murray Bridge in South Australia that are located in the MDB (ABARES 2015). This area includes approximately 1,700 dairy farms (United Dairyfarmers Victoria 2016).

Most milk produced by Australia's dairy farms is supplied to any one of Australia's many dairy manufacturers. These companies process raw milk into drinking milk or manufactured products such as milk powder, cheese, butter or casein. Around 51 per cent (\$3.2 billion) of manufactured product is exported. This contrasts with drinking milk, where over 90 per cent is consumed domestically. Most dairy manufacturing is undertaken close to dairy farms, including those in the MDB.

The ADIC represents the interests of dairy farmers and manufacturers. Together, we are a \$13.7 billion industry employing around 38,000 people (Dairy Australia 2018). With a significant portion of our companies and people impacted, we consider the MDBP a strategic priority.

This submission has been developed with consideration to the PC's *Issues Paper* (2018). Where possible content has been structured in line with the information requests made. Responses have only been made to four information requests as these are of strategic interest to the ADIC.

¹ Gross Value of Production

Executive summary

Generally, this submission focusses on three strategic matters. Firstly, the ADIC submits that the proposed inquiry assessment framework (information request 1 & 13) needs substantial amendment to ensure the assessment directly addresses each of the MDBP's objectives and outcomes. Secondly, the ADIC submits that the definition of neutral or positive socio-economic effect (information request 2b) is inconsistent with the MDBP's objectives and outcomes. Finally, the ADIC submits that the MDBP's governance and institutional arrangements (information request 14) are undermining implementation and are inconsistent with contemporary public-sector management policies and standards. These areas need to be addressed for the assessment to fulfil its potential and strengthen MDBP implementation in the future.

Approach to assessing the MDBP (Information Request 1 & 13)

The *Issues Paper* makes the following statement:

“the Commission will assess the Basin Plan’s effectiveness by gauging the extent to which the following are on track to be delivered within legislated timeframes:

- 1. actions required to implement the various elements of the Basin Plan*
- 2. water recovery and other targets.*

These will be used as proxies for the (difficult to measure) intended outcome of the Plan.”

This proposed approach will provide a very incomplete assessment of progress towards achieving the MDBP's objectives and outcomes (described in Chapter 5 of the *Basin Plan*). Currently, the approach is focused on delivery of outputs and achievement of deadlines rather than whether the outputs are achieving the plan's objectives and outcomes. This is inconsistent with the Australian Government's *Outcomes and Programmes Framework* and core principles of the *Public Governance, Performance and Accountability Act 2013*. While it is acknowledged that the Murray Darling Basin Authority's (MDBA's) *Basin Plan Evaluation 2017* performs this function, this work should be delivered by an independent authority capable of presenting data and analysis against a triple bottom line (economic, environment and social) framework.

Back in 2012 it was estimated that Australia could capture an additional A\$0.7-1.7 trillion in agricultural exports through to 2050 if it were to secure around A\$600 billion in additional capital (ANZ & Port Jackson Partners). The reduction in water availability for MDB irrigators appears to be reducing the prospect of them securing such investments and benefits:

1. In the southern Murray Basin water allocation prices are now 13 to 36 per cent higher in a moderate allocation season than they would have otherwise been without Commonwealth water purchases, with further increases expected over the next five years (Aither 2016). As relatively high user of water, this adds significant cost to dairy production.
2. Most farmers in the Goulburn Murray see uncertainty about water allocations and inadequate water availability as the main barriers to investing in improved irrigation practices (Goulburn Broken Catchment Management Authority 2017).
3. The Senate Select Committee on the Murray-Darling Basin Plan (2016) said that “several elements of the plan, and in some instances the way the plan has been implemented, were having negative impacts on economies and communities in the basin.”

As part of the MDBP's development the MDBA estimated the gross value of irrigated agriculture and dairy production in the MDB would decline by 9 per cent and only small changes would occur in overall employment levels. This was based on recovery of 2,000GL (Murray-Darling Basin Authority 2017). In assessing performance against their forecast, the MDBA (2017) stated that 'social and economic changes at the Basin scale are in line with initial expectations'. The concern for agriculture is the MDBA's reporting of a 40 per cent decline in employment in the sector across the region and lack of detailed economic analysis to place this into context.

There are far more economic statistics that need to be considered and compared to determine the MDBP's impact on irrigated agriculture. For example, since the MDBP's inception, the prices Australian dairy farmers receive for their milk has declined (ABARES index = 169.1 in 2013-14 to 157.5 in 2017-18) while the cost agriculture production across the board has increased by almost 6 per cent (ABARES 2018). The question for the assessment is to what degree have these factors impacted milk production and structural adjustment in the MDB versus the impact of less water availability from the plan. Comparisons of farm performance (volume, productivity, profitability and equity), at a sub-regional level compared to regions outside the MDB provide a more complete picture than an aggregated MDB wide value of production figure.

It is requested that the PC assessment consider these issues for the MDB's three distinct sub regions (Northern Basin, Southern Murray Riverine Plains and Southern Murray Mallee). The rate of progress in achieving MDBP objectives and outcomes in each of these areas are likely to be very different. An assessment focused only at aggregate (MDBP) level would fail to provide the insights for an adaptive management approach for MDB water resources (refer *Basin Plan* 5.02 (1)(b)). Conducting this analysis would ensure the water resources plans being developed by the states (due 1 July 2019) are more adequately informed.

Definition of socio economic effect (Information Request 2b)

Information request 2(b) is seeking information about whether adopting a different definition of neutral or improved socioeconomic outcomes would affect the likelihood of efficiency projects being delivered on time and budget. The more fundamental issue is whether efficiency projects, whether delivered on time or not, are having a neutral or improved socioeconomic outcome (*Basin Plan 7.17 (2)(b)*).

In our submissions to the Senate Select Committee's *Inquiry into the positive and negative impacts of the MDBP and associated Commonwealth programs on regional communities* (2015) and *Water Amendment (Review Implementation and Other Measures) Bill 2015* (2016) we stated that:

1. reform is required to improve the environmental health of rivers, wetlands and lakes across the MDB
2. the recovery of 2,750GL, including 650GL in offsets, is appropriate but must be achieved before any attempt is made to recover the additional 450GL of 'upwater'
3. efficiency measures are the best intervention to achieving outcomes.

Some farm efficiency programs provide grants for water transferred to the Commonwealth valued at 1.7 to 2 times the market value of water. This has allowed recipients to receive the grant, transfer water to the Commonwealth and then go into the water market to replace the water transferred to the Commonwealth. It is the sellers' community that experiences the negative socio-economic effects, which is ignored by the current criteria.

The Ministerial Council adopted a much more conventional and publicly acceptable approach in the 2017 Terms of Reference for analysis of efficiency measures done by Ernst and Young. This sought specific advice on:

"The potential socio-economic impacts arising from efficiency measures at a range of scales, including socio-economic concerns that go beyond the specific legal requirements of the Basin Plan, and on strategies that may be required to ensure neutral or improved socio-economic outcomes. The impacts and concerns associated with the recovery of 450GL may include:

- a) The net impact of on-farm efficiency measures on the viability and productivity of irrigation districts*
- b) The impact of efficiency measures on employment opportunities in basin communities*
- c) The impact of efficiency measures on the temporary and permanent water markets, and ..."*

The Ministerial Council's approach to considering socio economic effects are clearly consistent with the MDBP's objectives and outcomes. It is submitted that the Inquiry adopt this position.

Institutional and governance arrangements (Information Request 14)

The *Water Act 2007 (Cwth)* and institutional and governance arrangements for implementing the MDBP are far too centralised. Currently, the MDBA is responsible for:

- administering the Murray Darling Basin Agreement
- Murray river operations to service water users
- interstate water accounting
- maintaining and running the computer models used to operate the Murray
- monitoring, evaluation and reporting
- environmental water management through the Living Murray Initiative
- significant elements of plan implementation
- undertaking investigations and preparing reports for MDBP implementation
- maintaining and running the computer models used to determine SDL compliance and adjustments
- Water Resource Plan accreditation
- on the request of the Commonwealth Minister, preparing water resource plans using step in powers
- ensuring compliance with SDLs
- SDL adjustments and reconciliations.

This breadth of functions places the MDBA in a potential conflict of interest. For example, the MDBA's *Basin Plan Evaluation 2017* is fundamentally a performance review of its own service delivery. While this report may be accurate, the lack of separation and independence makes public trust difficult to obtain.

The National Commission of Audit (2014) said that "portfolio departments should undertake policy work and that service delivery should, for the most part, be undertaken by delivery agencies. This is because separation helps to:

1. ensure policy development and service delivery are undertaken by specialised entities with appropriate expertise and accountability arrangements, including clear ministerial responsibility
2. improve the focus on citizens' needs, while reducing costs through consolidation of delivery functions (allowing economies of scale in shared services and other overheads)
3. make it easier to open service delivery to competition.

In this context the Commission recommended the MDBA be consolidated into the Department of Environment to "reduce costs and achieve independence" with separate accounting and funding arrangements to "ensure financial independence". It is suggested that this recommendation be revisited in the context of clause 74 of the 2004 National Water Initiative. This requires the roles of water resource management, standard setting and regulatory enforcement and service provision be separated institutionally.

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