

**National Water Initiative**  
**Australian Dairy Farmers Limited**  
**SUBMISSION**



to  
**COAG Senior Officials Group on Water**

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Australian Dairy Farmers Limited (ADF) is constituted from the six State dairy farmer organisations. Its primary purpose is to represent the interests of the people in dairy farming families across Australia, their jobs and their communities, to Governments and the wider community.

We were invited to respond to the Discussion Paper on the National Water Initiative, circulated by the COAG Senior Officials Group on Water.

ADF has been part of the development of the National Farmers Federation response to the Discussion Paper, which it generally endorses.

However as the representative organisation for the major commodity user of water in Australia, ADF feels it incumbent to impress upon government the critical importance of water to the industry, to emphasise certain aspects covered generally in the NFF submission, and to make some additional points.

**Water and the Dairy Industry**

ADF makes this submission in the wake of the worst drought to face Australia on record. That drought has brought home to every dairy farmer, to his family and to the wider circle of suppliers of inputs, and the companies processing their milk, the crucial importance of water to their survival and prosperity. The lack of water had its effect directly through reduced access to irrigation water, and through historically high feed prices. The shock to the industry is illustrated by the data published by ABARE in its 2004 Outlook commodity survey, which demonstrated that dairy farmers were the worst affected amongst the commodity groups.

Because of the drought and lack of clear policy direction from governments, a new level of uncertainty about future access to water has resulted and this in-turn has had a major negative affect on dairy farmer confidence.

The dairy industry uses about 25 % of the water allocated to irrigation in Australia. It is also a major user of ground water in all areas in which it is located.

Inherent in the current discussion by COAG and in the current review of water policy in Victoria, is the threat of a significant reduction in access to water due to reallocation to the environment. ADF wants to make clear that there are major consequences for the industry and for the regional economies and communities, because the industry is such a large proportion of downstream manufacturing and processing industry, in those areas.

The impact of reduced water availability on the industry and regional economy has been borne out by the recent 100-year drought. Reduced water allocations in the Goulburn and Murray irrigation systems of Northern Victoria (35% and 80% respectively on normal water availability) resulted in a 16% drop in milk production and an estimated loss of \$110m at the farm gate. Due to the high level of value adding in the region through manufacturing and processing, this loss of production contributed to a loss of \$600m to the regional economy. The figures however do not tell the whole story. The loss of income means real hardship and stress, and uncertainty about the future with consequent social problems that impinge upon the community. ADF does not want a repeat of this scenario, induced this time by governments.

## Industry Environmental Performance

ADF supports triple bottom line objectives for the dairy industry. ADF has endorsed improved environmental performance as a key industry objective.

Since the early 1990s the dairy industry has had a long and active involvement in the development and implementation of numerous community driven natural resource management programs (e.g. land and water management plans). As such dairy farmers in irrigation regions have invested heavily in sustainable farming practices including farm planning, laser levelling, drainage reuse schemes, groundwater control schemes, community drains, tree planting and protection of native vegetation and wetlands. In the Shepparton Irrigation region alone this investment has been estimated at \$15-20M per annum (Source: Goulburn Broken Catchment Authority Irrigation Committee). Similar on farm levels of investment has also been achieved in other irrigated dairying regions.

The dairy industry has recently taken the initiative to further improve its environmental performance through the *Dairying for Tomorrow* program, which has achieved government recognition as a major recipient of federal funding to accelerate progress.

## Overall ADF Position

ADF acknowledges the obligation of the community and governments to address the legitimate needs of the environment with regard to water. It accepts the cap on water allocations to industry imposed by the 1994 Water Reform Framework and that overallocation of water to users from the environment has occurred. It is prepared to engage with governments and the community to identify instances of overallocation based on *bona fide* science, and to determine appropriate reductions in the consumptive pool.

But ADF's primary concern is to ensure that dairy farmers, and the industry as a whole, has secure access to water in the long-term. Without water security, there will be less confidence to invest for the future and therefore reduced ability to for productivity growth in irrigated dairy farming regions.

It is also concerned to ensure that the terms and conditions applying to the management of water are fair and allow dairy farmers to pursue the production of milk without unnecessary impediments.

Finally, ADF notes the differences between States with respect to the policies, structure and conduct of water management systems. ADF believes strongly that COAG should pursue as a long-term goal, uniformity across States in these respects, and while accepting the COAG stance that the NWI is about broad principles and implementation is for States, the longer-term goal ought to be uniformity between States.

Unless an acceptable level of uniformity is achieved, ADF recommends that the process be abandoned.

## Response to Specific Issues

The following highlights the issues that ADF considers the most important for the dairy industry and dairy farmers. As stated above, the more detailed response is encompassed in the NFF submission.

### Nationally Compatible Water Access Entitlements

ADF believes that in determining **sustainable levels** of allocation of water, the starting point for industry access should be the traditional level over a sufficiently long period to allow for cycles of variation in climate, changes in farming systems, and in the policy background. Because of the central importance of the definition of "sustainable" to the whole water debate, there should be ample time dedicated to reaching an acceptable level of agreement. Without this agreement, it is hard to see how a pathway to a sustainable system can be mapped out.

If allocations are reduced below the traditional level, adequate compensation should be provided to current entitlement holders, based on risk sharing principles.

The basic approach to managing allocations should be adaptive management, which caters to the needs of farmers for a defined amount of water, while producing a natural cycle of water availability to the ecological system.

ADF agrees with the COAG proposal for farmers to bear the **risks** associated with climate change, and that Government bear the risks associated with changes in policy. However, it does not agree that farmers should bear all the risk associated with changes in knowledge (i.e. "science risk") and endorses the NFF proposal for a sharing of the costs associated with science risk amongst the Commonwealth, States and users.

ADF would like to see COAG, to the extent possible, suggest mechanisms by which these risks may be shouldered in practice. In this regard the NWI needs to be **prescriptive** to ensure that risks and costs are shared fairly and consistently across the states.

ADF believes that the process to determine the **bona fide science** should include a national mechanism to ensure consistency between State jurisdictions. Elements of such a system include joint industry, community and government consideration of the scientific principles and approach, and of the implications of new findings.

ADF believes that to the extent that water plans place time horizons on farmers' rights and obligations with respect to water, such **time horizons should be adequate** to ensure that farmers are encouraged to adopt a responsible approach to water use, especially with regard to investment in water efficiency infrastructure. Such measures might include rolling plans forward, rather than covering contiguous periods, to guarantee farmers a constant planning horizon.

ADF understands and agrees with the attachment of responsibilities and obligations to the right to use water. In doing so it points to the record of dairy farmers in managing their farms. The *Dairying for Tomorrow* program is an example of dairy farmers participating in and leading community and government sponsored activities associated with land and water management. Moreover, research shows that economic performance of dairy farms is closely correlated with environmental performance, so that there are inbuilt incentives to be environmentally responsible.

Many of the rights and obligations are already incorporated into current legislation, and for dairy farmers, in the control systems applied by the dairy companies to whom they supply milk. ADF believes that legislation and other punitive approaches should be the **last resort** when considering this matter, and should focus on the laggards in this respect, rather than to be blanket approaches that embroil the complying majority with unnecessary regulatory burdens.

#### Nationally Functioning Water Markets

ADF supports the establishment and continued operation of an **efficient water trading market**, that is uniform across Australia.

There will not be a pain-free transition to a more efficient market, including the allocations to the environment, and the whole community, through Governments must compensate farmers for the adjustment costs.

The **stranded assets** issue is an immediate one to the dairy industry and dairy communities as a result of the drought, and must be sensitively addressed by any reforms that arise out of the NWI. ADF supports mechanisms that minimise the effects of the disappearance of water on all classes of stranded assets, including community facilities like schools, the water distribution system, and farms. ADF supports the measures to address stranded assets that are outlined in the NFF submission, namely:

- exit fee arrangements to cover capital costs;
- long-term contracts under which users pay the capital costs in return for access rights;
- measures to facilitate rationalisation of unsustainable schemes;
- ensuring that new investment is economically and environmentally sound.

### Best Practice Water Pricing

ADF does not agree with the use of the pricing system to account for externalities, as doing so is considered cumbersome and potentially **distorts proper environmental and economic responses**.

A critical component of pricing should be the provision of adequate funds to allow the continuous upgrading and maintenance of irrigation infrastructure, in order to avoid the need for large, infrequent investments that currently face regions e.g. the northern Victorian irrigation region.

The Government must bear its fair share of this burden, in proportion to the **public benefits** that accrue from the systems. These include the environmental benefits, the wider economic benefits to the community, the recreational benefits that the community enjoys.

### Integrated Management of Environmental Water

ADF believes that the scientific underpinning for decisions on the needs of the environment for water has been inadequate, with emotion and ideology filling the vacuum so created.

Therefore an agreed policy and approach to acknowledge the role of science and to develop the needed information is desirable.

It is critical that the first source of water for environmental purposes should be from reducing losses through **engineering solutions**.

ADF also recommends building incentives into governance and administrative arrangements of water authorities, to improve their ability to service irrigators.

### **Addressing Overallocation in the Murray-Darling Basin**

COAG has asked for views on this issue, which is covered in Attachment B to the Discussion Paper. We note the statement that the connection to the National Water Initiative is that the Basin agreement will be consistent with the Initiative, and will be reached after the Initiative is finalised.

ADF, in accordance with its position on sustainability and overallocation, and on the lack of a well founded knowledge base upon which to make decisions, recommends that the definitive decision on this matter not be hurried. The major consequences of the decision for dairy farmers and the wider communities in the dairy regions reinforce the need for deliberation.

No decision should be made until there is reasonable agreement amongst the affected groups, including agricultural producers, on the principles upon which the decision will be based.

ADF agrees with the move from the single, economic bottom line to a triple bottom line benchmark for the Australian dairy industry, and for industries generally. However it is concerned to ensure that Governments, in responding to some community concerns on water allocation issues, does not merely swap the economic bottom line for the single, environmental bottom line.

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