

16 December 2010

Committee Secretary
Senate Standing Committee on Rural Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary

Re: Submission to the Senate Inquiry into Management of the Murray-Darling Basin

As a leading dairy company with significant operations in northern Victoria and southern New South Wales, we welcome the Inquiry into the Management of the Murray-Darling Basin (MDB) by the Senate Rural Affairs and Transport References Committee. We believe that the social and economic considerations must be part of water reforms in the MDB and we appreciate the opportunity to provide some comments in this regard.

Fonterra is a farmer owned dairy co-operative based in New Zealand and is the largest processor of milk in the world. We are committed to being the natural source of dairy nutrition to everybody, everywhere, every day. We are equally committed to achieving this goal in a sustainable way. As part of our sustainability commitment, Fonterra is determined to take a leadership position on the issue of water use and reform in the MDB.

In Australia, Fonterra collects 1.76 billion litres of milk from 1,500 farmer suppliers, which represents 20 per cent of all milk produced nationally. Fonterra's presence in the MDB involves:

- Manufacturing sites at Stanhope, Echuca and Wagga Wagga that produce around 100,000 tonnes of cheese, yoghurt, dairy desserts, fresh milk and milk powders per annum;
- Around 300 farmer suppliers that produce 320 million litres of raw milk per annum;
- 450 employees involved in manufacturing, technical services, quality assurance, storage and handling, transportation, and on-farm advice; and
- A contribution to the regional economy in northern Victoria of \$180 million per annum, which the economic researchers Essential Economics has estimated creates an additional 410 jobs in the region.

The dairy industry has a long and proud history in the Murray-Darling Basin. A recent report by RMCG, 'Value Statement – Murray Dairy Milk Processors' (December 2010), found the industry has made investments on-farm and in dairy manufacturing worth in excess of \$5 billion and employs around 5,000 people in the lower Basin. RMCG also found that the three major dairy manufacturing companies operating in northern Victoria, Fonterra Australia, Murray Goulburn Co-operative and Tatura Milk Industries, contribute more than \$1.1 billion per annum to the regional economy through milk pay to dairy farmers, wages to employees and locally acquired goods and services.

Based on the social and economic benefits generated by dairy farming and manufacturing in the Basin, the dairy industry offers one of the highest returns per unit of water used in the Basin. Over the past decade, the dairy industry has also demonstrated its willingness and capacity to adapt to reduced water availability, although it has been at a cost of higher debt levels and a fall in production levels.

With strong demand growth for dairy products in Australia and internationally, the dairy industry continues to have a positive future in the Murray-Darling Basin. We recognise the future success of the dairy industry depends on its ability to continue to deliver improvements in water use efficiency and productivity.

It is in this context that Fonterra has some serious concerns about water reforms proposed in the Murray-Darling Basin Authority's Guide to the Murray-Darling Basin Plan. Specifically, we are concerned that:

1. The assessment of the socio-economic impacts of the proposed water reforms on different agricultural industries, including dairy, is insufficient. Such an assessment needs to take into account the dairy industry's contribution to the regional economy and local communities as well as the variety of dairy farming systems that are employed in the region.
2. The reductions in irrigation water availability involved in implementing the sustainable diversion limits (SDLs) are very high. Even if the SDLs are implemented at the lower end of the MDBA's proposed range it will cause significant disruption to the dairy industry. Given the potential for disruption, more work needs to be done to justify the reductions on a scientific basis and in relation to the social and economic impacts that implementing the proposed SDLs will cause.
3. The Guide does not give sufficient recognition to the fact the dairy industry has invested significant amounts of capital into improving water efficiency throughout the last decade of drought. Farm management practices have adapted with changes to feed types and on farm management systems resulting in a significant improvement in on-farm water use efficiency. Further efficiencies are now limited by capital, farmer confidence and technical capacity.
4. The current analysis of water availability, as well as existing and potential water savings at a catchment-by-catchment level is limited. Indeed, it is our view that this analysis should be driven by a catchment based approach. Improved analysis will provide greater consideration of water efficiency investments and improvements already made, particularly by the dairy industry. The more detailed catchment level analysis needs to identify the most realistic reductions required, particularly in the high volume catchments where dairy is most exposed to reductions to meet the new SDLs.
5. More clarity is needed on the reason why actions already undertaken to recover water for the environment, such as the Living Murray program, are not included as part of meeting the SDLs.
6. Little consideration seems to have been given to environmental works that could be undertaken to improve the delivery and effectiveness of water to environmental assets.
7. We need to better understand the parameters for environmental water use on key assets within the catchment and how this will then flow-on to benefit the whole river system. This analysis will consider the most effective environmental watering plans that include the assets that are to be protected, when and how the environmental water will be applied for the best results in the context of the whole-of-Basin requirements and seasonal water availability.

We believe the above concerns need to be addressed before further large-scale water reform takes place in the Murray-Darling Basin. Dairy manufacturing sites and individual farmers operating in the Murray-Darling Basin need to maintain a certain volume of milk supply to remain profitable. Water reform has the potential to push the dairy industry in the Basin past these tipping points with negative economic and social consequences for the region.

At Fonterra we believe there is great potential to deliver improved environmental outcomes through a collaborative process between Government and the dairy industry. If you would like to discuss our submission or future opportunities for cooperation between our two organisations, please contact me

Yours sincerely

Bruce Donnison
General Manager Sustainability, Fonterra Australia/New Zealand