Ricegrowers' Association of Australia Inc.

Submission to the

Senate Rural Affairs and Transport References Committee

Inquiry into management of the Murray-Darling Basin

January 2010

RICEGROWERS' ASSOCIATION OF AUSTRALIA INC

Ricegrowers' Association of Australia Inc.
PO Box 706
Leeton NSW 2705
Ph: 02 6953 0433
e-mail: rga@rga.org.au

Introduction

The Ricegrowers' Association of Australia Inc (RGA) welcomes the opportunity to make a submission to the Senate Rural Affairs and Transport Committee's inquiry into the management of the Murray-Darling Basin.

This submission is in response to the terms of reference released on 28 October 2010. The RGA has not attempted to respond to all of the matters raised in the terms of reference, instead restricting our comments to those issues relevant to the Australian rice industry.

The RGA is a member of the National Farmers' Federation (NFF), the National Irrigators' Council (NIC), and the New South Wales Irrigators' Council (NSWIC), and fully supports their submissions to this Inquiry. These submissions cover issues that are common across irrigation industries and the communities which are dependent on and supported by those industries.

The RGA is aware that many irrigation farmers, local businesses and community members have also made individual submissions on the management of the Murray Darling Basin and its effect on their livelihoods.

In seeking to address matters before the committee, the RGA remains committed to water reform in the Murray Darling Basin. We will participate in a reform process to deliver healthy ecosystems, sustainable food production and strong regional communities in the Basin. We are, however, opposed to a Basin Plan that would protect environmental assets at the expense of all other assets in the Basin, devastating local industries, businesses and communities.

The Ricegrowers' Association of Australia Inc

The RGA is the collective voice of rice growers in Australia, representing over 1400 voluntary members in NSW and Victoria on a wide range of issues.

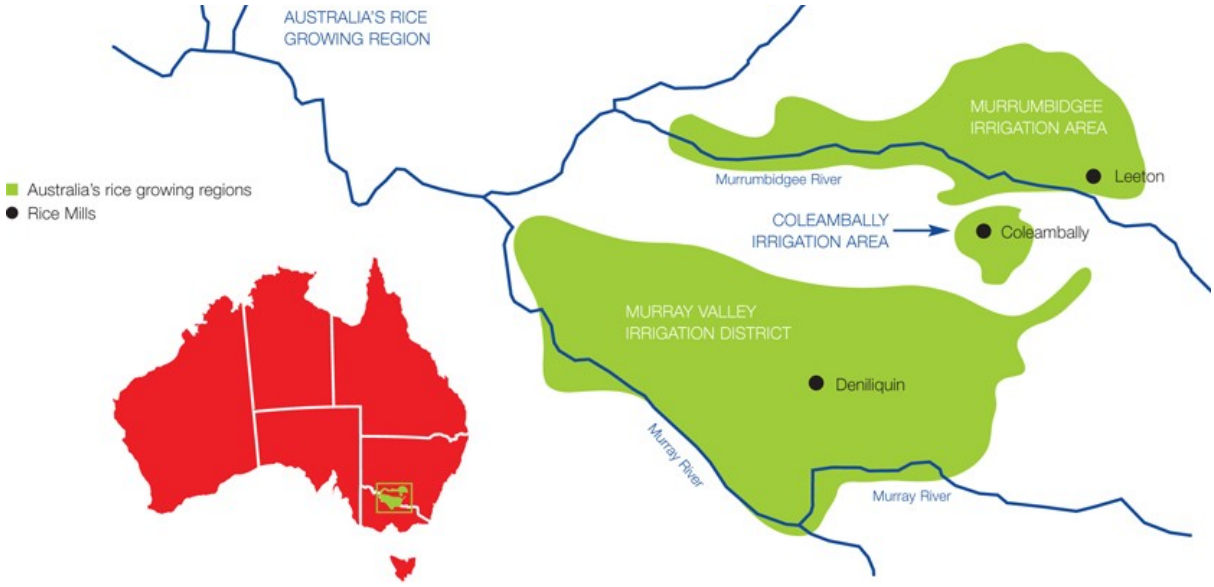
As much of the Riverina region has been built upon rice growing, and rice is still the mainstay of many towns today, it is important that RGA members have strong and effective representation. RGA fulfils this role by representing and leading growers on issues affecting the viability of their businesses and communities.

A Central Executive committee, comprised of representatives elected by each Branch, manages the RGA. They are supported by a small secretariat based in Leeton, NSW consisting of an Executive Director, a Policy Officer, two Environmental Programs Regional Coordinators and an Office Manager.

The Australian Rice Industry

Rice was first grown in Australia in the early 1920's - near the townships of Leeton and Griffith in the New South Wales Riverina.

Today the rice industry encompasses the Murray Valley of NSW and Victoria and the Murrumbidgee Valley of NSW. Prior to the drought, when water allocations allowed, between 120,000 – 160,000 hectares were sown to rice in October of each year across this region, producing an average of around 1.2 million tonnes annually.



With good winter rains this season, and early water allocations in both the Murrumbidgee and NSW Murray Valleys, approximately 80,000 hectares of rice have been sown in 2010. This should yield in the vicinity of 800,000 tonnes of rice.

Australian rice yields average close to 10 tonnes per hectare (t/ha) with an average yield of 11t/ha in 2009. According to the United Nations Conference on Trade and Development (UNCTAD), Australia is classified as the most efficient producer of rice in the world. The Australian rice industry is also a world leader in water usage at 12 megalitres per hectare (ML/ha), with the world average being 15 – 20 ML/ha with some countries using upward of 50 ML/ha.

The industry has a farm gate value of around $350 million and total value (export earnings, value-added) of over $800 million. Including flow-on effects, it is estimated that the industry generates over $4 billion annually to regional communities and the Australian economy. Rice growers have individually invested over $2.5 billion in land, water, plant and equipment and collectively invested around $400 million in mill storage and infrastructure through Ricegrowers' Limited (SunRice) and the Rice Marketing Board of NSW (RMB). The industry is the backbone for our regional communities and, prior to the drought, generated around 21% of total regional income and 18% of total regional employment.

The Australian industry, while small by world standards, has become a competitive supplier of quality packed and branded rice products into world markets. It has achieved this through the vertically integrated marketing arrangements owned and managed by the rice growers' company, Ricegrowers Limited (SunRice).

The rice industry has also invested significantly in environmental improvement and impact reduction as part of its efforts towards better natural resource management and environmental stewardship. The Rice Environmental Program's flagship is the Environmental Champions Program (ECP), which received over $2 million in funding from the Department of Agriculture, Fisheries & Forestry to implement a pilot program and then roll out of the ECP.

Responses to the Terms of Reference

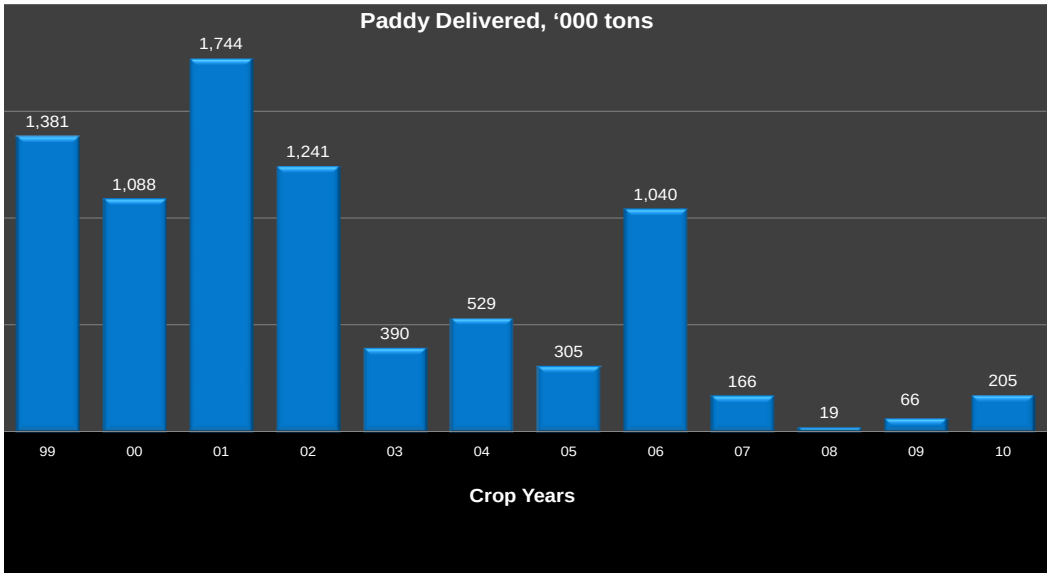
Effects of the proposed Basin Plan on local communities in rice growing regions

Water for irrigation use is the economic foundation for communities throughout the Riverina region of NSW. Removing excessive quantities the water available for growers to produce rice undermines the fundamental reason for the existence of many these communities. Towns such as Leeton, Griffith, Coleambally, Deniliquin and Finley depend heavily on the rice industry to support local employment and economic activity. Rice not only sustains a number of jobs directly on farms, in mills and rice storage infrastructure, but in secondary employment such as truck drivers, fertiliser and chemical suppliers, agronomists and spray contractors. These jobs then maintain the economic and social wellbeing of communities generally by supporting other local businesses and keeping health, education and other essential services operating locally.

RGA recognises that there is a difference between removing water through buybacks, which reduces a region's productive capacity and its economic base, and removing water through efficiency gains, which maintains production levels using less water. The weight given to each of these methods for returning water to the environment is a critical factor in determining the likely effects on local communities. This issue is discussed further below in the context of the government's on farm efficiency program.

The impact of the last eight years of drought on the industry has been severe, and indicative of what could occur if a Basin Plan similar to what is currently proposed is actually implemented. The table below clearly shows that when there is little or no general security water allocation rice cannot be produced in the Riverina.

Impact of drought and water availability on Australian production



The importance of water availability for the rice industry is evident in the direct job losses from SunRice's operation during the course of the drought. Overall, the number of SunRice employees dropped from 1048 to 368 during the period from December 2001 to December 2009. This ranged from mill employees to storage facilities to back office staff. For instance, when the Deniliquin and Coleambally mills were placed into care and maintenance 173 jobs were lost from Deniliquin and 74 from Coleambally. With low utilisation of storage sheds, there were 99 fewer jobs in December 2009 than eight years before. Over 50 back office positions were lost.

These figures represent a significant number of direct rice processing jobs lost due to the unavailability of water to grow rice. The impact of these losses was particularly significant given the size of the communities in which they were located. They also do not include the on farm job losses, which anecdotal evidence from RGA members indicate were much higher, and included actual rice growers, family members who were forced to leave the farm, and other farm employees that could not be retained. The absence of water to grow rice also greatly affected those secondary industries and local businesses referred to above; combining to cause significant hardship for these communities. It will take more than one year of rain and general security water allocations for them to recover.

In its Guide to the proposed Basin Plan, the MDBA has proposed replicating a climate induced water shortage for irrigation with one that is policy induced. The MDBA's claim that only 800 job losses would result from the Plan's implementation demonstrates a flawed approach to assessing likely socio-economic effects. To calculate losses at a Basin-wide level distorts the severe, geographically concentrated effects on employment of removing water for irrigation, by offsetting them against the employment gains associated with a burgeoning Canberra bureaucracy, in the Basin's largest population centre. Their models also ignore the

fact that concentrated job losses can have significant effects on local housing markets, which greatly hampers any prospect of seeking alternative employment elsewhere in the Basin.

It is clear from the MDBA's material released to date that a proper analysis of the socio-economic effects of reducing productive capacity in the Basin has not been done. This must be a priority if a balanced outcome is to be achieved.

Effects of the proposed Basin Plan on the rice industry

The proposed Basin Plan could also have a significant effect on individual rice growers and the rice industry more broadly, even though the government has indicated that it will not compel irrigators to sell water to the government for environmental flows.

Despite this assurance, many rice farmers have accumulated considerable debt during the drought and will be under pressure from lending institutions to address gearing levels via this guaranteed and immediate source of income. The RGA accepts that individual growers should determine the most appropriate use of water entitlements for their business, including selling it. However, the consequence of extensive water buybacks from rice growers is to diminish the profitability of remaining growers by reducing the efficient use of shared assets.

A major concern in this regard is the efficient use of irrigation delivery infrastructure. An opportunistic approach to purchasing water out of this region's irrigation systems will create a 'swiss cheese' effect, where landowners without an entitlement to irrigate are randomly scattered through the system. The result is that remaining users have to pay a greater proportion of the fixed costs associated with utilising that system, adding to their overall input costs through increased water charges. Another outcome, and an unintended consequence for policy makers, is that water will be wasted if it has to be delivered through a system that is now too large for the reduced number of users it services.

This waste and the cost of water buybacks imposed on remaining irrigators needs to be alleviated by a more targeted approach to buying water from scheme irrigators. The Commonwealth Government needs to employ price signals to make strategic purchases that will limit random and inefficient outcomes. RGA encourages the committee to refer to submissions from irrigation companies in the Riverina for more detail on this issue.

Rice growers also face increased costs (or reduced paddy prices) from the less efficient use of transport, storage and milling infrastructure if the industry's productive capacity is reduced. This can in turn trigger additional growers to cease production and the problem snowballs. The long term sustainability of the rice industry relies on a critical mass of production to ensure that the water delivery and processing infrastructure supporting rice production remain viable. Where the availability of water is reduced significantly in a region then some infrastructure may become economically unviable, with all the consequences (described above) that the lost jobs associated with those assets brings.

Finally, RGA notes that although irrigators are able to keep their own water entitlement, they are also members of the communities that will suffer part of their economic base being removed under this plan. Therefore, they too will experience the hardship of declining school, health and other important community services.

Effects of the proposed Basin Plan on food production and food security

In normal growing seasons, the rice industry provides an important staple of food to around 40 million people per day in 60 countries. Although this is not comparable to levels of rice production in countries such as China, Vietnam and Indonesia, it is still significant in the context of global trade in rice, which is relatively low compared with overall production. This is particularly so given that many countries have ceased exporting rice outside their borders to ensure domestic food security, a trend which is expected to continue.

When water availability allows, Australia is a reliable, politically stable, exporter of quality to rice to supplement internal shortages in other countries. With a predicted 9 billion people to be fed by 2050 in the context of declining arable land, nutrient and oil reserves, and increasingly variable climates, maintaining the production of an important food staple such as rice is an important humanitarian task that must be balanced against our domestic environmental considerations.

It should also be recognised that the increasing trend of other nations to restrict the export of rice and other key staples means that we need to ensure Australian growers can adequately provide security of supply to Australian consumers. The huge task other countries face in feeding their populations should not be underestimated for its potential effect on the availability of staples for import into Australia. Ensuring that we are able to feed ourselves without relying on imports that may one day cease is another important consideration when balancing competing social, economic and environmental considerations across the Basin.

Balancing buybacks and irrigation efficiency measures

RGA recognises that there is a short term cost saving from purchasing water directly from irrigators, rather than returning water to the environment through irrigation efficiency upgrades. However, maintaining the productive capacity of the Basin has continuing economic and social benefits that justifies recovering as much as is economically reasonable via these efficiency-based solutions.

However, irrigators and local communities are frustrated that the government has managed to utilise so little of the $5.8 billion it has committed to investing in infrastructure efficiency upgrades, while vast quantities of water are being removed from productive use through direct water buybacks. Not being able to observe new, tangible water efficiency measures on the ground provides little evidence that the government is genuine about wanting to maintain local productive capacity when returning water to the environment.

Within the rice industry specifically, growers have found the rollout of the government’s on farm irrigation efficiency program to be unsatisfactory. It is perhaps understandable that the bureaucracy is cautious when delivering this program after

the problems experienced with the insulation and school upgrade programs; however the approach currently being adopted is too cumbersome and too slow. RGA has found the program to be beset by unnecessary delays and red tape that are testing the goodwill of organisations such as ours trying to engage constructively in dealing with water management issues in the Basin.

Delivering these programs in a timely and efficient way is absolutely critical to achieving a balanced approach to water use in the Basin; that is, meeting the dual objective of returning additional water to the environment and maintaining the productive capacity of the Basin. The RGA is of the view that the Commonwealth government needs to ensure that this situation is rectified immediately so the money allocated for this purpose can be spent before the water is simply removed altogether. We are willing to discuss with the department (DSEWPC) ways in which the process can be streamlined without compromising the integrity of the program.

Research and development in water efficient plant varieties

Another critical aspect of maintaining production levels in the Basin is research and development into producing the same yields/ha with less water, via more water efficient plant varieties. For the rice industry, the most effective way to reduce water use is to improve the cold tolerance of rice during the panicle initiation stage that occurs in January. Greater cold tolerance means that less water is needed to insulate against temperature drops during this growth stage.

The rice industry already directs significant resources into developing rice varieties that require less water, having just produced a new variety (provisionally called YRM 69) that will potentially reduce to one megalitre per tonne of rice the amount of water required. This is at least double the efficiency of other Asian rice crops. However, if the government is going to dictate the removal of water available for irrigation, then it is incumbent on them to assist the industry maintain production levels by supporting the development of even more efficient varieties.

The RGA awaits with interest the Commonwealth Government's response to the Productivity Commission's Draft Report on Rural Research and Development Corporations. While we welcome the recommendation by the Commission to retain the current RDC model, we have some concerns in relation to the establishment of Rural Research Australia (RRA) and the consequential cut in Government matched funding for industry research. Continued investment by government in rural research and development will be imperative to assist industries to adapt and adjust to a future will less water.

Establishing a more logical and balanced Basin management process

The purpose of the MDBA's process should not be to remove a pre-determined amount of water currently available for consumptive use to allow it to flow down the river for undefined environmental outcomes. The purpose should be to ensure the ecological health of the Basin by achieving specific environmental objectives. The more efficiently these objectives can be met; the more likely the goal of balancing environmental needs with the social and economic needs of irrigation communities is to be achieved.

However, the MDBA has started this process about-face, proposing a specific range of cuts to diversion limits before undertaking the work required to underpin the quantity of cuts necessary. The RGA queries how the MDBA can justify removing a minimum of 3,000GL from agricultural use for environmental needs when the Commonwealth Environmental Water Holder (CEWH) does not yet appear to know how to use it. There is a clear need, beyond simply sending down an over bank flood periodically, to determine the quantum of sustainable diversion limits *after* analysis has been done on what the environmental needs are and how the environmental assets are to be watered.

With this perspective in mind, and acknowledging that reforming water management in the Basin is both necessary and desirable, RGA suggests that the current MDBA process needs to be re-considered and adapted to follow a more logical pathway.

1. Determine the Basin's key environmental objectives in conjunction with Basin state authorities and other stakeholders.
2. Develop an environmental watering plan in conjunction with Basin state water authorities, taking into account physical constraints on delivering water through the system, using existing knowledge and existing watering plans, and developing a range of environmental works and measures to water identified key sites most efficiently.
3. Establish the sustainable diversion limit for the Basin, reflecting the additional environmental water required to implement watering plans, while taking into consideration the social and economic effects of removing water via buybacks.
4. Formulate a Basin Plan.
5. Implement the Basin Plan.
6. Conduct monitoring and compliance work to ensure environmental objectives are being met and to identify unintended consequences/perverse outcomes.
7. Conduct a ten year review.

The RGA strongly agrees with the statement by the Chairman of the MDBA "that a successful plan would require both Commonwealth and States to work together on a comprehensive range of policy, planning and implementation issues in consultation with relevant community, industry and environmental groups". The possibility of successfully implementing any new plan for the Basin depends entirely on the co-operation of the Basin states that will ultimately be responsible for its implementation.

In the interim, the process needs to re-commence at the last point of agreement between all Basin stakeholders, which was the National Water Initiative and the rollout of existing programs under Water for the Future.

Other locations for growing rice

The committee may be aware that while the vast majority of rice is grown in the Riverina region of NSW, commercial rice crops have also been grown recently in the

Northern Rivers region of NSW and the in the Ord River irrigation area of Western Australia. Trial crops have also been planted in various locations in Queensland.

RGA supports the endeavours of farmers growing rice in any location. However, we do note that this production will only ever supplement the production of Riverina growers, rather than offering an alternative location in which to grow anything near the quantities of rice currently produced here. The main reason that Australian rice is economically viable in global markets is because we specialise in high quality temperate climate medium grain rice - a niche product in short supply on global markets that is only suitable for growing in Australia in the irrigation areas of the Riverina. The premium obtained for this product is unlikely to be replicated for tropical rice varieties which would need to compete in global markets with rice produced far more cheaply in Asian countries.

The benefit of growing rice in the north of Australia is that water is plentiful and cheap. However, these benefits are offset to a large degree by increased input costs such as fuel and fertilizer in these areas, as well as the higher cost of processing because economies of scale are not able to be exploited.

RGA is therefore of the view that the possibility of growing rice in the north should not be seen as an alternative to production in the Riverina, whereby lost production here could be replaced by rice grown in the Ord. The industry is ultimately reliant on the benefits of growing temperate climate medium grain rice in the Riverina, and the water from the Murrumbidgee and Murray rivers that is required for irrigating these crops.