



Australian Dairy Industry Council Inc.

Australian Dairy Industry Council Submission

Productivity Commission (PC): *National Water Reform Inquiry 2024*¹

Australian Government – Department of Climate Change, Energy, the Environment, and Water (DCCEEW): *Future National Water Agreement 2024*.²

MAY 2024

¹ [National Water Reform 2024 - Public inquiry - Productivity Commission \(pc.gov.au\)](https://www.pc.gov.au/inquiries/current/national-water-reform-2024)

² [Seeking views on a future national water agreement - Climate \(converlens.com\)](https://www.climate.gov.au/consultation/seeking-views-on-a-future-national-water-agreement)

1. Introduction:

Thank you for the opportunity to provide industry feedback into the Commonwealth's current consideration of National Water Reform.

Australian dairying is a \$17 billion farm, manufacturing and export industry that directly employs 33,500 Australians and feeds millions every day³. Australia's dairy farms and manufacturing facilities are spread across eight unique dairying regions, found throughout Queensland, New South Wales, Victoria, South Australia, Western Australia and Tasmania. We're a critical national industry, and our lifeblood is water.

What happens to water nationally has implications for dairy in every state and territory in which we operate. Water is a critical resource in all dairy farming systems, from pasture based, to irrigated systems and housed animal systems, as well as for dairy manufacturing.⁴

Our industry's success is further driven by our governance structure, which aims to optimise and maximise the efficient use of our water and other natural resource inputs. The Australian Dairy Industry Council (ADIC)⁵ is dairy's peak national body, representing the interests of farmers and processors through its two constituent bodies: Australian Dairy Farmers (ADF)⁶ and the Australian Dairy Products Federation (ADPF)⁷.

ADF represents all farmers from across Australia, and the ADPF represents post farm-gate members, including processors, traders, and marketers of Australian dairy. ADPF members process more than 90% of Australian milk volumes and provide dairy products for both domestic and export markets.

Overall, the dairy industry is deeply concerned by the way the Commonwealth is choosing to undertake this current approach to National Water Reform. It's extremely disappointing that the Department of Climate Change, Energy, the Environment, and Water (DCCEEW) has chosen to ignore the Productivity Commission's (PC) advice and is instead pushing ahead with its own policy agenda.

Given the two competing processes that are currently underway, this submission is intended to be relevant to the activities of both the PC and DCCEEW.

For DCCEEW, in particular, you must continue to seek advice from the dairy industry on your national water reform efforts. The pathway to negotiating any new agreement must be fully transparent and must be open to frank public feedback every step of the way. Drawing on the industry's experience in the Murray-Darling Basin, 'co-design' is a core principle outlined by DCCEEW in its *Draft Restoring Our Rivers Framework*.⁸ This principle must be upheld and must also apply to this current national water reform task.

³ [The Dairy Industry & It's People | Dairy Australia - Dairy Australia](#)

⁴ [Water efficiency - Dairy Industry - Dairy Australia](#)

⁵ [About ADIC – Australian Dairy Farmers](#)

⁶ [Australian Dairy Farmers – Working for dairy farmers across Australia](#)

⁷ [Home - ADPF](#)

⁸ [Draft Restoring our Rivers Framework - Climate \(dcceew.gov.au\)](#)

The dairy industry stands ready to work with government on the right policy reforms. For reforms to be acceptable to Australia's dairy industry, they must recognise and incorporate the following:

- reliable water licences and fully functional markets are fundamental to managing water as a critical resource;
- dairy has spent two decades making significant system change to improve water efficiency and cope with weather extremes, including climate change;
- to ensure all water-use is efficient, there must be a shift in approach – across the board – from volumetric environmental water recovery to delivery of environmental outcomes;
- co-design must be a core principle for policy development, implementation and review; and
- while national policy efforts have their place, they should not be an excuse for unnecessary bureaucracy, increased red-tape, and unreasonable amounts of reporting.

Table One: Summary of Key Concerns with DCCEEW’s Proposed Approach.

NWI Key Elements. ⁹	DCCEEW Proposal. ¹⁰	Commentary.
Resource Management.	Securing Water For All Uses (Objective One). Aboriginal and Torres Strait Islander Peoples’ Interests & Values (Objective Two). Climate Resilient Water Management (Objective Three). Evidence-Based Decisions (Objective Four). Efficient Use Of Water (Objective Seven).	<p style="text-align: center;">UNDERMINING WATER LICENCES & MARKETS LIMITS DAIRY’S OPPORTUNITY TO MANAGE WATER AS A CRITICAL RESOURCE.</p> <p>While we’ve done our best to match DCCEEW’s approach to both the PC’s expert advice as well as the past 20 years of reform history, it’s extremely difficult to understand the logic behind what’s going on.</p> <p>DCCEEW’s order of priorities are very different to that of the <i>National Water Initiative</i> (NWI), with no explanation for why there has been a re-work, or the pressing need for doing so.</p> <p>It’s also very concerning that DCCEEW’s Objectives One, Three and Seven are already more than adequately captured in the very first priority of the NWI. Why is DCCEEW suggesting that brand-new processes are needed for these fundamental planning elements?</p> <p>Overall, it’s very disappointing to see the NWI’s fundamentals being ignored, and it’s highly likely that DCCEEW’s new approach will undermine history.</p> <p>It’s also highly concerning that water markets and trading appear to have dropped-off the agenda completely. This is a massive risk. We question why DCCEEW is intending to go down this path?</p>
1. Water Access Entitlements & Planning.		
2. Water Markets & Trading.		
3. Environmental Management.		
4. Aboriginal & Torres Strait Islander People’s Interests.		
5. System Integrity.		

⁹ This is a merged version of the 2004 document ([Intergovernmental Agreement on a National Water Initiative \(dcceew.gov.au\)](https://www.dcceew.gov.au) p. 4.) and the PC’s proposed minor amendments ([Overview - Interim report - National Water Reform 2024 \(pc.gov.au\)](#), p. 26). We’ve attempted to map the new DCCEEW approach to what has come before – retaining the Department’s proposed order of priority.

¹⁰ [Discussion paper - Seeking views on a future national water agreement. March 2024 \(storage.googleapis.com\)](#), we’ve assumed that DCCEEW’s seven proposed Objectives have been provided in a descending order of priority.

NWI Key Elements. ⁹	DCCEEW Proposal. ¹⁰	Commentary.
Water Services.	Transparent, Strategic Infrastructure Investment (Objective Five).	<p style="text-align: center;">DAIRY HAS IN THE LAST 20 YEARS MADE SIGNIFICANT INVESTMENTS IN INFRASTRUCTURE AND SYSTEM CHANGE TO IMPROVE WATER USE EFFICIENCY AND COPE WITH THE WEATHER EXTREMES OF CLIMATE CHANGE.</p> <p>It's concerning just how much DCCEEW is missing here.</p> <p>Pricing and institutional arrangements have received no attention at all – despite this being an area where more reform work is needed, especially in terms of reducing unnecessary administrative burden and ensuring costs to consumers are fair and reasonable.</p>
6. Pricing & Institutional Arrangements.		
7. Urban Water Services.		
8. Infrastructure Development.		
Supporting Arrangements.	Community Trust & Confidence (Objective Six).	<p>Community trust and confidence is essentially non-existent at present. Especially towards the current Federal Government.</p> <p>The process DCCEEW is currently running will most definitely remove any remaining community and jurisdictional trust.</p>
9. Community Engagement & Adjustment.		
10. Knowledge, Capacity & Capability Building.		

2. Will DCCEEW's Approach Help Australia Meet Its Water Needs Under Climate Change?

Based on the high-level discussion paper that has been presented, our answer is: 'No.'

Aside from repeated statements that 'climate change is important', no practical information has been provided on how this nation-defining issue will be tackled. There's no sense of what jurisdictions collectively want to do, compared to what is being dictated to them by Canberra.

Concerningly, the content related to climate change in DCCEEW's document also ignores and makes no effort to align with: (i) the 20-year history of the NWI; (ii) the PC's expert advice regarding climate change best practice; and (iii) what industries like dairy are already doing in this space.

In recognition of water being such a critical resource for Australia's dairy industry, we have a targeted goal of increasing our water-use efficiency.¹¹ Our specific aims are to improve water productivity, actively monitor water consumption, use recycled water, and develop water security management plans.

All of these efforts will be critical to our success under climate change, and in many ways they are underpinned by 20 years of government efforts under the NWI (e.g. through creation of secure access entitlements, predictable water planning and functional markets). None of these outcomes are certain under DCCEEW's discussion paper, and there appears to be a real threat that a number of the newly proposed Objectives will directly cut-across and undermine what has come before.

More broadly, statutory plans that are prepared in-line with NWI principles already factor in a responsiveness to variations in climate.¹² Allocations are adjusted year-on-year to reflect water availability. Licence holders and market users understand this and manage their water accordingly.

The dairy industry is also deeply concerned that DCCEEW's discussion paper seems to very inaccurately assume that water can easily be 'given' to the environment and water-dependent ecosystems, though simple rebalancing.¹³ This substantially risks diminishing the property rights that all users have relied upon for 20 years, while ignoring critical PC advice regarding best-practice water management in this area. As we've also seen through 12 difficult years of Murray-Darling Basin Plan implementation, recovering a set volume of environmental water across a non-targeted set of consumptive users rarely does anything materially and measurably useful for specific ecological systems.

The PC is very clear in its advice that: complementary natural resource management is fundamental to achieving environmental outcomes; and that under some circumstances, some environmental objectives may not be realistic under climate change.¹⁴ Both factors must be thoroughly taken into account before any more water is unfairly stripped from the consumptive pool.

Based on this advice, the shift should now be very clearly towards a focus on measuring environmental outcomes as the way to measure ecological success under statutory water plans, versus the blanket recovery of water for the environment.

¹¹ [Water efficiency - Dairy Industry - Dairy Australia](#)

¹² [24-04-2024-NFF-PC-Inquiry-into-National-Water-Reform-Interim-Report-Submission.pdf](#), p. 6.

¹³ [Discussion paper - Seeking views on a future national water agreement. March 2024 \(storage.googleapis.com\)](#), p. 6.

¹⁴ [Overview - Interim report - National Water Reform 2024 \(pc.gov.au\)](#), p25. and p. 29.

We don't support the continued focus by the Commonwealth on water recovery as the only tool it will utilise. A planning approach that focuses on progress towards, and measurement of environmental outcomes is more likely to drive management innovations, which a fixation on volumes won't guarantee.

Importantly, unless recovered water can be delivered to where it is needed, there's no clear link back to environmental improvements. Also relevant, across Australia we've reached a point in our environmental water management where complementary measures are the only thing capable of delivering desired outcomes.¹⁵ This is something that we expect to increase under climate change.

DCCEEW's proposed approach provides for none of the above, creating a high-risk that the water-related environmental solutions actually needed under climate change, will not feature anywhere in a new National Water Agreement.

3. Will DCCEEW's Proposed Approach Help Improve Australia's Water Security?

For similar reasons to our previous answer, we must again respond: 'No.'

The glaring arguments for this response can be found in Table One, where we compare DCCEEW's overall approach to the one that we see in the 2004 NWI, and the revisions to that document that have been recommended by the PC.

Firstly, governments collectively decided in 2004 that the fundamental building block of national water reform would be a secure water access entitlement. We've built our industry around it. In particular, our trust in our water access enables us to optimise our market involvement. We have high rates of market literacy, and most of our producers will buy and sell a wide range of products.

What we don't understand from DCCEEW's discussion paper, is how the Commonwealth intends to change our existing property rights. This is of particular concern given DCCEEW seems to be suggesting that a new approach will be used to secure water for everybody, and that that approach will be given the highest priority under a new reform pathway. No detail beyond this has been provided anywhere.

Alongside secure entitlements, governments have spent 20 years working on statutory water plans that are NWI consistent. That effort has embedded into the water management frameworks of jurisdictions a predictability that licence-holders have come to rely on. We know statutory plans are where stakeholders can debate the different needs and priorities for water-use. It's also the place where licence-holders can confirm the parameters of their access, and if needed, negotiate on 3rd party impacts.

DCCEEW's discussion paper threatens to unravel all of this. The importance of these statutory plans is not appropriately recognised anywhere. Instead, alongside its ambitions around security, DCCEEW seems to be suggesting new processes for: (i) creating climate resilience (new Objective Three); (ii) forcing efficient use (new Objective Seven); and (iii) providing for First Nations (new Objective Two).

¹⁵ [29-09-2023-NFF-Restoring-Our-Rivers-Bill-Submission.pdf](#), p. 2. Examples include fish passage/ladder reforms.

As we've demonstrated so far in this submission, including in Table One, all of these important components of a contemporary management framework already exist. Importantly, where the PC has suggested enhancements to the 2004 NWI, these can also be incorporated in a way that aligns with the processes and products that the majority of water users have come to value and rely upon.¹⁶

We **strongly advise that you take this approach**, as opposed to a whole-scale DCCEEW re-write, which would be unnecessarily disruptive and would likely generate much more insecurity than it would anything else.

Across the board, the PC's advice is also very strongly grounded in the need for innovation – something which seems to be explicitly missing from DCCEEW's discussion paper. When it comes to water security in particular, especially in terms of providing it at least cost, the PC is adamant that all options need to be on the table.¹⁷ We cannot see this reflected anywhere in DCCEEW's recommended future pathway.

The PC also urgently recommends that governments consider a diversified portfolio of water supply options¹⁸ - which means by necessity we will need to think about the outcomes and services we expect, and the range of solutions available that have the ability to meet those expectations. The old paradigm of discreet volumes, assigned to discreet, siloed water use types won't fit this emerging requirement.

The types of approaches described by the PC can't be ignored, as they'll likely be the only solutions that ensure our water management and our water security needs will be met under climate change.

4. Is Anything Missing?

Communities.

While the discussion paper suggests that community trust is important, we can't see this reflected anywhere in DCCEEW's drafting process to date. The differences between the way the PC and DCCEEW treats its stakeholders provides a valuable case-in-point.

Over 2023, the PC conducted extensive consultation as part of its review of the Murray-Darling Basin Plan. The PC made the effort to undertake thorough consultation, despite being forced to complete the review within a very short window of time.

Interested parties had multiple opportunities to express their views, and discussions with the Commissioners involved in the review were genuine and facilitated the mutual generation of ideas over time. The end product reflected the quality of this approach.

By comparison, DCCEEW's style is much more unilateral and dictatorial. There's no opportunity to consider and debate key content over-time, and we have no sense that DCCEEW's discussion

¹⁶ For example, in relation to First Nations access, the recognition of indigenous needs is something all governments agreed to in 2004 ([Intergovernmental Agreement on a National Water Initiative \(dceew.gov.au\)](#) p. 5). Where the PC has recommended further work, a key focus of this is a recommendation for governments to manage water for the environment in a way that also achieves *cultural and social benefits* ([Overview - Interim report - National Water Reform 2024 \(pc.gov.au\)](#) p. 25).

¹⁷ [Overview - Interim report - National Water Reform 2024 \(pc.gov.au\)](#), p. 2.

¹⁸ [Overview - Interim report - National Water Reform 2024 \(pc.gov.au\)](#) p. 13.

paper is fully endorsed by state and territory governments. If DCCEEW continues down this path, a poor outcome overall is really all that can be expected.

Markets.

The light-handed treatment of markets is highly problematic. They're only mentioned in the lowest priority Objective in DCCEEW's discussion paper, and seem to be treated as an educational exercise, as opposed to anything else. As we've noted, we rely heavily on water markets for our success, and both the dairy industry and the PC¹⁹ recognise that more work is needed to support their continued evolution.

From a dairy perspective, more effort is needed to improve market transparency, especially in terms of speculators in the market and water brokers. Reflecting on the future risks of climate change, irrigators need good support to manage market volatility, as well as instances of excessive market power. It's also important that market settings do a better job of facilitating the social and economic outcomes that communities expect.²⁰

Net-Zero Demand.

There's commentary made in the PC's interim report that DCCEEW appears to not have touched on at all. The PC notes that the transition to net zero could place additional demand upon freshwater, of around 25% of current annual use.²¹ In response, the PC recommends that sufficient planning be undertaken to accommodate this emerging demand.

While we think it's important to know more about this evolving potential risk, we don't support the PC's default approach of automatically ensuring that all related water demand is fully met, especially where this is likely to be at the expense of existing uses such as irrigation.

Instead, we support the position of the National Farmers' Federation (NFF).²² Which is that: water security for food and fibre production must be safeguarded, and agriculture must be supported in its capability to adapt to climate change. If net-zero ambitions generate a material water demand, all options for addressing this must be on the table, and must be transparently assessed. All water-users with a stake in the outcome must also be involved in any related decision-making.

5. What Elements of the *National Water Initiative (NWI)* Should be Retained?

The dairy industry is supportive of the PC's advice that the fundamental objectives of the NWI are retained.²³ Based on the discussion paper we've been given for feedback, we don't trust DCCEEW to faithfully translate these fundamentals into a new National Agreement. Their essential drafting should stay as it was 20 years ago.

¹⁹ [Overview - Interim report - National Water Reform 2024 \(pc.gov.au\)](#) pp. 30 and 31.

²⁰ [Water Inquiry - Submission - Australian Dairy Industry Council - 30 October 2020.pdf \(acc.gov.au\)](#) p. 7.

²¹ [Overview - Interim report - National Water Reform 2024 \(pc.gov.au\)](#) p. 12.

²² [24-04-2024-NFF-PC-Inquiry-into-National-Water-Reform-Interim-Report-Submission.pdf](#) p. 7.

²³ [Overview - Interim report - National Water Reform 2024 \(pc.gov.au\)](#) p. 6.

In making this comment, we also want to be clear that the dairy industry is not endorsing the creation of a new NWI-style bureaucracy that increases red-tape and places an unnecessary cost-burden on water-users. We are only supportive of the objectives identified by the PC in 2021. History has shown that in the past, the NWI has created some significant Commonwealth overreach.²⁴

The priorities of the 2004 NWI are still the priorities now, which is supported by the PC's expert advice that they remain untouched. Referring back to Table One, jurisdictions have built their water frameworks around the concept of a secure water access entitlement.²⁵ This principle drives water-use and efficiency improvements in industry, has formed the basis of the majority of environmental water recovery, and is likely to be the tool most utilised by DCCEEW under its Aboriginal Water Entitlements Program.²⁶

Any new approach that threatens to undermine the security or reliability of this crucial property right cannot be supported.

Following-on from this must be the establishment of statutory water plans where, as we've already explained, licence-holders know that they can confirm the parameters of their access. These plans are also the place where jurisdictions agreed back in 2004 that emerging issues under climate change and evolving needs in relation to First Nations access could be discussed and considered in a way that's clear and predictable.

Importantly, this is also where negotiations and agreements regarding 3rd party impacts can take place if they're needed.

A discussion paper that suggests new processes for dealing with these matters cannot be accepted where it threatens to cut across and undermine what has come before.

Finally, markets have become the instrument of choice in all of the nation's fully allocated, connected surface water systems. Similar to the introduction of property rights, all water-users in these systems have built their use in anticipation of some kind of market access.

Markets operate poorly where they aren't supported by clearly defined access rights, and clearly defined rules that govern that access. In addition, markets aren't static, and we've provided clear advice about how they need to be improved.

Recognition of market importance, and support for the necessary continued evolution of markets must remain in place.

With regard to key elements of the PC's advice in its interim report, we don't support the proposed change in language from *community partnership* to *community engagement*.²⁷ As our water reform journey moves forward, we expect governments to genuinely engage with our sector to co-design

²⁴ For example, we've received anecdotal advice from producers that suggests that some of the more prescriptive aspects of the NWI have provided a mechanism for regulators to actually make some water licenses less reliable. Unfortunately, the NWI doesn't provide for water that is lost through regulatory creep to be compensated. This needs to be a core principle.

²⁵ This includes the current approach in WA where access licences are generally issued for 10 years, and renewal is assumed provided the conditions of the licence have been met ([Assessment of National Water Initiative implementation progress \(2017–2020\) - National Water Reform 2020 \(pc.gov.au\)](#) p. 15).

²⁶ [Murray–Darling Basin Aboriginal Water Entitlements Program - DCCEEW](#).

²⁷ [Overview - Interim report - National Water Reform 2024 \(pc.gov.au\)](#) p. 26.

workable solutions that ensure our access to sufficient, reliable water resources. We've provided a specific example of how this could be done in this submission.

We're also pleased to see that the PC now understands the bigger picture of climate change. It won't just be a story of 'hotter and drier', we can also expect increased flooding and storms.²⁸ However, it's a shame to see these events described by the PC as risks that need to be managed, when they may become one of our key opportunities to access and utilise water in the future. Just as all options should be on the table when dealing with climate change, our approach to climate change within our planning frameworks should shift to one of rapid response, where we equip ourselves to fully capitalise on all available resources.

6. Conclusion:

The dairy industry stands ready to work with government on the right policy reforms. For reforms to be acceptable to Australia's dairy industry, they must recognise and incorporate the following:

- reliable water licences and fully functional markets are fundamental to managing water as a critical resource;
- dairy has spent two decades making significant system change to improve water efficiency and cope with weather extremes, including climate change;
- to ensure all water-use is efficient, there must be a shift in approach – across the board – from volumetric environmental water recovery to delivery of environmental outcomes;
- co-design must be a core principle for policy development, implementation and review; and
- while national policy efforts have their place, they should not be an excuse for unnecessary bureaucracy, increased red-tape, and unreasonable amounts of reporting.

Moving forward, DCCEEW must continue to seek advice from the dairy industry on its national water reform efforts. Industry and broader stakeholder support are the only way to ensure this ambitious piece of work will be successful.

Yours sincerely

Chair
Australian Dairy Industry Council

Deputy Chair
Australian Dairy Industry Council

²⁸ [Overview - Interim report - National Water Reform 2024 \(pc.gov.au\)](#) p. 2.