



2 December 2005

Dr Michael Keating, AC
Chairman
Independent Pricing and Regulatory Tribunal
Bulk Water Review
PO Box Q 290
QUEEN VICTORIA POST OFFICE NSW 1230

RE: Socio-economic impact of State Water Corporation (SWC) and Department of Natural Resources (DNR) full cost recovery process.

Thank you for this opportunity to describe in more detail the socio-economic impacts of significant water price increases on the Far South Coast. It was evident to us from comments made by SWC, DNR, Environmental Groups and the IPART Committee members at the Public IPART Hearing on the 25th November 2005 that the coastal rivers and possibly the Peel River need to be considered separately from the inland rivers as full cost recovery in these regions is an impossible target.

To illustrate this we have included information that gives a picture of the potential impacts of commercially unsustainable pricing on the coastal rivers. The data referred to in this submission is based on studies over the last 3-5 years but is largely reflective of the current situation. The most significant change in recent times has been the growth in Bega Cheese's operations, with turnover at \$250 million p.a. and 500 staff now being employed.

The Value of Primary Production to the Bega Valley LGA

In the Bega Valley LGA the economy is fundamentally based around primary production. It services the needs of about 2,000 businesses and 35,000 people. Businesses in the area employ 10,000 people. Almost one third of Bega Valley businesses are in primary industries and all of the large manufacturing operations employing more than 20 persons process primary products. These industries form the traditional base for the local economy and make up 37% of the regional product.



The Bega Co-operative Society Limited
trading as Bega Cheese ABN 81 008 338 503
Head Office, Cheese Packaging & Processing
23 - 45 Ridge Street, North Bega NSW 2550 Australia
Butter, Cheese & Powder Manufacture
13 Lagoon Street, North Bega NSW 2550 Australia

Postal Address
PO Box 123
Bega NSW 2550 Australia
Ph: 61 (02) 6491 7777
Fax: 61 (02) 6491 7700

General E-mail Enquiries:
Bega.Admin@begacheese.com.au
Export Enquiries:
Maurice.VanRyn@begacheese.com.au
Internet:
www.begacheese.com.au

Overall the primary industry sector is the dominant business group in the LGA with nearly 29% of all businesses located in this sector.

Estimates in 2001 put 13.2% of the LGA workforce being directly employed in primary industries with an equivalent flow on in support industries of around a further 20%. We estimate in 2005 that 15.5% of the LGA workforce is in primary industries. This figure is growing annually.

The Dairy Industry Economic Value

The dairy industry has historically played a dominant role in the Bega Valley economy making up 81% of the share of the value of agricultural output. The dairy industry also supports substantial downstream value-adding businesses in transport, retail, engineering, manufacturing and consulting. Bega Cheese employs 500 people and injects directly in the order of \$100 million p.a. into the local economy through wages and milk payments to farmers. Our supplying farms employ around 300 people and it is estimated a further 2-300 people are employed in direct support industries. With a \$1 to \$9 multiplier, the South Coast dairy industry stimulates up to \$1 billion worth of economic activity.

The importance of the dairy industries and the associated processing is emphasised in Table 1 below. Even much of the retail is associated, if not totally supported by the agriculture sector.

Table 1 Economic impacts of major industries in Bega Valley LGA

	Dairy		Fishing		Forestry		Tourism		Government	
	Value	Region Share	Value	Region Share	Value	Region Share	Value	Region Share	Value	Region Share
Total Sales (\$m)										
Primary Activity	50.3*		42.1		18.4		105.0		80.7	
Processing	100.3*		51.5		67.5		-			
Gross Regional Product (\$m)										
Primary Activity	18.8	3.7%	17.1	3.4%	9.7	1.9%	38.6	7.6%	51.3	10.2%
Processing	27.4	5.4%	15.3	3.0%	23.2	4.6%	-	-	-	-
Flow-on	35.7	7.1%	23.6	4.7%	17.3	3.4%	28.6	5.7%	30.6	6.1%
Total	81.9	16.2%	55.9	11.1%	50.2	9.9%	67.2	13.3%	81.9	16.2%
Employment (jobs)										
Primary Activity	526	5.1%	276	2.7%	143	1.4%	1,271	12.4%	1,349	13.2%
Processing	232	2.3%	218	2.1%	132	1.3%	-	-	-	-
Flow-on	737	7.2%	471	4.6%	367	3.6%	642	6.3%	653	6.4%
Total	1,495	14.6%	965	9.4%	642	6.3%	1,913	18.7%	2,049	20.0%

June 2000 EconSearch Pty Ltd

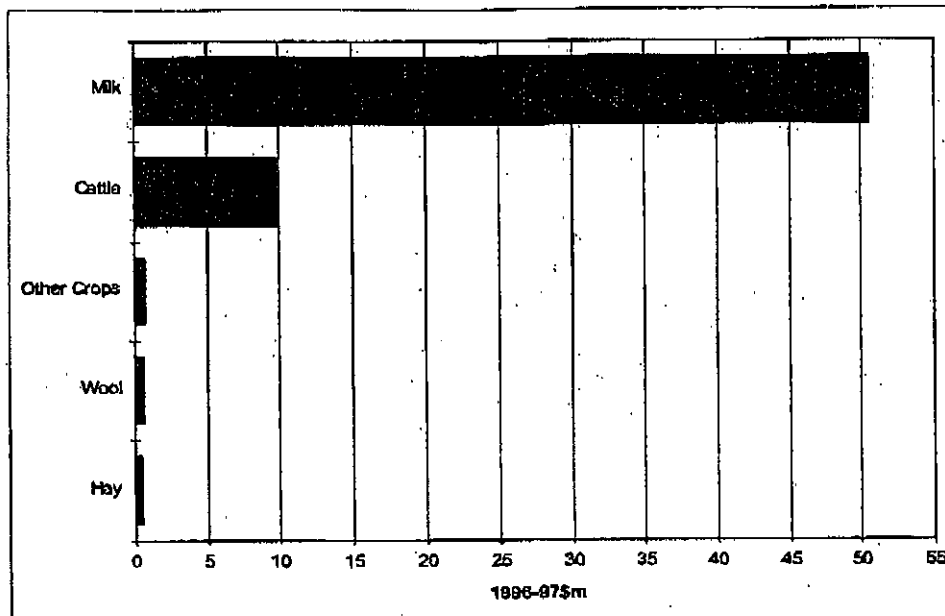
* 2005 estimate; Primary activity - \$55 mill; Processing - \$250 mill.

The dairy industry has been a major growth component of the economy through steadily rising production output from Bega Cheese and solid milk prices and distributions to Bega's farmers. In brief the industry has:

- Economies of scale (Bega farms average production is higher than the State average).
- The industry has invested heavily in modern factory infrastructure (Bega Cheese alone has invested \$150 million since 1990)
- The industry owns the leading Australian Cheese brand name.
- 65% of farms rely heavily on irrigation.

Figure 1 below shows the relative value of milk compared to all other agricultural industries greater than \$1 million in the Bega LGA. There is little diversity in land based agriculture in this region with cattle for slaughter being the only other important segment in value terms. Around 20% of the cattle for slaughter are from the dairy industry.

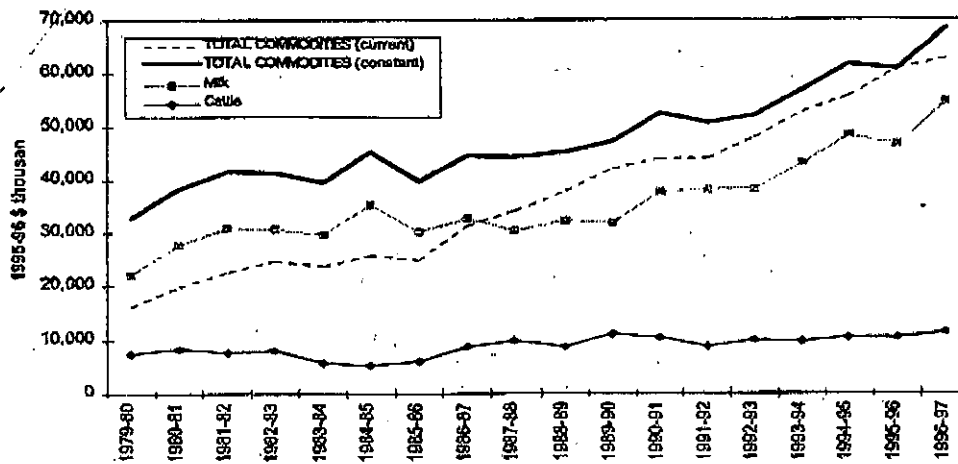
Figure 1: Gross Value of Agricultural Production, Bega Valley LGA: 1996-97



Source: ABS AgStats

Figure 2 below shows that dairy production has not been subject to wild fluctuations evident in agriculture in other regions. This growth and stability in the dairy sector has also stimulated growth in retail, transport and other associated industries. A significant reduction in the size and or profitability of the dairy industry will have dramatic flow on effects as there is no other agricultural industry in a position to fill the gap.

Figure 2: Value of Production - Total and Selected Commodities In Constant Values: Bega Valley LGA



Source: ABS AgStats

Growth in the dairy industry has provided valuable employment. The dairy industry is the main regional contributor to jobs growth and a further 350 jobs have been created by Bega Cheese alone since 2000. It is planned to continue the investment so as to create further employment growth.

Impact of Unconstrained water prices on Bega Cheese

Bega Cheese's Lagoon Street plant provides 92% of our farmer's milk income and is directly under threat from the proposed changes. The Lagoon Street plant is currently at 70% of its rated capacity, which is lower than optimal throughput of 85% because of deregulation and drought. The lower the throughput the lower the economic performance of the plant and this ultimately reduces the return to the farmer in milk payment. This in turn means more farms become unviable resulting in less milk to the plant. This cycle of shortfall and poorer economic performance if water pricing is set at uncommercial levels may deteriorate to a point where the plant is unviable. This then impacts on not only the irrigated farms but all dairy farms in the region.

Impact of Unconstrained water prices on dairy farmers

Over the last 5 years the dairy industry has had significant challenges. Dairy deregulation and then the largest drought in recorded history have had a significant impact on both the finances and morale of the industry. However the recent good season has been a welcome relief and farmers are hoping for ongoing improved seasonal conditions to allow the industry to recover. The threat of unconstrained water prices has once again thrown the industry into a period of uncertainty and stress for farmers and the community.

Table 2 below shows the reliance on irrigation of the dairy industry, with 65% of all dairy farmers relying on irrigation for milk production.

Table 2 Percentage of Farms with Irrigated Pastures (Areas)

Estimate	Population Count	Sample Percent
Bemboka	20	88.2
Cobargo	15	42.3
Bega	55	76.9
Bodalla	7	38.5
All Farms	97	65.7

Source: Bega Cheese estimate

ABARE commissioned a report to the Healthy Rivers Commission specifically on the impact of water reforms on irrigated dairying in the Bega Valley. This modelling assessed the impact on farm profitability of reducing availability of irrigation water for pasture growth whilst still maintaining milk volume through supplementary feeding.

The findings clearly demonstrated that farmers cannot simply stop irrigating and replace the pasture with purchased feeds and remain viable. With each 2ML drop in irrigation usage, average farms costs increased by \$20,000. The lowest irrigation entitlement of 2ML resulted in a loss. If full cost pricing proposed by SWC and DNR were implemented the farmers have limited choice. Pay the fixed, usage and regulatory cost and lose money or hand in the irrigation licence, buy in feed and also lose money.

A further independent report by the Environment and Behaviour Consultants on the social impacts of water reform on dairy farmers and communities in the Bega Valley shows how price sensitive changes to bulk water prices are. As prices increase the amount of irrigation area dramatically decreases. The report showed that a \$20/ML increase in water pricing would reduce irrigation area by 71%. A \$45/ML increase in water pricing would reduce irrigation area by 86%. Increases as proposed by SWC and DNR of \$124/ML would certainly stop all irrigation. This would have a corresponding impact on either the volume of milk produced, the cost structure of the business to buy in feed alternatives or the ongoing operation of the business.

Impact of Unconstrained prices on the wider community

Dramatic economic impacts associated with water price increases on the agriculture sector would have significant flow on effects in the whole regional economy.

Table 3 below shows that the dairy farmers have a farm business expenditure of \$57.8 million in towns and communities in the region, with \$43 million being sourced from the town of Bega alone.

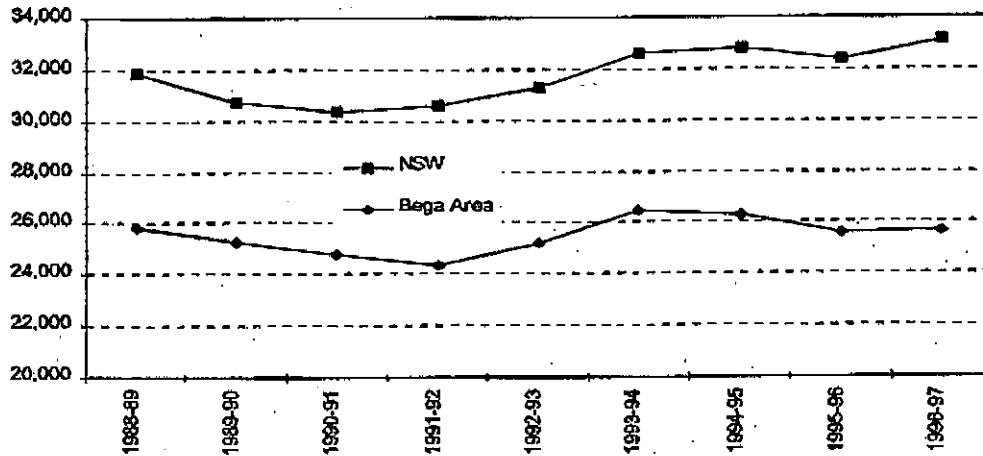
Table 3 Location of Farm Expenditure

	Sample (\$)	Sample Percent	Estimated Population (\$)
Bega	31,025,446	75.2	42,956,460
Cobargo	3,524,596	8.5	5,144,854
Moruya	1,380,542	3.3	2,162,028
Nowra	577,868	1.4	895,484
Sydney	564,144	1.4	772,931
Bemboka	486,472	1.2	659,098
Narooma	469,974	1.1	693,749
Pambula	362,080	0.9	507,233
Riverina	353,320	0.9	480,092
Leeton	353,028	0.8	486,556
Cooma	350,400	0.8	478,431
Eden	309,520	0.8	421,978
Temora	256,960	0.6	374,306
Albury	204,440	0.5	276,595
Braidwood	161,330	0.4	242,988
Candelo	116,800	0.3	159,477
Bodalla	116,654	0.3	164,702
Wagga	105,120	0.3	142,221
Turoos Heads	87,600	0.2	138,700
Canberra	83,512	0.2	118,623
Ardlethan	73,000	0.2	98,765
Forbes	62,050	0.2	89,352
Young	62,050	0.2	89,352
Newcastle	36,500	0.1	49,382
Batemans Bay	29,200	0.1	46,233
Goulburn	29,200	0.1	39,869
Gerrigong	23,360	0.1	31,895
Cowra	18,980	0.0	27,331
Merimbulah	18,250	0.0	26,280
Mossvale	4,380	0.0	5,926
Total	41,246,776	100.0	57,800,892

Note: Assumes annual expenditure, excluding costs of labour and depreciation, of \$1,460 per cow.

Source: EBC (1999).

Figure 3 below confirms that Bega LGA has average incomes well below that of the NSW average (77% of NSW average and tending to lag further behind). The dependence on social welfare to boost household income is also much higher in the Bega Valley than in NSW. This region has a significant number of non and semi skilled workers, and the dairy industry is a big employer of those workers. Reductions in profitability or the removal of the industry will have a significant impact on the employment prospects of many in the region.

Figure : Mean Taxable Income, 1989-97 (1996-97\$)

Finding employment for a significant influx of non qualified labour (displaced as a result of farm closures under financial duress from high water charges) would be almost impossible in this region as there is no other industry to absorb those numbers. The growth the dairy industry has experienced in employment has been mainly in non or semi skilled labour and it is anticipated that this will continue if the industry remains viable.

The dairy industry on the far south coast has been a success story for regional NSW. Bega Cheese has a strategic plan to continue to grow its business and deliver wealth back to its farmer owners. Certainty and confidence is required so that both the Cooperative, the farmers and the local business community can continue to invest, create jobs and build wealth. If the proposed full cost recovery outlined in the SWC and DNR submissions were to be implemented there would be wide spread negative social and economic consequences that I hope the above information has highlighted.

Currently the SWC fixed price for south coast water is the most expensive in NSW. Our suggestion on a path forward is to not increase the SWC or DNR rates on irrigators in this region, and that any future prices increases match CPI.

Currently no regional workshop is planned for coastal NSW. We would like to meet with you to present our concerns and discuss possible solutions to the issues raised by SWC and DRN. Please feel free to contact me to discuss any aspect of this submission.

Yours truly,

RICHARD PARBERY
Deputy Chairman