



BEGA CHEESE
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Mr James Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

20th October 2009

Dear Mr Cox,

RE: Submission to IPART on State Water Price Determination from 1 July 2010

Bega Cheese is not only an iconic Australian brand but is very much part of the fabric of the community and life blood of the local economy on the far south coast of NSW. The company employs over 600 local people directly with the local supplying dairy farms employing over 300 people. Numerous local support services and contractors are engaged by either Bega Cheese or our supplying farmers. Over \$100 million is injected each year into the local economy directly due to the activities of Bega Cheese.

A fundamental activity of the business is converting raw milk into cheese. Over 70% of our suppliers use irrigation to support pasture growth and therefore milk production. Bega is an isolated dairy region and the company relies on local milk production to sustain the manufacturing facilities and Bega branded products. Our most efficient and cost effective milk is from the local suppliers, it is sub economic to transport large volumes of milk into Bega due to the distances involved. It is vitally important to Bega Cheese that a strong, efficient and profitable milk supply base exists in the Bega valley. The proposed full cost recovery on the South Coast by the SWC would threaten the viability of those suppliers and therefore the ongoing milk supply into Bega Cheese.

Bega Cheese represents all the dairy farm irrigators on the South Coast (Brogo River) which is impacted by the SWC submission on water pricing. Bega Cheese is also a member of the NSW Irrigators Council and we strongly support the submission from them. Therefore this submission will focus specifically on the issues relating to South Coast water users.

1. Full cost recovery

We acknowledge that the SWC submission is based on attaining full cost recovery as is desired under the NWI. We also understand that irrigators do not want cross subsidisation across river valleys. Under the current IPART determination operating subsidies are provided by the NSW State Government due to the recognition by IPART (2006 determination pg 127) that full cost recovery was not practical or attainable in the South Coast and could never be achieved. The 2006 determination saw SWC have a large increase in prices for

the South Coast of 100%. For 2009/10 SWC pricing is \$40.55 per ML at 40% usage and is near some of the most expensive river based general security water in Australia. Chart 1 below shows South Coast water prices (entitlement plus usage) for 2009/10 compared to the proposed prices for 2013/14 for all NSW valleys excluding the other 2 non full cost recovery valleys of Peel and North Coast. Full cost recovery would see the South Coast price soar to \$125.26 per ML at 40% usage. Therefore we support the continuation of a transparent NSW Government subsidy as a community service obligation (CSO).

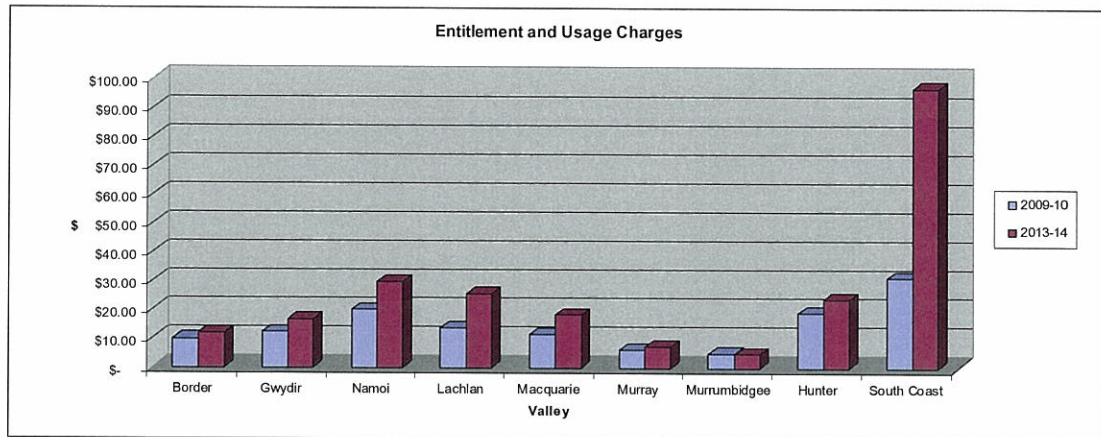


Chart 1: Comparison of price increases per valley

The 2006 IPART determination page 127 stated:

“The Tribunal notes irrigators concerns and recognises their desire to have greater certainty as to future prices, particularly given the long term horizon for some investment. However, the Tribunal cannot bind any future Tribunal. Having said this, it believes that any future Tribunal should be guided by the decisions in this determination and should not seek to fully recover all costs from users in the North Coast, South Coast and Peel valleys, assuming that all other factors remain constant. The Tribunal notes that the loss of revenue for State Water is relatively small”

The users concerns on the South Coast have not changed. Farmers are reluctant to borrow and invest in improved irrigation infrastructure at significant cost and long pay back periods when no security on water pricing exists due to the threat of full cost recovery and the absence of a price cap. Adopting a price increase path as proposed below will help build confidence in the irrigation industry on the South Coast.

2. Impact on users

SWC commissioned RMCG to determine financial impact on customers. The report acknowledges that the South Coast has a high level of dairy users and that Australian dairy farmers already have had farm cash incomes decline by 60% and that full cost recovery will have a significant impact in the cost/affordability of water and that will influence profitability (pg 28, 36 and 45 RMCG report). We feel this comment is understated as it would in most cases remove profitability and drive a farm into a negative return. RMCG have recognised this on page 35 where they state “water charges are difficult to

analyse with accuracy and costs would be understated in some regions eg South Coast”.

Increased water pricing to full cost recovery will result in farmers being priced out of the water market, reduce on farm investment, reduce business expansion and ultimately result in them using significantly less water. This will inturn result in lower cost recovery by SWC further impacting the cost recovery position of the dam.

3. Price increase path proposal

We recognise that SWC have costs that increase annually and therefore do not request that we be excluded from these increases entirely. We propose that the price increase be limited, by means of a subsidy from the NSW Government, to 5% per annum which compounded over 4 years is a 21.6% increase.

This pricing determination is of critical importance to Bega Cheese and the financial survival of our farmers and we would request a special meeting with IPART to discuss in person our concerns and possible paths forward. We will be happy to travel to Sydney at our own expense and at a time convenient to you to meet you at your offices. We look forward to your positive response to this request.

If you have any questions please do not hesitate to contact me on 0419 248 740.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Richard Parbery', with a stylized flourish at the end.

Richard Parbery
Deputy Chairman – Bega Cheese