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## **SUBMISSION**

# **Export Control Amendment (Banning Cotton Exports to Ensure Water Security) Bill 2019**

April 2019



## NSW Irrigators' Council

The NSW Irrigators' Council (NSWIC) is the peak body representing irrigation farmers and the irrigation farming industry in NSW. Our Members include valley water user associations, food and fibre groups, irrigation corporations and commodity groups from the rice, cotton, dairy and horticultural industries. Through our members, NSWIC represents over 12,000 water access licence holders in NSW who access regulated, unregulated and groundwater systems.

NSWIC engages in advocacy and policy development on behalf of the irrigation farming sector. As an apolitical entity, the Council provides advice to all stakeholders and decision makers.

Irrigation farmers are stewards of tremendous local, operational and practical knowledge in water management. With over 12,000 irrigation farmers in NSW, there is a wealth of knowledge available. To best utilise this knowledge requires participatory decision making and extensive consultation to ensure this knowledge can be incorporated into best-practice, evidence-based policy. NSWIC and our Members are a valuable way for Governments and agencies to access this knowledge.

NSWIC welcomes this public exhibition as an opportunity to share local, practical and operational knowledge and expertise in water management. NSWIC offers the expertise from our network of irrigation farmers and organisations on an ongoing basis to ensure water management is practical, community-minded and follows participatory process.

This submission represents the views of the Members of NSWIC with respect to the *Export control amendment (banning cotton exports to ensure water security) Bill 2019*. Each member reserves the right to independent policy on issues that directly relate to their areas of operation, expertise or any other issues that they deem relevant.



## NSW Irrigators' Council's Guiding Principles

Integrity	Leadership	Evidence	Collaboration
<p>Environmental health and sustainable resource access is integral to a successful irrigation industry.</p>	<p>Irrigation farmers in NSW and Australia are world leaders in water-efficient production with high ethical and environmental standards.</p>	<p>Evidence-based policy is essential. Research must be on-going, and include review mechanisms, to ensure the best-available data can inform best-practice policy through adaptive processes.</p>	<p>Irrigation farmers are stewards of tremendous knowledge in water management, and extensive consultation is needed to utilise this knowledge.</p>
<p>Water property rights (including accessibility, reliability and their fundamental characteristics) must be protected regardless of ownership.</p>	<p>Developing leadership will strengthen the sector and ensure competitiveness globally.</p>	<p>Innovation is fostered through research and development.</p>	<p>Government and industry must work together to ensure communication is informative, timely, and accessible.</p>
<p>Certainty and stability is fundamental for all water users.</p>	<p>Industry has zero tolerance for water theft.</p>	<p>Decision-making must ensure no negative unmitigated third-party impacts, including understanding cumulative and socio-economic impacts.</p>	<p>Irrigation farmers respect the prioritisation of water in the allocation framework.</p>
<p>All water (agricultural, environmental, cultural and industrial) must be measured, and used efficiently and effectively.</p>			<p>Collaboration with indigenous nations improves water management.</p>



## Background

The *Export control amendment (banning cotton exports to ensure water security) Bill 2019* (the Bill) proposes to amend the *Export Control Act 1982* to prohibit the export of cotton grown in Australia to ensure water and food security in the Murray-Darling Basin. The production of cotton for use in Australia would not be affected.

## Overview

On the basis of principle, common sense and fairness, NSWIC does not support this Bill. Among these reasons, it is not least that it will not change water or food security in the Murray Darling Basin at all.

Water now has an inherent property right and a farmer has a right to use (or sell) their water to best suit their business in any given year.

As an industry, cotton can be worth over \$3 billion to the Australian economy<sup>1</sup>. In NSW the gross value of cotton production is worth on average \$2.5 billion depending on the season<sup>2</sup>. It is one of the largest rural export industries employing around 10,000 people in a normal production year (non-drought).

Banning cotton exports **will** hurt our economy, the regional people who rely on the industry for a job and the regional businesses and communities who rely on the industry for their economic stability.

Banning cotton exports **will not** put any more water into the Murray Darling Basin nor increase water security for the environment or any other water users.

At the forefront, the name of this Bill is illogical – banning the export of cotton has no logical link to water security. If a ban on the export of cotton was in place, farmers could and would use their **same amount of licenced water** to produce another commodity, the overall water balance would not change. This would have no impact on water security.

It is a core value of NSWIC that any policy must be evidence-based. This Bill is based on the false premise that removing the capacity for the cotton industry to export their product will lead to reduced water use.

It is inappropriate to alter legislation based on false assumptions and we urge the committee to recommend this legislation is not supported.

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<sup>1</sup> <https://cottonaustralia.com.au/cotton-library/fact-sheets/cotton-fact-file-the-australian-cotton-industry>

<sup>2</sup> Australian Bureau of Statistics Gross Value of Irrigated Agricultural Production, reported annually.



## Submission

### **A cotton export ban will hurt the economy**

*A ban on cotton export will impact the entire cotton industry and its employees regardless of whether the cotton was produced using water from the Murray-Darling Basin or not.*

Cotton production contributes on average \$2.5 billion to the gross value of agricultural production<sup>3</sup>. Cotton can be produced under either dryland or irrigated production systems.

Across Australia there are more than 1,200 cotton farms across Queensland and NSW. To different degrees, cotton is grown across four river basins including the Carpentaria Coast, North East Coast and the Murray-Darling Basin. Across those areas, the industry employs around 10,000 people in regional areas. On average cotton employs 15 times as many people as a grazing enterprise and five times more people as dryland cropping.

A ban on cotton exports is not geographically exclusive and would therefore impact the industry, its employees and farmers across all river basins.

Cotton is a versatile crop that contributes to both food and fibre production. Cotton fibre is used for cloth and clothing, cotton oil is a vegetable oil widely used in the fast food industry and cotton seed is used nationally and exported for stock feed. Cotton by-products are also used for a range of products including bank notes, margarine, rubber and some medical supplies.

Cotton is a world commodity with Australian cotton competing in a globalised market. Australian cotton has a reputation as a high-quality product that can attract a price premium on international markets.

Cotton is a sustainable and renewable source of fibre with global demand. Australia has a reputation for producing more crop per drop than any other major cotton producing country in the world<sup>4</sup>. While only producing three percent of the world's demand for cotton, Australia is the third largest exporter selling to markets including in China, India, Turkey and Vietnam.

Cotton is part-processed in Australia where it is cleaned and ginned ready for export to manufacturing nations around the world for spinning and weaving.

To ban cotton exports would isolate Australia's cotton industry from the global market. Our competitive producers would no longer have access to international prices nor the quality premiums our reputation commands. Australia would lose valuable export dollars.

Without a substantial increase in Australian manufacturing capacity (spinning and weaving) at internationally competitive rates, there will be no national buyers for the product and cotton production would virtually cease. While individual farmers would look to alternative commodities, the associated industry jobs (including on-farm jobs) would no longer exist. Regions would lose employment opportunities and the associated economic activity.

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<sup>3</sup> Australian Bureau of Statistics, Gross Value Irrigated Agricultural Production, reported annually.

<sup>4</sup> <https://cottonaustralia.com.au/cotton-library/fact-sheets/cotton-fact-file-the-australian-cotton-industry>



## **A cotton export ban will not increase water for the environment**

*Farmers are businesses and make decisions based on the most efficient use of resources (soil, water and inputs) for maximum returns.*

A licence to access water is not commodity specific. Farmers own water entitlements and will use the annual allocation associated to those entitlements to suit their business models to maximise those returns. Some farmers chose to use their allocation on permanent plantings (nuts, grapes, horticulture), others chose broadacre or annual cropping systems (cotton, cereals, pastures, legumes).

For many farmers, particularly across Queensland and NSW, cotton currently provides the best returns; however, if cotton was not a viable crop they would use their same quantity of licenced water for the production of a different commodity to ensure a return on their asset.

This is most obvious in the Southern Basin where areas that were once known only for their rice production now see farmers changing their crop types annually based on water availability, input costs and commodity prices.

The assumption proposed in the Explanatory Memorandum for this Bill is that a ban on cotton will lead to a reduction in demand for water. This is overly simplistic and ignores basic economics of returns on assets. The reality is a ban on cotton would just lead to farmers using their asset (the same quantity of water) to produce a different commodity, although with different returns and local economics.

The proposition that banning cotton will return volumes of water to the environment reflects a fundamental misunderstanding of how water entitlements operate under the Basin Plan and the water market more generally.

## **The modern water market**

*The aim to see water flow to its “highest value use” is being realised, however, that use is not the environment.*

As water is now an asset in its own right, it can be traded either as a permanent entitlement or via the annual allocation market, the value of the asset is becoming an increasingly relevant factor for farm businesses.

The creation of the water market has led to outcomes that were not foreseen when the Basin Plan was first developed. Contrary to early assumptions, water recovery has not led to a reduction in demand for water.

In NSW, where the allocation system has developed in response to the highly variable water availability, the water market means that farmers can realise a return on their asset even in very dry scenarios when production of a broad-acre crop is unviable. With the significant increase in developments of permanent plantings such as almonds and walnuts (both with high water demands), there is a highly lucrative market for annual allocations. This means that, where once broad-acre farmers would cede their allocation if the economics were against an annual crop, they can now realise a return on it by selling to another farmer.

Anecdotally, irrigation farmers who see a future in the industry are choosing to actively trade their allocation in poor years and hold onto the entitlement for use in a better year. This has reduced the attraction to sell the entitlement to the environment.



To ban cotton will not lead to more water being sold to the environment, however, it may lead to regional conversion to new commodities, as has occurred significantly in the Sunraysia and lower Murrumbidgee regions where dryland cropping has been replaced by nut production and the allocation market is underpinning annual water use.

Even in the South Australian Royal Commission, the Commissioner identified that:

*“Cotton growers and rice farmers are acting as we, historically and nowadays, socially value them to do so. We — Australian society and our governments — positively encourage, as we should, the water resources of the Basin, so far as they should be available for irrigation, to be put to their most valuable use. In the main, that means the most efficient watering of the most profitable (lawful) crops. How could a society like ours proceed otherwise? It follows that cotton and rice should not be denigrated in comparison with, say, fodder, cabbages or permanent plantings.*

*If it is perceived that cotton and rice ‘use too much water’, the first thing is to check that the overall consumptive take — regardless of the crop or crops — is not excessive. If not, the market does, and probably should continue to, allocate the water to chosen crops.”*

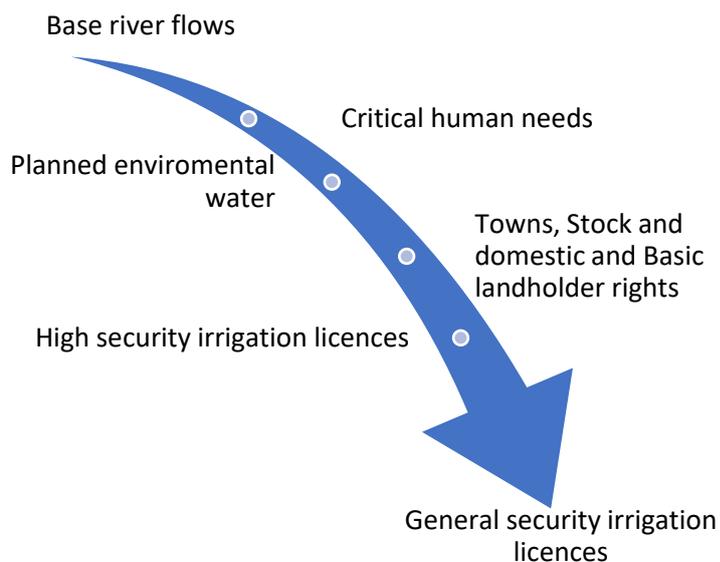
Whilst NSWIC reserves comment on the South Australian Royal Commission findings and recommendations, this extract demonstrates a more informed understanding of how cotton production interacts with the water market, water allocations, and thus water security.

### **NSW allocations and water priorities**

*Cotton is not prioritised by the water management regime in NSW.*

The Explanatory Memorandum rightly says that export cotton should not be given the same priority as the needs of towns and cities or the overall environmental health of the river system. Even a rudimentary understanding of water management regimes in the Basin would demonstrate that cotton, or export cotton, does not have the same priority as human consumption, nor the environment.

In NSW, water is allocated according to a priority of needs. The terminology, triggers and rules vary from valley to valley, however, the basic principle is that it is allocated as follows:



Generally speaking, the higher reliability (High security) entitlement products are used for stock or permanent planting and horticulture, while general security is utilised by annual crop production systems. As general security is the last to be allocated, its availability is highly variable and crop size and production varies in line with water availability.

Since most cotton is grown on general security irrigation licences, the water is only made available to farmers after the needs of towns, stock and domestic use, and the environment, have all been met. If there is no water left available, or not enough water for the aforementioned needs, general security farmers simply do not get an allocation of water, and do not grow a crop. Put simply – if there is no water, no cotton is grown.

Currently, general security allocations are zero in most NSW Murray-Darling Basin valleys<sup>5</sup>. That is, they have no access to water that was not already stored on farm or banked in allocation accounts from previous years. Conversely, allocations for local water utilities (towns) and stock and domestic are 100% across all valleys.

The highest priority water use for NSW and Victorian water managers is meeting South Australia's water requirements. When allocating water to the States, the MDBA first ensures South Australian entitlement can be met and NSW and Victoria are allocated the remainder. That is why South Australia has the most reliable water in the system – it has near guaranteed inflows while other states have to manage variable availability.

### **Breaches to Australia's obligations for international trade**

Australia is a signatory to the World Trade Organisation (WTO) Agreement, and the General Agreement on Tariffs & Trade<sup>6</sup>. This means Australia has made a commitment not to impose export restrictions which restrict free trade. Further, Australia has entered into bilateral and multilateral trade agreements such as the China-Australia Free Trade Agreement<sup>7</sup> (China is the

<sup>5</sup> <https://www.industry.nsw.gov.au/water/allocations-availability/allocations/summary> as at 5 April 2019

<sup>6</sup> GATT 1947 (as amended by GATT 1994), Article XI:1.

<sup>7</sup> China-Australia Free Trade Agreement, Article 2.7(1).



largest market for Australian cotton exports), and the ASEAN-Australia-New Zealand Free Trade Agreement<sup>8</sup>.

Whilst there is some flexibility for some forms of export controls, it is not reasonable to assume that a total ban on cotton exports would be permissible under these commitments. If this Bill was passed, Australia may be considered to be in breach of WTO obligations, and risk another WTO Member raising dispute action against Australia. This risks penalties such as trade sanctions being imposed on other Australian exports, which would have further damages to other industries. Furthermore, this would have reputational consequences for Australia as a trading partner, which is very much against Australia's national interest.

### **Reactionary policy is short-sighted and insufficient**

NSWIC believes this Bill has been put forward in response to recent media events around water management in the Murray-Darling Basin. NSWIC views this Bill as a 'quick fix' solution, even though it would actually do nothing to fix the issues identified. Cotton is clearly being used as the scapegoat for broader discussions around water management, which is abhorrent given it distracts from otherwise meaningful discussions about how to best manage water resources towards water security. Our river systems, farmers and communities deserve long-term, strategic and evidence-based policy that is actually based in evidence and logic.

Water security must be addressed, but this Bill does not affect water security in any way.

### **Conclusion**

NSWIC does not support this Bill.

NSWIC believe this Bill is an ill-considered reaction against an entire industry based on emotive media reports and a limited understanding of farming, commodity markets and the water market.

The reality is that this bill will do nothing to increase water available to the environment or water security, but it will harm communities that rely on the cotton industry for their local economic viability.

This Bill cannot be supported due to the serious risks to the economy, farmers and rural communities.

Kind Regards,

NSW Irrigators' Council.

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<sup>8</sup> ASEAN-Australia-New Zealand Free Trade Agreement, Chapter 2: Article 7(1).