

Mr Peter Corish
Chair
Agriculture and Food Policy Reference Group
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Dear Peter

**ENSURING A PROFITABLE AND SUSTAINABLE AGRICULTURE AND
FOOD SECTOR IN AUSTRALIA**

Please find following a submission from the Australian Cotton Growers Research Association that focuses on the use and management of natural resources (Part D).

This submission includes a brief introduction to the cotton industry's BMP Program, its formal program for helping cotton growers manage their natural resources responsibly, in order to help provide some context to the various comments made in the submission. More detailed information on the BMP Program is available if desired. As requested, comments have made specifically on those queries raised in the Issues Paper.

It is important to acknowledge that primary responsibility for the BMP Program is shared between the Cotton Research & Development Corporation (BMP Manual development) and Cotton Australia (Implementation and Auditing). This submission has been made by the Association due to the close involvement of its Executive Officer with the development of the BMP Manual. This submission has been reviewed by both organisations, and has been endorsed by them.

I look forward to seeing the outcomes of your deliberations on the issues raised in the Issues Paper.

Yours sincerely

**Allan Williams
Executive Officer**

A Brief Overview of Natural Resource Management in the Cotton Industry

The cotton industry has in place a comprehensive environmental management program (the BMP Program) that covers the major areas of natural resource management (NRM) associated with cotton growing: water, pesticide, soil and vegetation management. The BMP Program includes a BMP Manual that contains a risk assessment process for prioritising risks and required actions and detailed guidance material ('Best Practices') on NRM related issues.

A dedicated implementation team, employed by Cotton Australia, the industry's peak grower body supports the BMP Manual, and a formal voluntary audit program has also been established, whereby independent auditors, who have been trained as environmental auditors and have specialist knowledge in cotton production systems, verify a grower's compliance with the practices detailed in the BMP Manual.

The BMP Manual and its associated implementation and audit program have been instrumental in achieving significant changes in the way that cotton farmers manage pesticides. For example, the second independent environmental audit of the cotton industry, conducted by GHD, noted "One of the most significant environmental improvements in the Australian cotton industry is the development and implementation of a Best Management Practices (BMP) program. The Best Management Practices program indicates a high level of stewardship by the cotton industry. The BMP Manual is an excellent tool for systematic and detailed evaluation of environmental issues and implementation of continuous improvement action plans. The audit identified a direct link between the areas of improvement observed on the properties and the BMP modules available to the growers at the time of the audit. Farms that had undertaken their second BMP audit showed real improvements in environmental management, and the auditing process provided a benchmark to indicate that progress had been made. It was observed that farms practicing BMP generally had better environmental management practices, as well as superior documentation and records management."

During the development of the BMP Program the strengths and weaknesses of the two traditional implementation models (self-regulation versus command-and-control) were investigated and reviewed. In order to overcome the limitations that each model had, the industry deliberately chose to try and develop a 'partnership' approach that incorporated the strengths of both models, and avoided most of their weaknesses. Initially this partnership focussed on involving the relevant regulatory agencies in the initial development of the BMP Manual. It has since evolved, particularly in Queensland, where the industry is now in the process of negotiating the formal recognition of the BMP Program as an alternative form of complying with various regulatory requirements in that state surrounding the transfer and use of water entitlements.

Role of farm businesses in environmental management

What are the relative merits of different policy approaches to managing natural resources? Is it desirable that the move to market based instruments to achieve desired environmental outcomes be pursued more widely?

Different Policy Approaches

As indicated above, the industry has sought to develop a 'partnership approach' with regulators, whereby the industry accepts responsibility for educating and informing its members as to how they can best manage their natural resources. This industry advice is informed by the relevant legislation, and is developed in conjunction with the appropriate regulatory agencies.

While a level of regulation is required to ensure that appropriate boundaries are drawn to define what is an acceptable standard, regulation, on its own, is not a particularly good tool for educating people about the best way to manage natural resources, and therefore for achieving desirable natural resource outcomes. This is due largely to the fact that it can only provide broad restrictions that need to cover a multitude of different and diverse farming situations. Another difficulty faced with regulation is that the duty owed by the natural resource manager is often expressed in extremely general terms, eg. "Do not pollute water", with no further practical guidance provided as to how to actually discharge that duty. Finally, regulations are only as good as the ability to enforce them, and (even if it was desirable), it is unrealistic to expect there to be sufficient regulators available to provide any meaningful ability to enforce the wide suite of environmentally-focused legislation applicable to farmers. Thus an education and implementation program, such as the cotton industry's BMP Program, is essential for developing a degree of understanding amongst farmers as to their various legal responsibilities.

Of course, developing and maintaining this type of education and implementation program is an on-going, expensive commitment that is deserving of support and recognition.

Market Based Instruments (MBI's)

Only one category of MBI will be considered here: that of market premiums derived from product differentiation based on environmental considerations, eg. eco-labels. The industry does not have sufficient experience with MBI's based on trading (eg. carbon credits) or auctioning or tendering for environmental services to offer a perspective on that type of MBI other than to say that a range of policy options are likely to be required, rather than relying on any particular option.

There may be potential for the formal recognition being sought for the BMP Program to result in an MBI such as direct regulatory relief, but it is too early to determine the potential benefits, and the weighting in any policy mix, such a policy approach may or should have.

Thanks in part to support from the Natural Heritage Trust's EMS Pathways funding program, the cotton industry is currently investigating whether

branding Australian cotton with its environmental and quality credentials can enhance adoption of better natural resource management practices. As this project is only 1 year into its 3 year program, it is too early to draw definitive conclusions. However, the following broad comments can be made:

- Whilst there appears to be considerable positive consumer sentiment about making environmentally-responsible purchasing decisions, only a very small minority of consumers translate their sentiment into action if it requires spending more money (see for example the recent Rural Industries & Research Development Corporation report "Marketing Agricultural Sustainability" by Toyne, Cowell and Mech, publication number 04/050, at page 55)
- Preliminary results from the industry's branding investigation indicates that while there is a strong interest from the retailers / brand owners of cotton garments for a 'sustainably produced' cotton for their supply chain, there is little willingness to pay any premium for it. Thus while it is still considered that there are potential benefits to be realised from branding Australian cotton, these benefits will likely be subtle (eg. establishing Australia as a preferred supplier, thereby enabling the crop to be sold / maintaining market access) rather than explicit, such as premiums attaching to branded Australian cotton
- Toyne, Cowell and Mech also note a number of limitations of environmental assurance schemes for delivering large-scale landscape environmental outcomes: voluntariness, the difficulty in linking farm-scale actions to landscape scale outcomes and non-agricultural contributions to environmental impacts
- A fourth limitation can also be noted for labelling/environmental assurance schemes seeking to label the outputs of farmers involved in the scheme: the tension between the development of niche markets, which are by definition low volume, versus the need to have wide-spread adoption (and therefore a likely oversupply of labelled produce) to effect any significant environmental improvement. The end result is that the auditing/certification/labelling of the product becomes a basic requirement for doing business and therefore another cost to be borne by the producer with no associated benefit, and any 'leverage' provided by the scheme for the uptake of better NRM practices is lost unless the scheme continually raises its performance bar

In conclusion therefore, the cotton industry believes that there are potential market benefits to be gained from using an environmental labelling program. However, it does not consider that such a concept should be relied upon, or expected to be able to deliver environmental outcomes without additional policy support. It may well be an important component in the mixture of approaches that can be utilised, but it should not be the only focus.

Resource access and property rights

Where do landholder and others (including the wider community) responsibilities lie in achieving environmental and resource management outcomes?

Generally, the responsibilities will be determined by the level of public versus private benefit derived from the outcome. Of course, where and how that line is drawn is often problematic. The inherent difficulties in drawing this line can be lessened however through the development of a strong partnership between industry and government, as a collaborative approach will be focused on achieving outcomes, and likely be less concerned about drawing clear lines of distinction than a combative or competitive approach. This point is discussed further, below.

Achieving natural resource management benefits

How should government investment in natural resource management be best targeted?

The increased pressure on farmers to better manage their natural resources and to manage those resources for public benefits has coincided with a decrease in the level of independent support and expertise (i.e. State Agency extension staff) available. In response, the cotton industry has developed its own extension network for the BMP Program (funded by cotton growers) as well as an extension network funded by the Cotton Research & Development Corporation in collaboration with the state agencies. This has placed increased pressure on both CRDC's and Cotton Australia's budgets.

While these extension networks have received valuable support from both state and federal agencies, this support is project based and ad-hoc, whereas engendering the change in attitude and farming practices required to effect environmental change is a long, continual process well beyond the time-frame of the current funding process.

Furthermore, even if funding is available, expertise in NRM issues is often difficult to locate, as evidenced by the attempts of the industry to fill two environmental development officer positions — only after the third round of advertisements and interviews were the positions able to be filled.

The cotton industry has demonstrated, through its BMP Program, that it is willing to accept the responsibility for helping cotton growers change and improve the way they manage their farms. However, it is an expensive long-term process that is becoming more complex and therefore more difficult as an increasing number of NRM outcomes are expected of farmers.

To continue to be an effective change agent the industry would like to develop more formal, long-term partnerships with governments, whereby government would invest in the industry as one of the key organisations for effecting the environmental (public good) outcomes sought by government. The industry has the infrastructure, track record and credibility with members to be able to help deliver sustainable cotton farming systems.