

Hot water

Submission on the Northern Territory Draft Surface Water Take policy

NT water policy changes are aimed at expanding irrigation, particularly cotton production.

Government and industry claims that cotton expansion would create significant employment and tax payments are not supported by data. Census figures show that cotton is one of the least jobs-intensive sectors in the economy. According to the Australian Tax Office, major cotton companies make minimal tax payments. An NT cotton industry is unlikely to bring any significant economic benefit.

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Introduction

The Australia Institute welcomes the opportunity to make a submission to the Northern Territory's Draft Surface Water Take – Wet Season Flows Policy and Draft Interference with a Waterway Guideline. While not explicitly stated in these documents, the purpose of this policy process is to support the development of irrigated agriculture, particularly a cotton industry. This is indicated by statements from government and industry representatives:

For me it's about looking to keep pushing forward with these agricultural precincts, which again give us more opportunities to diversify. Let's make sure we look at other industries like cotton and getting that cotton gin and supporting it to get off the ground – **NT Government Minister Nicole Manison**¹

The Northern Territory desperately needs new industry. And I think the cotton industry can provide a really good catalyst for development in the Katherine region – **Paul Burke, NT Farmers Association**²

I think cotton is a really good fit for the Northern Territory — if we can make it grow – **David Connolly, WANT Cotton chairman and manager of Tipperary Station**³

In the interview quoted above, Minister Manison says she is “left scratching [her] head” about opposition to new agricultural developments. She urges stakeholders to “consider the actual real benefits to the Territory” of such projects. She claims that developments like the Keep Plains irrigation proposal bring jobs and tax payments to the Northern Territory.

This submission takes up Minister Manison's suggestion, by examining the potential employment and tax impacts of a cotton industry in the Northern Territory (NT). In short, there is no evidence to suggest that the expansion of irrigation and/or cotton in the Territory will have significant employment or revenue benefits. These industries are typically intensive users of land, water and capital, but are not labour intensive. According to Australian Tax Office (ATO) data, cotton companies make minimal tax payments while many are subsidised directly by governments and indirectly by the environment.

¹ Bran (2022) *Year ahead for the Northern Territory: Interview with Mining and Agribusiness Minister Nicole Manison*, <https://www.abc.net.au/radio/programs/nt-country-hour/year-ahead-nt-minister-nicole-manison/13755632>

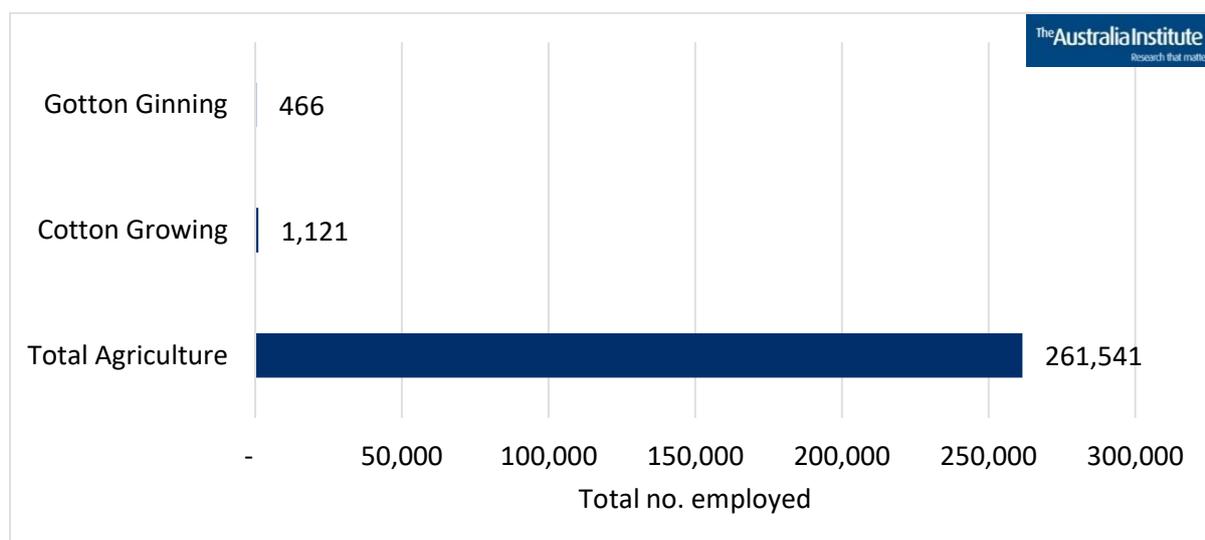
² ABC News (2022) *NT's first cotton gin nears completion as Katherine council considers stance on industry*, <https://www.abc.net.au/news/2022-05-18/nt-first-cotton-gin-forges-ahead-katherine-council-weighs-stance/101071674>

³ ABC News (2019) *Cotton in NT starts to emerge as drought-stricken southern farmers look elsewhere*, <https://www.abc.net.au/news/rural/2019-01-18/nt-cotton-industry-starts-to-emerge-as-farmers-look-north/10722180>

Employment

It is unlikely that a cotton industry in the NT could create significant numbers of jobs. The industry is one of the least labour-intensive sectors in agriculture, or indeed the wider economy. Census data from the Australian Bureau of Statistics (ABS) shows that cotton growing employs just 1,121 people nation-wide, just 0.4% of the total agricultural workforce.

Figure 1: Cotton employment compared to total agricultural employment in Australia

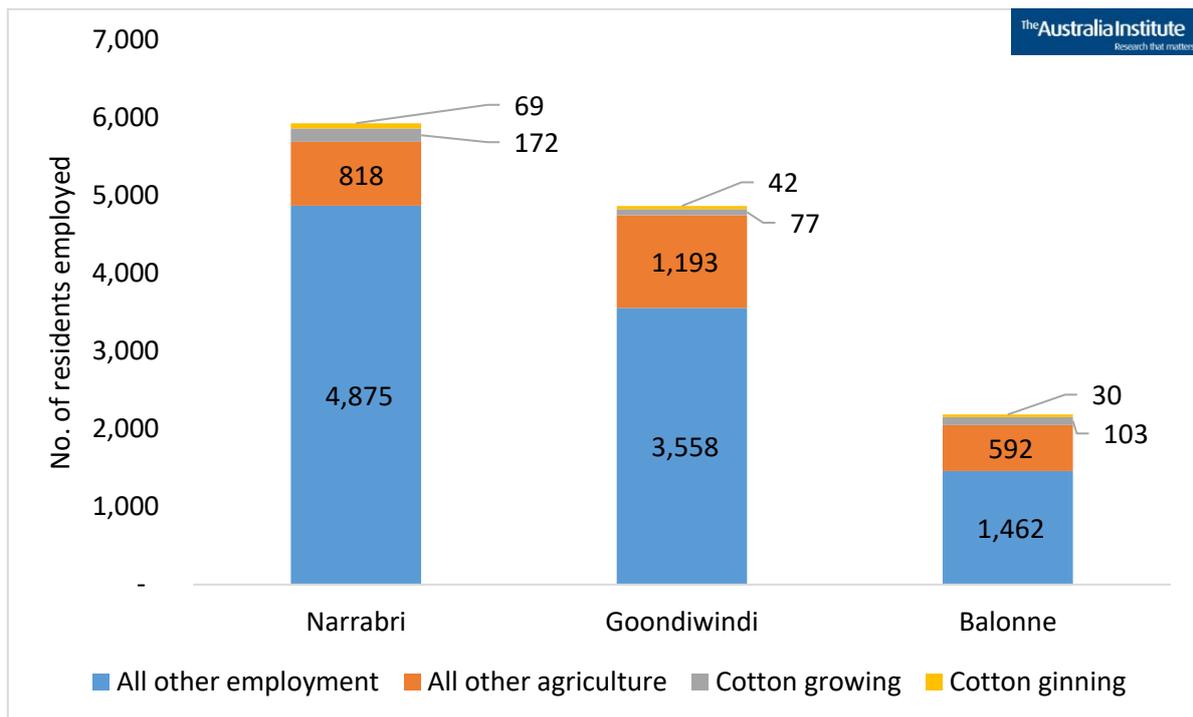


Source: Australian Bureau of Statistics (2021) *TableBuilder: 2021 Census*

Figure 1 shows that cotton ginning, the basic processing of raw cotton, employs only 466 people. Very little other processing occurs in Australia. While cotton often features in the news headlines, the crop accounts for a very small part of national agricultural employment. There is no evidence to suggest that the industry would be any different in the NT.

Even in local government areas (LGAs) known for their cotton production, employment in cotton growing and ginning is a small fraction of total and agricultural employment. This is illustrated by census data for Narrabri in NSW, Goondiwindi and Balonne in Queensland, shown in Figure 2 below:

Figure 2: Cotton employment in NSW and Queensland cotton-producing LGAs



Source: Australian Bureau of Statistics (2021) *TableBuilder: 2021 Census*

The areas chosen are well known as cotton producing areas - Narrabri LGA which encompasses Wee Waa, the ‘cotton capital of Australia’, Balonne LGA that encompasses St George and Goondiwindi LGA. Figure 2 shows that even in prominent cotton producing areas, cotton growing and processing accounts for less than one-third of agriculture employment (29% in Narrabri, 10% in Goondiwindi and 22% in Balonne) and at best 6% of employment overall (6% Balonne, 4% in Narrabri, 3% in Goondiwindi). Put another way, in Australia’s best known cotton areas, 95% of people do not work in the cotton industry.

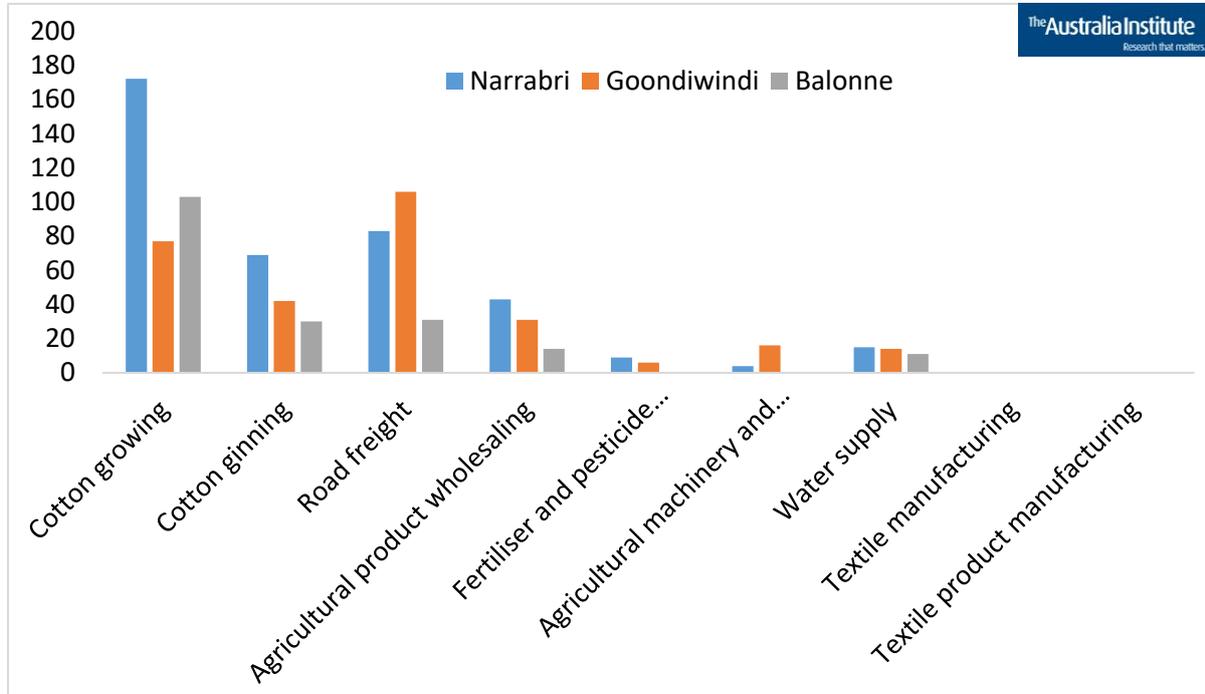
Lobbyists of all industries invariably claim that their industry supports jobs and businesses in other industries. To some degree this is true - all industries buy inputs from, and sell products to, other industries. However, cotton and cotton ginning buy from and sell to industries that are largely global or national rather than based in the Northern Territory. Industry analysts Ibis World details the cotton supply chain as below:

- Key buying industries:
 - Textile manufacturing
 - Textile product manufacturing
- Key selling industries:
 - Fertiliser and pesticide manufacturing
 - Agricultural machinery manufacturing
 - Water supply
 - Agricultural supply wholesaling

- Road freight transport⁴

Census data shows that none of these industries are major employers in cotton growing LGAs, as shown in Figure 3 below:

Figure 3: Employment in cotton and related supply chain sectors in cotton-producing LGAs



Source: Australian Bureau of Statistics (2021) *TableBuilder: 2021 Census*

None of the cotton supply chain industries shown in Figure 3 are likely to have significant employment in the NT. Furthermore, not all of the employment in supply chain industries is attributable to the cotton industry. Road freight and wholesaling serves a range of other industries in these areas.⁵

⁴ Ibis World (2021) Cotton Growing in Australia, IBISWorld.com

⁵ For further discussion see Campbell and McBride (2021) *Pulling the cotton over your eyes: Submission to NSW Legislative Council inquiry into floodplain harvesting*, <https://australiainstitute.org.au/report/pulling-the-cotton-over-your-eyes/>

Profits and Government payments

Cotton has a reputation as a lucrative and profitable crop. According to analysis by Boyce Chartered Accountants, the top 20% of cotton producers have made strong profits every year this century.⁶ However, according to Australian Tax Office (ATO) data, major cotton-producing and -processing companies rarely make significant company tax payments.⁷ Over the years where data is available (2013-14 to 2019-2020):

- Namoi Cotton reported \$3.06 billion in revenue and paid no company tax.
- AusCott reported \$1.48 billion in revenue and paid \$51.3 million in company tax (3.5%).
- CS Agriculture (Cubbie Ginning) (data available 2014-15, 2015-2016, 2017-2018) reported \$484 million in revenue and paid \$11.6 million in company tax (2.4%).
- Brighann Ginning (data available 2018-19 and 2019-20 only) reported \$431 million in revenue and paid \$0.79 million in company tax (0.18%).
- Webster Limited had revenue of \$848 million, but paid just \$8.7 million in company tax.

Revenue is not reflective of profit and there are many reasons why companies pay no tax in particular years. No allegation of illegality is made here. What is clear, however, is that promoting a cotton industry in the Northern Territory is unlikely to have a significant impact on corporate tax take.

In any event, corporate tax is paid to the Federal Government. Payments to the NT Government are also unlikely to be material, particularly as the NT Government sees giving away water rights for free as a “competitive advantage”.⁸ With no water payments and minimal employment (and therefore minimal payroll tax) it is unclear how any significant revenue will accrue to the NT Government.

⁶ Boyce Chartered Accountants (2020) *2019 Australian Cotton Comparative Analysis*, <https://www.boyceca.com/boyce-newsfeed/2019-australian-cotton-comparative-analysis-released>

⁷ ATO (2022) *Corporate tax transparency*, <https://www.ato.gov.au/Business/Large-business/Corporate-tax-transparency/>

⁸ Bran (2022) op cit.

Conclusion

Minister Manison is right to call for consideration of the benefits of agricultural development in the Northern Territory. But the NT Government must apply scrutiny to benefits claimed by self-interested proponents and lobby groups. It must also consider the costs of developments.

The NT community is highly unlikely to realise any financial benefit from an expanded cotton industry and few jobs would be created. Significant potential costs include environmental impacts and government subsidies. Overall, it is unlikely that increasing water take in the Territory is in the public interest.

The cotton industry is politically powerful and lobbies hard for its interests. Some of its operations are highly profitable. Industry power and profits should not, however, be confused with the public interest.