



National Water Reform

Victorian Farmers Federation Submission

September 2020

**VFF Water Council
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Melbourne 3000**

The Victorian Farmers Federation

The Victorian Farmers Federation (VFF) is the only recognised consistent voice on issues affecting rural Victoria and we welcome the opportunity to comment on the Productivity Commission's Issues Paper regarding National Water reform.

Victoria is home to 25 per cent of the nation's farms. They attract neither government export subsidies nor tariff support. Despite farming on only three per cent of Australia's available agricultural land, Victorians produce 30 per cent of the nation's agricultural product. The VFF represents the interests of our state's dairy, livestock, grains, horticulture, flowers, chicken meat, pigs and egg producers.

The VFF consists of a nine person Board of Directors, with seven elected members and two appointed directors, a member representative General Council to set policy and eight commodity groups representing dairy, grains, livestock, horticulture, chicken meat, pigs, flowers and egg industries.

Farmers are elected by their peers to direct each of the commodity groups and are supported by Melbourne-based and regionally located staff.

Each VFF member is represented locally by one of the 200 VFF branches across the state and through their commodity representatives at local, district, state and national levels. The VFF also represents farmers' views on hundreds of industry and government forums.

David Jochinke
President

Summary of Recommendations:

Recommendation 1: That the PC review each States progress of the NWI.

Recommendation 2 : That the PC remove the prescriptive 'environmentally sustainable levels' of extraction in the NWI.

Recommendation 3: That the PC recommend adaptive approaches to achieve environmental outcomes rather than volumetric water recovery targets.

Recommendation 4: That the PC provides clearer definitions regarding the consumptive pool, to ensure water access entitlements are not impacted because of State Water Plans.

Recommendation 5: That the PC ensure an adaptive management framework is included in a new NWI.

Recommendation 6: That the PC ensure no water buybacks are included in a new NWI to ensure it reflects current Government policy.

Recommendation 7: The Productivity Commission must consider deliverability issues and third party impacts in a revised NWI.

Recommendation 8: The Productivity Commission review how environmental water is funded and how they participate in the water market.

Recommendation 9: The PC review the risk assignment process operating in Victoria and suggest that amendments that look to remove the Minister's power to qualify rights.

Recommendation 10: The PC provide clear recommendations regarding metering and compliance.

Recommendation 11 The PC ensure a complementary measures framework is included in a revised NWI.

Recommendation 12: The PC provide a clear framework regarding government ownership of water assets, the funding of their operation, maintenance and refurbishment.

Recommendation 13: The PC clearly articulate the importance of improved transparency.

Recommendation 14: The PC propose principles for effective structural adjustment.

Introduction:

The Victorian Farmers Federation (VFF) welcomes the opportunity to provide comment to the Productivity Commission's Issues Paper on national water reform.

Much has been achieved since the establishment of the National Water Initiative in 2004, however concerns remain in the management of our water resources to enable agriculture to farm with confidence particularly in the Murray Darling Basin.

State Progress on NWI

The VFF requests the Productivity Commission articulate each states progress against each objective of the National Water Initiative.

The VFF believe Victoria has made significant progress with its water reforms since 2004, yet other states have not progressed with such vigour. The VFF believe the PC needs to call out slow progress by other States.

Recommendation 1 : That the PC review each States progress of the NWI.

Environmentally-sustainable levels of extraction

Farmers remain confused about the inconsistencies in the NWI about approaches for balancing consumptive and environmental outcomes.

Paragraph 36 recognises that settling the trade-offs between competing outcomes for water systems [consumption and environment] will involve judgements informed by best available science, socio-economic analysis and community input.

Paragraph 41 of the NWI states that State;s allocation systems will provide a better balance in water resources. (Pg 8).

These paragraphs are consistent with the principle of integration in Section 3A of the EPBC Act that states that Decision-making processes should effectively integrate both long-term and short- term economic, environmental, social and equitable considerations (the 'integration principle'). They are supported by the VFF.

However, Paragraph 44 requires states to identify firm pathways and open processes for returning previously overallocated and/or overdrawn surface and groundwater systems to environmentally-sustainable levels of extraction.

The "environmentally sustainable level of extraction" is defined in the NWI as the level of water extraction from a particular system which, if exceeded would compromise key environmental assets, or ecosystem functions and the productive base of the resource.

The VFF considers this definition to be in conflict with the real world concepts of “trade off” and a “better balance”. The definition places scientists and technocrats rather than the policy makers and the community at the centre of decision making.

It is particularly problematic because there is significant uncertainty about how climate change will affect key ecological assets and functions. Worse, the approach has had the unfortunate effect of turning many scientists into unreliable advocates, rather than trusted impartial providers of information.

The Commonwealth Water Act and the Basin Plan has clearly demonstrated the folly of this approach. The Basin Plan is required to determine environmentally sustainable diversion limits and then consider social and economic outcomes. It has been a \$13 billion approach that has generated heated conflicts, and social and economic costs across the Basin. The approach, if adopted to urban supply systems would be a disaster.

The VFF strongly supports the concepts of “better balance” and the need to make explicit trade-offs taking into account environmental, social and economic outcomes. The prescriptive concept of “environmentally-sustainable levels of extraction” should be removed.

Objectives for environmental outcome objectives should only be settled after it has been established that the benefits of achieving/maintaining the proposed objectives exceed the costs, costs have been allocated and funding sources identified. The normal way to do this is to define the base line conditions (water sharing and environmental condition) of waterways and then look for practical opportunities to improve/maintain environmental conditions using a benefit cost approach.

Adaptive approaches should be adopted to achieve environmental outcomes rather than volumetric water recovery targets

Recommendation 2: That the PC remove the prescriptive ‘environmentally sustainable levels’ of extraction in the NWI.

Recommendation 3 : That the PC recommend adaptive approaches to achieve environmental outcomes rather than volumetric water recovery targets.

Confusion between water entitlements and planning

Paragraphs 30 and 31 of the NWI clearly describe the attributes of water access entitlements in terms of access to the “consumptive pool” terms that create a secure property right to the consumptive pool. However, the “consumptive pool” is defined as the amount of water resource that can be made available for consumptive use in a given water system under the rules of the relevant water plan.

This means that a water access entitlements are only as secure as the water plan that defines the consumptive pool.

The NWI does not provide strong mechanisms to protect water access entitlements from changes in the consumptive pool caused by changes to water plans. Therefore, plans can undermine the security of water access entitlements. This can lead to confusion and conflict.

Recommendation 4 : That the PC provides clearer definitions regarding the consumptive pool, to ensure water access entitlements are not impacted because of State Water Plans.

Adaptive Management

While the Commonwealth Water Act (2007) refers to an adaptive management framework, there has been little adaption of the Basin Plan. The VFF believe there is scope for adaptive management principles to be included in a renewed NWI to ensure water policy adapts to new information.

National Water Initiative Versus Other Commonwealth Water Reforms (Basin Plan)

Farmers remain confused about the inconsistencies in the NWI and conflicting policies in the National Water Initiative and the Commonwealth Water Act/Basin Plan Act.

With the Government's recent commitment to ensure there are no water buybacks. The VFF believe this should be added to a revised NWI.

Recommendation 5: That the PC ensure an adaptive management framework is included in a new NWI.

Recommendation 6: That the PC ensure no water buybacks are included in a new NWI to ensure it reflects current Government policy.

Trade deliverability and third party Issues must be addressed

Paragraph 58 of the NWI describes the desired outcomes from water market and trading arrangements. It includes the protection of the environment and the protection of third party interests. There is ample evidence that current trading rules have not provided these protections.

The water market has transferred large volumes of water from the Riverine Plains to the Mallee.

This has increased the difficulty of meeting water demands due to an increased reliance on releases from Hume Dam due to less water in the Darling and Murrumbidgee. The expansion of horticulture in the Mallee has been made possible by water trading further upstream and the increased requirement to deliver environmental flows to South Australia.

The expansion of horticulture has concentrated the demand of water in the summer months meaning that the peak daily demand for water has increased.

Continued expansion of perennial horticultural plantings below the Choke, in the Mallee regions of NSW, South Australia and Victoria is changing irrigation demand patterns. Previously, when most water use below the Choke occurred in the Torrumbarry Irrigation area, there were three peaks during the season. One was for annual pastures in the spring, one for perennial pastures in summer and another for annual pastures in the autumn.

Increasingly, there is now one larger peak for perennial horticulture in the summer.

The total volume available for irrigation use below the Choke at 100 per cent allocation is 1439 GL across Victoria, New South Wales and South Australia.

Based on the existing plantings in Victoria alone, at maturity they will require around 800,000GL, that is over half of the total water available below the Barmah Choke assuming a 100% allocation to high reliability water shares.

Catastrophic water shortfalls can be expected to occur when we next get the drought conditions similar to 2006/07 to 2008/09 and the 35% allocation to high reliability water shares that occurred in 2008/09.

The Victorian Government acknowledged the problem of horticultural growth in the Mallee and delivery risks and took steps to call in all new license applications. Other States have been reluctant to adopt Victoria's approach.

The VFF believe the Productivity Commission must ensure a revised NWI considers deliverability and third party impacts.

Recommendation 7: The Productivity Commission must consider deliverability issues and third party impacts in a revised NWI.

Environmental Water Holders Impact on the Market:

The NWI enables environmental water holders to both buy and sell on the water market. If commercial principles apply, environmental water holders would sell water when the price is high and buy water when the price is low. However, because environmental water holders are funded by governments, the market value of water is not a key consideration in their trading decisions. They do not sell significant amounts of water when the prices are high. This is a significant issue in the southern Murray-Darling Basin where they hold about one third of all entitlements.

The VFF believe the Productivity Commission must consider how environmental water holders are funded and how they participate in water markets.

Recommendation 8: The Productivity Commission review how environmental water is funded and how they participate in the water market.

Risk Assignment

Victoria pursued its own risk assessment framework via paragraph 51 of the NWI in 2005.

The Victorian *Water Act 1989* requires a long-term water resource assessment every 15 years to assess whether water availability has declined or if waterway health has deteriorated for reasons related to changes in flow.

A long-term water resource assessment considers whether:

- 1) A long term reduction in water availability needs to be shared more equitably between consumptive users and the environment; or
- 2) Water sharing arrangements need to respond to a deterioration in waterway health related to changes in flow.

A draft technical assessment is prepared and made available for public comment, with the Environment Protection Authority (EPA) also providing an assessment.

Following a technical assessment, a panel can be established which involves a number of review processes. The Minister then must determine a 'program of implementation', which allows for the permanent qualification of rights under Section 33AAB.

The VFF did not support this provision in the Water Act as it undermines the security of water entitlements and unnecessarily politicises water management. VFF believe this is an outdated piece of legislation that should be removed from the Long Term Water Resource Assessment process.

Victoria has worked tirelessly to establish a strong water market framework, where farmers are able to manage their own risk through carryover and reserve policies. Other water users, including environmental water holders also have the same ability.

Given environmental water holders hold the same water product as irrigators, they both share the same level of risk.

The VFF strongly opposes Minister's powers to permanently qualify rights because they:

- Undermine the integrity of the market
- Are inconsistent with the approaches taken in the Basin Plan
- Further politicise water management
- Enables the Minister to pick winners and losers.

The VFF believe the PC should review the risk assignment process of Victoria and suggest reform.

Recommendation 9: The PC review the risk assignment process operating in Victoria and suggest amendments that look to remove the Minister's power to qualify rights

Best Practice Monitoring and Compliance

The NWI acknowledges the importance of credible and reliable metering.

Yet some States have made little progress in their compliance. In the Northern Basin floodplain harvesting remains unmetered, and in New South Wales and South Australia we have direct river diverters taking water they do not have available in their accounts.

We have seen unauthorised take by river diverters in South Australia who only check meters at the end of the irrigation season. This results in spiking water prices as interstate irrigators scramble to balance their water accounts.

The VFF believe the PC need to be clear with their recommendations regarding an acceptable level of metering. Meter reads once a year is clearly unacceptable.

Recommendation 10: The PC provide clear recommendations regarding metering and compliance.

Environmental water management- complimentary measures

The VFF note that in 2017 when the Productivity Commission last reviewed the NWI it called for greater integration between environmental water management and complementary waterway management activities.

Little progress and funding has been made on ensuring a greater uptake of complementary measures. While the Commonwealth Water Minister announced \$20 million recently for such programs, this amount of funding needs to be substantially more to have any great environmental impact.

Current water reforms such as the Basin Plan have only taken a very narrow view when considering waterway health, by only considering improving flows. However, there are many other elements that relate to waterway health, such as riverbank vegetation, aquatic life and water quality.

We know that increased flows down the Goulburn River have negatively impacted the environment. This has seen the Victorian Minister reduce month release limits through the inter valley trade rule. It has become clear that the volumes of water proposed under the Basin Plan will not be possible and a greater move to complementary measures to support the environment will be necessary.

An expanded complementary measures program would allow for greater improvement in environmental health without having to continue to take water from agriculture.

The VFF believe a strong complimentary measures framework should be included in the revised NWI

Recommendation 11: The PC ensure a complementary measures framework is included in a revised NWI.

Best Practice Water Pricing

Paragraph 66 of the NWI sets out pricing principles for storing and delivering water. These principles were established before environmental water holders held significant volumes of water and there were few assets used to deliver environmental water.

This is no longer the case. Governments are providing hundreds of millions of dollars to build assets to deliver environmental water. There needs to be greater clarity about the ownership of these assets and how their ongoing operating, maintenance and refurbishment are to be funded.

Recommendation 12: The PC provide a clear framework regarding government ownership of water assets, the funding of their operation, maintenance and refurbishment.

Transparency

Transparency is referred to the NWI in multiple places and must remain a key focus of a renewed NWI. While the ACCC has recently released its Water Markets review, it is clear much work is needed to improve transparency in the water market.

The VFF believe greater transparency is required of large corporates to ensure they do not wield excessive market power and improve the transparency of the water brokerage industry.

Furthermore, irrigators should be able to access reliable information about the source, location, use and availability of water along the stretch of the river systems in the Basin.

The PC needs to clearly articulate the importance of improved transparency.

Recommendation 13: The PC clearly articulate the importance of improved transparency.

Structural adjustment

Structural adjustment is considered in various sections of the NWI, notably under paragraph 97.

Structural changes to communities reliant on water cannot simply be offset through grants and programs. A removal of water from a community ultimately removes jobs and the economic wealth of these rural communities.

Recommendation 14: The PC propose principles for effective structural adjustment.