

SUBMISSION

Productivity Commission Issues Paper: National Water Reform

May 2017

Executive summary

The Victorian Association of Forest Industries (VAFI) appreciates the opportunity to comment on the *Productivity Commission Issues Paper on National Water Reform* (Issues Paper). In assessing the potential for broadening the coverage of entitlement regimes to include new water sources, the Productivity Commission should consider the role that plantations play in the landscape and seek to achieve efficient and equitable water management outcomes.

It is crucial that full consideration should be given to avoiding unintended outcomes (such as unsustainable industry activity or reduced plantation investment) due to uncertainty and increased cost arising from inequitable water entitlement regimes.

VAFI recommends that to be equitable, efficient and effective, any extension of the water entitlement process to should meet the following principles:

1. Focus on land use change

In line with the principles of the National Water Initiative, any proposed changes to entitlement frameworks should recognise existing water use and focus on land use changes that may affect surface interception.

2. Equitable treatment of all land uses

Timber plantations are a crop raising activity and must be treated on an equitable footing with other agricultural land uses.

3. Potential impacts and benefits must be balanced

New plantations can deliver substantial socio-economic and environmental benefits.

4. Evidence based decision making

Significant technical work is still required to underpin the development of future decision making, including improved impact assessments.

5. Benefits of intervention must outweigh the costs

Changes should be restricted to targeted areas where extended entitlement frameworks will deliver demonstrable benefits.

6. Allow individuals to manage their own risk

Where conflicting rights for water exist in highly stressed water systems, competition should be managed through appropriate mechanisms.

About the Victorian forest, fibre and wood products industry

The forest, fibre and wood products industry is a vital industry for Victoria and a key contributor to the state's economy. The industry is a major driver of economic activity and jobs in Victoria, generating \$7 billion in sales and service income annually.¹ Much of the income generated by the industry remains in local communities, particularly so in rural and regional Victoria.

Throughout the state, the industry directly employs approximately 21,000 people. Around 90% of these directly employed workers are in primary and secondary processing roles; essentially timber manufacturing applications, such as appearance product manufacturers, furniture manufacturers, and timber fabricators.

Indirectly, the industry also supports a further 40,000 to 50,000 jobs through flow on economic activity. This includes value-adding roles, such as the nearly 10,000 people who work making timber furniture, cabinetry and in joinery manufacturing.²

For Victoria's industry to best position itself to meet future market demand, both nationally and internationally, there is an immediate and ongoing need for consistent policy settings, at the local, state and national levels. Forestry is a long-term business and needs the security of a long-term vision to be a strong, viable and sustainable industry. Security of resource is paramount for a successful industry in short, medium and long-term.

About VAFI

VAFI is the peak representative body for the Victorian forest, fibre and wood products industry. VAFI represents the entire lifecycle of forestry and wood products, including forest owners and growers, harvest and haul businesses, wood and paper processors, manufacturers and associated businesses across both the native forest and plantations sectors. We support and encourage best practice in industry and forest management.

The long-term vision for the forest, fibre and wood products industry in Victoria is that of growth, stability and sustainability. The forest, fibre and wood products industry is a 21st century employer and wealth generator. It is a sunrise, not a sunset industry. What the industry needs from all levels of government – national, state and local - is clarity and consistency in policy positions and decisions that support the long-term future of the forest, fibre and wood products industry.

¹ ABS (2016) 8155.0 Australian Industry, 2014-15

² Schirmer, J (2010) *Socio-economic characteristics of Victoria's forestry industries*

Introduction

The Productivity Commission Issue Paper seeks feedback on extending existing entitlement regimes to include new water sources. In the same section, plantation forestry is discussed in the context of “extractive industries” (p11) as follows:

"Incorporating extractive industries into the planning and entitlement framework

Initial consultation suggests some participants remain concerned about the risks of alternative water rights arrangements for extractive industries. Some participants highlighted that there may also be scope to extend the coverage of entitlement regimes to activities that intercept large amounts of water (as occurs for some plantation forestry) where this has not already been done.

In this submission, VAFI provides information on water regulation for the plantation sector in Victoria, and offers feedback on the key principles that should be applied to any change in the water entitlements framework.

Victorian context

Long-term strategy for water management in Victoria is laid out in four regional Sustainable Water Strategies (SWS), covering the Western, Northern, Gippsland and Central regions³, which were produced by the Department of Environment, Land, Water and Planning (DELWP). The Western Region and Gippsland SWS discuss the plantation industry in detail, due to the relatively large area of existing plantations those regions. The strategies a mechanism to restrict development of any new plantations if an area is declared to be “intensive management”. New plantations are defined as replacing pasture or crops, above an agreed area threshold, to plantation. Restrictions would not apply to establishing a new rotation or change from one type of plantation to another (e.g. from environmental planting to biofuels). An area can be declared as “intensive management” by either the Minister for Water or by DELWP, as part of a 10-yearly review of the SWS (both scheduled for 2021). To date, no intensive management areas have been declared by the Minister.

Crucially, the Sustainable Water Strategies allow for the protection of plantation asset values and associated jobs in harvesting and hauling timber. Under the SWS, the commercial forestry industry will have certainty that the water use of their existing plantations is protected, and that this will continue as plantations are rotated.

VAFI recommends that any changes to the water entitlements process should not contradict Victorian policy.

³ <http://www.depi.vic.gov.au/water/governing-water-resources/sustainable-water-strategies>

Key points

In assessing the potential for broadening the coverage of entitlement regimes to include new water sources, the Productivity Commission should consider the role that plantations play in the broader landscape and seek to achieve equitable water management outcomes.

It is crucial that full consideration should be given to avoiding unintended outcomes (such as unsustainable industry activity or reduced plantation investment) due to uncertainty and increased cost arising from inequitable water entitlement regimes.

VAFI recommends that to be equitable, efficient and effective, any extension of the water entitlement process to should meet the following principles:

1. *Focus on land use change*

Expansions of entitlement regimes should recognise the current mix of land uses and should not be applied retrospectively to existing land uses. Any revisions should be developed in line with the principles of the National Water Initiative (NWI) by applying only to land use change. It is crucial to recognise that replanting a crop following harvesting does not constitute a change in land use. This principle is applicable to all crops, including timber plantations.

Plantation forestry includes timber, pulp, carbon and biofuel plantations, and large environmental and farm forestry plantings. A change from one type of plantation forestry to another does not represent a change in land use.

2. *Equitable treatment of all land uses*

New plantations are often considered to be high priority when assessing interception impacts. However, VAFI's position is that all land uses should be treated equitably and all forms of land use change be considered when assessing risks to water availability. Timber plantations are a crop raising activity and must be treated on an equitable footing with other agricultural land uses. Assessments must include all new, significant interception activities, not just new plantations.

Land use change from annual pasture to timber plantations may represent a change in average interception within a catchment, however changes in agricultural regimes can also cause substantial interception impacts. There is evidence that perennial pastures such as lucerne and phalaris use more water than annual crops and pasture. Research has shown greater water use by lucerne pasture is greater than wheat crops. Furthermore, the water excess (runoff plus drainage) from land under continuous lucerne pasture was assessed to be similar to deep rooted forest cover.⁴ Land use change to perennial pasture is therefore likely to have a substantial effect on interception.

⁴ Keating, B.A., Gaydon, D., Huth, N.I., Probert, M.E., Verbug, Smith, C.J. and Bond, W. (2002) Use of modelling to explore the water balance of dryland farming systems in the Murray-darling basin, Australia, *European Journal of Agronomy*18, 159-169

3. Potential impacts and benefits from land use change must be balanced

The benefits from land use change to communities (social, economic and environmental) should be taken into account. Plantation forestry is a legitimate agricultural land use, which provides additional economic diversification and makes a significant socio-economic contribution to regional Victoria.

Plantation Forestry is the only broadacre agricultural land use to operate under a mandatory code of practice and most plantation managers have their environmental management practices third-party certified by the Programme for the Endorsement of Forest Certification (PEFC) or Forest Stewardship Council (FSC), often both. As such, plantations meet a suite of requirements for maintaining and improving environmental values. Increasing plantation tree cover through a balanced mix of production zones, farm forestry, and environmental plantings can provide environmental benefits such as

- Greenhouse gas mitigation;
- Salinity mitigation;
- Biodiversity benefits; and
- Improved water quality.

4. Evidence-based decision making

All decisions regarding water interception must be underpinned by sound, replicable and reliable science. This is important for making an appropriate determination of the 'significance' of an interception activity, in the context of relatively small plantation areas within any given catchment.

VAFI believes that there is significant technical work still required to underpin the development of future decision making, including:

- Assessment of the impacts of land use and management change on system hydrology for a broader range of land uses;
- Assessment of actual impacts of land use change and management through empirical research and examination of the impact of management and site factors;
- Improved hydrologic mapping of groundwater resources; and
- Improved modelling of groundwater use by deep-rooted vegetation.

5. The benefits of intervention must outweigh the costs

Changes to the regulatory framework, if applied nationwide, would introduce increased business costs without necessarily creating new benefits. Due to the non-uniform impacts of land use change on water resources, a targeted approach is required. A mechanism for introducing management measures in identified highly stressed catchments may be appropriate. In such cases, there must be transparent, predictable and equitable rules for determining when an area is highly stressed.

6. *Allow individuals to manage their own risk*

Where conflicting rights for water use exist in water systems known to be highly stressed, entitlement regimes should allow individuals to manage their own choices and risks through mechanisms such as allocation trading and timely provision of information.