

Cotton Australia

Response to Productivity Commission Discussion Draft

Rural Water Use and the Environment: The Role of Market Mechanisms

Introduction:

Cotton Australia welcomes the opportunity provided by the Productivity Commission to take part in the Discussion Roundtable and further to submit written comment on the Discussion Draft – *Rural Water Use and the Environment: The Role of Market Mechanisms*. In making these comments, Cotton Australia recognises that this Discussion Draft is designed to meet the requirement of section 61 (iii) of the National Water Initiative. In doing so, Cotton Australia also recognises that, while it is not in the hands on the Productivity Commission to set timelines, this study will effectively be greater than 12 months behind the timeline set by the Council of Australian Governments for the implementation of the National Water Initiative.

Cotton Australia would also comment that while rural industry was and remains a strong supporter of the National Water Initiative, the current inconsistent application of the Agreement by the many levels of government is causing industry to review that position. In June 2004 all parties felt a strong commitment to a pathway ahead. Agreement had been reached on a number of key issues that would ensure the on-going balanced management and use of the water resource available. However, subsequent to June 2004, there has been evident the traditional state versus state versus the commonwealth mentality of the “merry-go-round of blame” as to who should or should not be taking responsibility. This has resulted in the slowing down and fragmentation of the Agreement. The timing of this study is an example of the slowing down of the implementation.

For the on-going support of industry for the National Water Initiative, studies such as this and the outcomes they reach will be critical despite the fact that they are late.

Also of concern in the whole water debate is the dominance of the Murray-Darling Basin in any discussion. This Report needs to be aware of this focus and cast comment in a wider context. From a cotton point of view, the Fitzroy Basin in Queensland is of equal significance as the Murray-Darling Basin and yet little

comment can be found on the issues that impact on water users in that system. Similar comments can also be made of the Lake Eyes Basin, Gulf Rivers as well as the Basins in the northwest and southwest of the country.

Cotton Australia would also urge caution in the way that Section 61 iii) of the NWI and the Terms of Reference of the study are interpreted and applied. This comment will be further expanded later in this submission.

Entitlement and Allocation Regimes:

Cotton Australia has long been an advocate for the identification of a long term secure property right (see Attachment I) that would be embodied in the access entitlement held by the water user. With the National Water Initiative bringing about the separation of water from the land title, the move to that secure property right had begun.

However, the description of the water access entitlement (the property right) as set out in section 31 of the NWI, is quickly becoming something quite removed from the reality of that which is being implemented by the state agencies.

The erosion of the property right is non more evident in the manner in which the New South Wales government's process of water pricing has been played out in the current bulk water pricing assessment as being undertaken by the Independent Pricing and Regulatory Tribunal draft determination. The ability of the agencies to justify significant pricing increases (that would appear to be of a *perverse and unintended outcome* – s.64 v)) supposedly based on their interpretation of the NWI, is further evidence of the misuse of the NWI to deliver an access that is far from the intention of the NWI.

For effective markets to operate the clear description of the product that is to be traded one would think is a critical component. The fact that this is lacking or at best highly confused is in itself a significant impediment in the water trading debate.

Constraints on Trade:

Cotton Australia would support the propositions raised in the draft Paper that identify those areas of constraint to trade, however, again the comment needs to be made that significant as they are, they still have an essence of the “Murray-centric” approach to life. As the cotton industry is found in catchments from central Queensland to central New South Wales, a one size fits all or narrow focus will not deliver the outcomes of the NWI while there is this southern focus.

Those rivers in the northern Gulf catchments, the northwest catchments as well as the southwest all need to be given careful consideration. Even if these catchments are not yet in a position to carry out trading of entitlement due to whatever reason, consideration needs to be given to sets of trading principles that will allow all of the potential trade to occur and for the proper reasons.

Cotton Australia would be comfortable if the Productivity Commission were to given careful scrutiny to those rules that are in effect within the stock exchange. While considered a “free market” the exchange still must operate under certain “rules of engagement”. Why can this not be the case for water trading?

The comments on Exit Fees and the weight given to this subject in the draft Paper is far too great in the opinion of Cotton Australia. It became very evident in the discussion held at the Roundtable Meeting that when the various proponents for and against Exit Fees presented their points, it became more of a debate about “whose Exit Fee was better than the others” rather than what is a way of overcoming the fee as a barrier to trade.

Again, from Cotton Australia’s perspective, the Exit Fee debate will only affect a small number of growers in the industry and to those growers it is not an issue of monumental significance. Unlike those water corporations on the Murray system!

Cotton Australia strongly urges the Commission to broaden its approach in these issues as it would appear from the content of s.61iii) and the Terms of Reference for the study, the issue of Exit Fee does not warrant any significant mention.

Externalities:

Cotton Australia, while feeling the same frustrations as growers with the imposition of water sharing processes in both New South Wales and Queensland, still recognises the importance of the water planning activities and supports the development of the Water Sharing Plans provided they are conducted in the intent of the NWI.

Under the provisions of the NWI, there exists the need for transparent accounting processes for water, therefore, when considering externalities, clear understanding and information is essential to have on-going support and long term management of the impact of water diversion and trading. Cotton Australia would be concerned if the consideration of the externality impact were to have greater precedent than achieving a whole of catchment balanced water sharing plan.

Government agencies must not be given the opportunity to use externality or environmental charges as a method of driving water use reform and efficiency.

The Commission would be well served to take into account those measures that have been and are being implemented on farm in an effort to achieve greater

water use efficiency and efforts to minimize the environmental footprint of the farming enterprise.

Altered River Flows:

Cotton Australia supports the comments by the Commission in the draft Paper in the area of considering mechanisms to manage externalities arising from altered river flows. However, as with previous comments, to achieve any measurable outcome by the use of such volumetric taxes, Cotton Australia would suggest that there is insufficient information available to draw sound conclusions on the interaction between river flow and the use of water for production purposes.

Cotton Australia would not support the application of an isolate charge on that water utilised in production purposes as a means to address altered river flows.

Salinity:

Cotton Australia recognises that the Australian continent is one that causes primary producers to face significant inherent production issues such as dry land salinity. Cotton Australia would urge the Commission to be careful in drawing too close a line in debate between dry land and irrigation salinity. Recognising that increases in saline content in soil as a result of the application of irrigation water does occur, with the lack of clear knowledge and understanding, to draw conclusions that application of water in all cases is the cause of rising salinity would be erroneous.

Cotton Australia supports the intent of the Paper in its efforts to address the significant issue of salinity, however, would again urge that a broader view be adopted in addressing the matter.

Cotton Australia would acknowledge the work and efforts of the Commission and its staff and would be willing to continue to work with the Commission in addressing the issues raised in the Paper.

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Attachment I

Excerpt from the Cotton Australia Policy Position Statement – March 2006.

3d) Water – General

Objective: A cotton industry that operates within each catchment where there is broad stakeholder support for the sustainable allocation of water for irrigation.

Cotton Australia - Overarching Position

That **Cotton Australia**'s position is to develop policy on water issues strategically at a national and state level, that recognises the integrity and diverse nature of the catchments whose community activities include cotton.

This diversity includes the different resources of surface and ground water. When requested, **Cotton Australia** will provide support complementary to the activities and actions of the respective state irrigator councils and the local water user groups.

i) National Water Initiative – Risk Assignment

That **Cotton Australia**

- Supports the principles set out in the National Water Initiative as establishment by the meeting of the Council of Australian Governments, June 2004;
- Supports that any adjustment to water entitlement be based on sound science and supported by clear social and economic impact studies agreed between the Commonwealth Government, the relevant State Government and the water users impacted by the adjustment; and
- Supports that while Commonwealth and State Governments back such a package approach, it is implemented and managed at a catchment level.

ii) Water Rights

That **Cotton Australia**

- Stands for a resource management framework that delivers water access rights in perpetuity, that specify shares of the available resource with defined reliability and operational rules;
- Recognises that current levels of economic activity and social integrity based on water access and use rights must, at least, be maintained;

unless revised levels of access and use are determined by regional/catchment agreements based on sound science;

- Supports a catchment based water planning, allocation and management process that encourages efficient and sustainable use of water;
- Identifies and implements through the cotton industry Best Management Practice program, natural resource stewardship;
- Supports a clear specification of entitlements entered onto a nationally recognised water entitlements register;
- Supports the capacity for transferable rights and effective arrangements for trading of those rights;
- Recognises that where water access or use changes are imposed on farmers by any review process and subsequent right of appeal, that transitional arrangements be implemented to allow for such change;
- Recognises that any future changes to the management of or adjustment to the access to water is supported by sound science that is responsive to community needs; and
- Provided that where such changes impact on the water property right or access rights that appropriate financial adjustment (that is at least equal to the current commercial value of the lost resource) is made to all affected parties.

iii) Water Trading¹

That **Cotton Australia**:

- Stands for the trading of fully defined water rights (entitlement, access and use) and that this trading must take place within a defined marketplace (*i.e.* the market for water, as with any other market needs defined rules);
- Recognises that the social, economic, environmental and cultural implications of trade must be identified and addressed in consultation with the impacted communities;
- Accepts that rules for the operation of the market will address the following principles: namely

¹ This Policy Position statement is consistent with New South Wales Irrigators' Council Discussion Paper – 2003.

- protects individual and community rights;
 - allows a proactive participatory role for the community in any developmental process;
 - protects accepted and defined environmental principles and outcomes; and
 - maintains a consistent approach to permanent, temporary and leasing transactions with no increases in current government taxes and charges;
- Recognises that the market for water requires proper administration, - *i.e.* once the rules of the market are established and agreed, then an independent statutory body will be responsible for the on-going governance and due diligence;
 - Recognises that without impacting on base environmental flow, the “environment” is a legitimate participant in the marketplace and is subject to the same rules of the marketplace as all other participants:
 - As a buyer and seller of defined water access rights;
 - That such participation will be transparent and accountable as with all other trades; and
 - That the participation of the “environment” in the marketplace will be through government or a legitimate community based entity;
 - Recognises that governments are legitimate participants in the marketplace and are subject to the same rules of trading as other participants; and
 - Recognises that water trading is not a legitimate alternative to structural adjustment assistance or compensation when the quality or quantity of the water access right is eroded by legislative process.

iv) Water Pricing²

That **Cotton Australia**:

- Believes that while recognising variation between catchments and excluding infrastructure costs, water resource management costs should be shared equitably across all water users and that such costs be based on sound and transparent disclosure of those costs; and
- Recommends that water pricing be based on the efficient cost of supplying water and managing the resource, as determined by an independent, accountable and transparent process, removed from government, while including a significant public consultation process.

² Based on policy development undertaken by the National Farmers’ Federation Water Taskforce.

That **Cotton Australia** recognises that it is important that all of the positions as listed above (*i.e.* 3d)i) to 3d)iv)) are performance based rather than being prescriptive and are developed through a rigorous community development process.

That **Cotton Australia** also supports the inclusion and recognition by government and others of these sensible performance measures for efficient use of water and other natural resources as part of voluntary industry based farm management systems.

3e) Healthy Working Rivers³ (see also The Living Murray Initiative – Attachment II)

Objective: An Australian landscape that encompasses a range of working waterways within a framework of heritage and managed river systems.

That **Cotton Australia** agrees that there is a need to have “healthy working rivers” and that this will be achieved through policies that equally recognise:

- the national value of irrigated agriculture and associated industries;
- the importance of sustainable ecological communities; and
- the importance of water as the “lifeblood” of many rural and regional communities.

In principle this requires:

- the need for an integrated catchment management approach, applied as equally to integrating the related environmental policy, administration, investment and legislative frameworks as it does to biophysical elements; and
- the need to monitor, measure and manage the river systems.

i) Determining Sustainable Extraction

That **Cotton Australia** recognises that to ensure the on-going health of many river systems, communities may choose to establish and set extraction limits on the diversion of water from such rivers. In such cases, **Cotton Australia** believes that realistic and achievable limits should be set that will deliver economic and environmental outcomes, rather than a politically popular limit without consideration of the consequences.

That **Cotton Australia** maintains that in exercising any adjustment to achieve such a limit, that due consideration and account be given to the value of the asset being adjusted – based on current market mechanisms – and that due processes be used that recognise the rights of all parties to the adjustment.

Attachment II

³ This Position Statement is based on that developed by the Industry Forum convened by the New South Wales Irrigators’ Council, August 2003.

The Living Murray Initiative⁴

Cotton Australia recognises that the following principles are integral to the implementation of and successful outcomes from the Living Murray Initiative. **Cotton Australia** also recognises that based on sound scientific principles, a clear goal must be set for the determination of a “Living Murray”, as well as clear benchmarking processes to monitor changes and improvement in river health (see Position on *Healthy Working Rivers*).

Namely:

- That water access rights be clearly defined as set out in this Policy Position Statement
- That all costs and benefits arising from the Living Murray Initiative be fairly and equitably shared across all stakeholders involved;
- That any action required to achieve targeted environmental outcomes be achieved through:
 - Better management of existing systems and environmental flows;
 - Investment in infrastructure upgrades and savings, with benefits distributed in proportion to investment;
 - Purchase from willing sellers through transparent market-based programs; and
 - Just terms acquisition as a last resort; and
- That through participation in the ongoing development of the Living Murray Initiative, **Cotton Australia** in conjunction with the wider irrigation community must have confidence that prior to any decision being taken on this Initiative by the Murray-Darling Basin Ministerial Council, there is:
 - complete objective, reliable, relevant, easy to find and understandable information available to all stakeholders;
 - a reasonable timeframe that reflects the complexity of the decision;
 - engagement on a scale appropriate to the level of detail; and
 - governments’ to have demonstrated consideration of community feedback and shown how this has been reflected in any decision taken by the Ministerial Council.

⁴ This Position Statement is based on that developed by the Industry Forum convened by the New South Wales Irrigators’ Council, August 2003.