

23 January 2006

Water Study  
Productivity Commission  
LB2 Collins Street East  
Melbourne VIC 8003

## Issues Paper Submission: The Role of Market Mechanisms - Rural Water Use and the Environment

### Issue 1.

#### Requirement to achieve paragraph 61 (iii) of the National Water Initiative

In regards to NWI clause 58, one of the arrangements relates to "*minimise transaction costs on water trades, including through good information flows in the market and compatible entitlement, registry, regulatory and other arrangements across jurisdictions*"

The FMIT is extremely concerned that the claim of achieving minimal transaction costs being flawed logic even before the 'start up date' to registry implementation has commenced. The early experience of new unbundling obligations for the new Victorian registry is that the majority of the benefit is to Government. It affords there a formal screening of water trade transaction quicker than currently experienced and broader control of the database records. The development of new data systems, new software and hardware, increased staffing resources and ultimately results in much higher costs to the net users, i.e. the irrigator via water authorities undertaking the management of same. Higher transactional fees for trade do not send the right messages to the struggling farmer trying to contain costs in a economic climate which, is not in the irrigator's favour. Ironically there is no criterion for greater involvement of Government intervention to the current process that currently operates very effectively and there is no evidence to justify the high costs of implementing the Government's new register.

### Issue 2.

#### Requirement to achieve paragraph 61(iii) of the National Water Initiative

In regards to NWI clause 58, one of the arrangements relates to "*facilitate the operation of efficient water markets and the opportunities for trading, within and between State and Territories, where water systems are physically shared or hydrologic connections and water supply considerations will permit water trading*"

The FMIT considers the practices adopted to date for allowing large parcels of water to leave Victorian irrigation districts has not benefited those districts. Whilst there has been short-term gain for corporate farmers and by Government to seeing water leave degraded irrigation areas such as Kerang, there has been considerable disbenefits to the remaining

irrigators where the water has traded from. There is strong evidence of community structure break down, i.e. less employment, a reduction in the economic returns for the area, greater reliance on Government assistance and increased mental health issues due to the decline of the community's social fabric.

Issue 3.

Requirement to achieve paragraph 61(iii) of the National Water Initiative

In regards to NWI clause 58, one of the arrangements includes "*provide appropriate protection of third party interests.*"

The FMIT has been previously advised that decisions must be made on triple bottom line principles. To date, little attention has been given to engaging remedial works for ageing irrigation infrastructure that brings about improved environmental benefits to those districts where water is permanently traded to other areas of the country. In addition, rural community services are allowed to suffer because of large water allocations being traded on the basis that it's use is not viable using current infrastructure and the irrigator being often lured by short term benefits in permanently selling their water. Whilst the Victorian Government has argued economic benefit through the trade of water from alleged non viable irrigation districts to the new styled corporate farms, the concern is that it is largely focused on financial benefits only and ignores the third party disadvantages.

This is becoming evident in Victoria's Sunraysia region where competing commodity crops have seen large down turns for returns of many small family based irrigators due to competing products. The competing commodities being grown by the larger corporate farmers is leading to frustration and anger for many of the traditional family farmers in Sunraysia's irrigation districts. This arises because of threat to reduced markets, reduced returns and diminishing market competition with wineries, processors etc receiving commodities. In addition, there is concern that the higher imposts of State owned water authorities for levies and governance related water authority customers are only incurring charges and that there is no level playing fees for actual costs.

There needs to be an opportunity to in effect remove the division that currently exists between the two irrigator groups i.e. irrigators from pumped irrigation districts and the corporate private diversion irrigators. Clearer understanding of improved market information, better marketing solutions and clearer long-term projections of realistic market trends will assist the broader irrigation industry to remain both competitive and viable and to avoid the false illusions of high returns and increased overseas markets. The involvement of Government services and rural Councils can instill greater confidence to not see the break down of rural communities reliant on irrigation through the relocation of core water allocations simply because someone else can do better with it in the short term.