

Water Steering Group for Horticulture Australia Ltd.

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Submission to Productivity Commission: *Rural Water Use and the Environment. The Role of Market Mechanisms*

- Prepared for the Water Steering Group for Horticulture Australia Ltd.

Background

The horticultural component of the irrigation industry is worth more than \$6 billion per year in production and involves over 20,000 businesses and over 100,000 jobs. Horticulture represents close to 50% of the value of production generated by irrigation and more than this when the urban activity associated with turf, nursery and garden industries is included.

Water is a fundamental requirement and is important to horticulture's future. It is for this reason that Horticulture Australia Limited has its own program to research and promote responsible water use.

The Across Industry funded Horticultural Water Initiative has been set up by Horticulture Australia Limited to provide a coordinated approach to water issues in horticulture.

This document outlines the views of the Water Steering Group.

The 11 key points that summarise Horticulture's position on water

- 1) Make explicit and regularly report the reliability of water to users (probability of annual allocations in the short term and long term)
- 2) Recognise the high water reliability that is required for permanent horticultural crops, and the huge cost of replanting if permanent crops suffer from water restrictions (several years income as well as replanting cost)
- 3) Ensure that any changes in water reliability are transmitted to users and the water market
- 4) Follow the principles of the National Water Initiative in compensating water users when water reliability and access is reduced through policy decisions such as increased environmental flows
- 5) Improve access to water for horticulture, by researching and implementing safe wastewater recycling and stormwater schemes, and enabling irrigators access to water trading systems
- 6) Ensure that town water restrictions do not unfairly limit access to water to horticulture (compared to other urban industry users) and are developed in consultation with the nursery and garden industry

7) Assist in the development of new technology and practices for improved water management and practices to continue to enhance environmental performance, both on-farm and off farm. Including research and development into crop water requirement, nutrient management, sediment runoff and salinity management.

8) Assist with training and other industry programs that provide public benefit (environmental benefits) eg. Horticulture for tomorrow program.

9) Ensure ageing irrigation or drainage infrastructure and new irrigation schemes are designed with levels of service that do not limit horticulture's ability to adopt modern practice

10) Ensure that water use/site use licenses for water are developed in consultation with industry and are compatible with existing industry environmental schemes

11) Recognise the enormous progress continuing to be made by horticulture in improving water use efficiency, environmental performance, production and employment.

Detailed positions

The following section provides more detail by providing a list of headings of policy areas and then lists policies relevant to each heading.

Horticulture believes in productive partnerships in implementing water reform

- Collaboration between the horticultural industry and water management agencies should occur to ensure grower and off farm investment is coordinated and impacts on horticulture are properly understood.
- future water reforms and urban water restrictions should be developed with a sound understanding of science and industry experience.
- It is important that horticultural water users have on-going input into water policy at an authority level, as well as the opportunity to input into Government policy.
- Management across all levels of the water sector and water cycle needs to remain transparent and efficient.

Horticulture believes in fair cost sharing based on beneficiary pays and ability to pay

- We support independent review and accountability in water pricing and charges.
- We do not believe that water prices/charges should be used to cover environmental costs when these costs are the result of past generations and previous government policy.
- We believe water prices/charges should be based on the operational costs of providing a specified service and that capital costs must be calculated in a transparent manner. This could be based on the expected cost of future water service needs, not necessarily the sunk costs of outdated standard infrastructure, which is unlikely to be replaced " as is".
- It is important to recognise that the future service standards of new irrigation technology for horticulture are quite different to traditional irrigation. It is important that horticulturists are involved in the setting of these standards.

- Water resource management charges should be shared amongst all beneficiaries of improved water management. This includes recreational tourism and other non-consumptive water users.
- Charging to reflect water scarcity is unnecessary. High water price occurs in the water trade market when there is shortage. This sends a clear message to users of water value; and trade assists with efficient resource allocation.
- Certainty in water pricing is required by horticulture for at least a 5 year horizon. This is important to assist investment and property development planning, which has a life of 30 years or more for some tree crops.
- Charges for planning and management should be regionally based according to the catchment needs for these activities. The Horticultural industry seeks transparency and a rational basis for these charges. Charges for water planning should be levied against all beneficiaries of water management including the general community for recreational use and government should pay on behalf of whole community. This is because of the broader environmental benefits associated with water use planning eg. environmental flows. Planning is a core government activity and should be funded as such.
- A rate of return charge on water harvesting and distribution assets is not sensible. Investment in water assets is a sunk cost and any valuation of this should recognise that the assets are usually specialised facilities with no alternative use. In a commercial market the asset value of infrastructure is a reflection of its productive use, not its sunk cost.
- Water management costs should be shared across all water users, including domestic and stock, environment, recreation, wider community and un-metered or unlicensed users who all benefit from water resource management programs.
- Water charges based on externalities can have perverse outcomes. External benefits as well as costs must be recognised. It is more appropriate to include positive reinforcement such as an incentive based program for those users who demonstrate improved efficiency. This could be via adoption of an accredited environmental plan or irrigation and drainage plan.
- Environmental charges in water rates/prices are not supported. The justification for this is that it is extremely difficult to measure environmental costs and attribute them back to the individual water user. Also it is inequitable to charge current irrigators for the results of previous government policies, which encouraged the development of land and water resources.
- In principle, we support tradable pollution permits, which would allow irrigators to receive a benefit in line with improvements in environmental performance. However, we are concerned that the complexity and cost of measurement and monitoring plus administration costs could easily exceed the benefit.
- We believe all water charges should be transparent and accountable to independent review. Costs should be regionally reported so that the cost share is appropriately tailored across different beneficiaries.

Horticulture requires a specified high level of water security

- Water policy makers must recognise and provide horticulture with highly reliable water to provide security of investment in technology, which is the basis for the horticultural industry's global competitive advantage.
- We believe in providing greater certainty of water reliability to water users.

Horticulture recognises the need for sensible environmental flows which have specific measurable outcomes

- We recognise the need for environmental flows to maintain river and catchment health, but this should not be achieved by a gradual erosion of water shares to existing users without compensation of that loss.
- In implementing environmental reserves it is important that the rights of existing users are not diminished without compensation.
- We do not support an increased environmental reserve when the environmental outcome is not achievable due to other threatening processes (eg. pest plants) that are not adequately addressed. A holistic approach to river and riparian health is required rather than a focus on flow alone.
- Environmental reserves are supported where they are included as part of a clearly specified program within a holistic environmental management framework with clearly articulated environmental outcomes.
- Where over allocation has occurred we support partnerships of communities, water users and government working together to establish agreed environmental needs and water services.
- We seek opportunities for irrigators to actively manage river systems by providing conjunctive use of water for both environmental needs and for consumptive use downstream (joint use).
- We support mechanisms to enable irrigators to take on environmental management responsibilities and provide water donations to the environment, especially where these mechanisms allow water to be donated for specific river reaches or wetlands.
- It is crucial that good governance arrangements are in place and are transparent, for environmental water and that environmental flows are not put in place without the necessary supporting works (eg. Weed control, grazing management, fish passage) to ensure the maximum environmental benefit is achieved from the flow.

Catchment Water Use Limits or "Caps"

- Groundwater resources need conjunctive assessment and management with surface water resources. This should include recognition of the benefits of groundwater pumping for salinity control.
- Moratoriums on expansion in water use (water caps) should apply equally to domestic, rural residential and industrial consumption not just irrigation. For example, the proliferation of extra domestic and stock catchment dams should be controlled where they are outside of the controls of farm dams legislation and yet may still have an impact on water availability downstream.
- We support management arrangements that will prevent erosion of the water share to existing users. Land use changes that reduce water availability downstream should require purchase of water entitlement. But the benefits of positive land use change should be recognised and not inadvertently discouraged. (for example lower salinity in some catchments that can arise from tree plantings are not lost).

Characteristics of Water Entitlements

- Water shares should specify both expected volume and reliability. Changes in future expectations in volume or reliability should be publicised by water resource managers to all entitlement holders (irrigators).
- Order of priority of different water shares should be made explicit to water entitlement holders eg. urban, domestic & stock, permanent plantings, annual plantings. Where high value permanent plantings are a higher priority than annual or lower value irrigation.
- We would like to see the resource access level priority framework recognise higher priority for permanent horticultural plantings ahead of annual crops. The cost of replanting can be up to 7 years production loss. This is very important where irrigators do not have access to water trade to help manage the risk of inadequate water allocation.
- Defined security of tenure of licences is crucial for long-term investment to occur, especially in horticulture where the time frame for break-even can be a decade and the life cycle of an investment can be several decades. Perpetual tenure is preferred.
- We believe in the principle that changes in water policy that result in reductions in average expected volumes of water to irrigators should be compensated for.

Urban water restrictions must consider impacts on the nursery and garden industry

- In urban systems water restrictions should be made more equitable rather than targeting outdoor use only, which unfairly hits the nursery and garden industry, while leaving other industries unaffected.
- We are concerned that current urban water restrictions are not effective or consistent and are lacking scientific basis. Mandatory water savings are being sought only from a proportion of water used by urban users. This is inequitable, inefficient and causing significant economic damage to small business.
- We would like to see a review undertaken on urban water restrictions at a national level and as soon as possible. There would be significant benefits in a coordinated consideration of the various approaches and the science that underpins them. Expert input from the horticultural and irrigation industries has been missing in most approaches to date.
- We support a national approach to see long-term water conservation measures developed and agreed that will significantly reduce the need for the current short-term crisis management of urban water.
- Water authorities need to provide a clear process for industry involvement in the development and review of urban water restrictions
- Water restriction policy should be developed in conjunction with the nursery and garden industry and any other irrigators that may be affected to avoid any unintended consequences to industry.
- We recommend that regional urban water authorities should consult with the nursery and garden industry in their region to avoid any unintended consequences that may arise from permanent water saving measures.
- We support initiatives to increase access to reclaimed water.
- We encourage education on the perceived risks of reclaimed water use, to avoid any unnecessary consumer concerns.

- We encourage government to provide high quality Class A water, or other water quality that is appropriate to purpose, to existing horticulture that is short of water.
- We believe that pricing of reclaimed water should be consistent with industry ability to pay.

We support irrigation research partnerships

- Irrigation research should be a higher funding priority. This is warranted given recent increases in water scarcity and water value.
- We encourage State Governments to work in partnership with other states to avoid duplication of research. Eg through the Cooperative Research Centre for Irrigation Futures.
- We encourage water providers also to contribute to joint research projects, which are of benefit to their customers and reducing the cost structure of their organizations. We would like to see research into new technologies that can improve the performance and lower the cost of rural water supply systems and service levels;
- Horticulture Australia Limited is a funding partner of the National Program for Sustainable Irrigation, administered by Land and Water Australia, and sees great benefit of a coordinated national approach.

We support appropriate upgraded levels of water services to horticulture

- The improvements following the introduction of water on demand, or piped pressurised supply in water efficiency have been dramatic in several horticultural districts. The on-farm impacts of should be considered and it is important that horticultural water needs are represented in water authority planning processes.
- Horticulturists' advice to water authorities and other government agencies (eg Departments of primary industries) should be sought in the design of broader water efficiency programs.
- Higher service levels off farm can enable higher farm water use efficiency and easier technology adoption by growers. Extension programs should be tailored for this.

Water trading and water entitlement "unbundling" is cautiously supported

- Governments have been keen to promote water trade to shift water from low value to high value irrigation. Horticulture has been able to grow as a result of water trade and also to better survive droughts by buying water from lower value use. However, it is important to realise that high value use is only preferable when it is profitable and can be sustained.
- All new developments must be market driven with a sound business and marketing case. Higher value use is not sustainable if it is not profitable or over supplies existing markets.
- Sustainable profitability depends on a number of things that are not well reflected in the gross return on water. Other aspects are market trend, capital and operating costs, and the need for supporting infrastructure. Governments should be discouraged from using simple gross value and gross margins in comparing the potential profitability of enterprises.
- Infrastructure replacement charges (and exit fees) should not be used to limit trade from infrastructure that will not be required (not be replaced in the future).

- Shares of delivery capacity are supported, provided they can be traded to enable properties to upgrade their service levels. Also that they are not used to maintain inadequate infrastructure or services when upgrades are required and are cost effective and supported by water users.
- Water charges (and exit fees) should only be applicable to those properties that receive service or wish to retain future access to the service. Water charges should not restrict trade from properties that choose to permanently cease irrigation.
- We support open trade provided that the impacts on irrigators who are left on "stranded assets" are dealt with in a fair and reasonable manner. This means that such irrigators are given a range of options rather than be expected to solely meet the entire cost of maintaining unviable infrastructure.
- We do not support a uniform environmental levy on trade. Trade is not responsible for all environmental costs and may provide benefits.

Water Use/site use licences

- Site use licences should be developed in conjunction with industry to avoid unnecessary duplication with existing monitoring and reporting programs.
- We support the use of Horticulture for Tomorrow Environmental Assurance Scheme to govern the water user's obligations. This scheme can also refer to local conditions set by Regional Catchment Management Authorities.
- Site use licences should not be prescriptive and must focus on environmental outcomes rather than inputs. For example well-managed furrow irrigation can be more efficient than poorly managed drip, and should be allowed where this can be demonstrated.

Catchment Management and Planning

- We support development of Sustainable Water Plans and Water Sharing Plans. It is important that these plans consider the impacts of all water users demands and land use change (water sources). Stakeholders should be included in the development of these plans.
- Horticulture is keen to engage with these processes. The Horticulture NRM Strategy outlines a vision for industry and how it can engage with industry tools such as the Horticulture for Tomorrow Environmental Assurance Guidelines.
- We believe catchment management authorities should acknowledge the adoption of environmental management practices and environmental assurance schemes by horticulturists
- We believe that catchment management authorities should endeavour to provide specific measurable agreed realistic and time constrained (SMART) farm targets that landholders can benchmark themselves against and are consistent with Resource Condition Targets in the Regional Catchment Strategies.
- We believe that CMA's should acknowledge the enormous investment and achievements of the horticultural industry in natural resource management.

Knowledge and Capacity Building

- Improved participation in training across all users and providers of irrigation is essential to further enhance the implementation of best practice and achieve environmental goals.

- Horticulture in partnership with government and industry associations has been successful in developing and delivering a range of training and certification programs that have led to improved water management.
- We are keen to work in partnership with the natural resource managers to ensure that improved training and industry run certification programs are embedded in the implementation of programs.

Risk management of water allocations

- We support the development of risk management tools for use by irrigators, including market based instruments, and capacity sharing arrangements where irrigators are given control over their individual water storage yield versus water reliability trade offs.
- Where water allocation processes are used water managers should provide estimates to growers of the future probability of % allocation increases. This should be an indicator of future water availability with explicit adjustments for carry over, high priority rights, minimum and expected inflows and environmental flow commitments.