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National Farmers'
Federation

NFF Submission

Productivity Commission Discussion Draft on Rural Water Use and the Environment: The Role of Market Mechanisms

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Introduction

The National Farmers Federation (NFF) welcomes the opportunity to provide comments on the Productivity Commission (PC) Discussion Draft- Rural Water Use and the Environment: The Role of Market Mechanisms. We have limited our comments to those areas of principle concern to Australian farmers and particularly those that relate to the implementation of the National Water Initiative, consistent with its intent.

As the peak national body for Australia's farmers, NFF is representing the views of its members in this submission. We would like to emphasise, however, that many NFF members have also provided submissions in this process and that they maintain the expertise to comment on areas of operation of direct relevance to their constituency. Detailed on-the-ground examples of considerations and issues surrounding the efficient operation of current water markets and the creation of new water and water-related markets are provided in each of those NFF members submissions.

The focus of this Discussion Draft is the feasibility of establishing market mechanisms to encourage economic efficiency of rural water-use, including managing environmental externalities. The NFFs focus is to ensure that the agriculture sector has secure access to water now and into the future and that the policy and legislative arrangements for managing water are fair and equitable. A number of key issues relevant to the Discussion Draft underpin this focus. These include:-

- having in place the appropriate institutional arrangements for trade;
- competitive pricing for water, including overhead and operating costs;
- the need for security of entitlements;
- clear rules for allocation of water, including specification of environmental goals; and
- the role of and context for market mechanisms in managing the nation's water resources.

NFF believes that an ad hoc approach to dealing with water related issues without the contextual basis of long-term goals for agriculture (and in this instance particularly irrigated agriculture) compromises outcomes and undermines agricultures potential for long-term sustainability and profitability. Development of a vision for agriculture in partnership with Government will be crucial for the ongoing success of the national water reform agenda.

This PC paper has the opportunity to positively influence the fair, equitable and balanced implementation of the National Water Initiative. In particular by



acknowledging the 'continuing national imperative to increase productivity and efficiency of Australia's water use, the need to service rural and urban communities, and to ensure the health of river and groundwater systems', Intergovernmental Agreement on a National Water Initiative.

Response to key issues raised in discussion draft

Entitlement and allocation regimes

NFF is fundamentally concerned with the uncertainty of ownership and allocation that still exists in relation to water property rights. Farmers need secure access over their water entitlements and allocations for investment security so that they can continue to be actively involved in sustainable agriculture.

Water access entitlements should be defined in terms of:

- A share of the resource, with clearly stated long-term probability of access;
- Seasonal timing (when throughout a season water will be delivered, and what rights [environment/extractive] have priority at particular times throughout the year;
- Share of extraction (how much water can be extracted at any one time);
- Priority (definitive relationship with other categories of users, eg environmental water, town water); and
- Water source of the right (what river or system does the license belong to).

We have seen a focus in various jurisdictions on actions to address easily resolved issues such as cost recovery for planning and management, but these same jurisdictions have failed to address the more difficult obligations that would deliver certainty to water users. It is becoming increasingly apparent that questions about rural water users bearing excessive burden of the costs of initiating implementation of water reform are unlikely to be addressed now or in the future. This is extremely concerning.

Separating land and water

In line with the principles of the NWI, NFF supports the separation of land and water and the unbundling of water entitlements. We agree with the PC acknowledgment of the importance of recognising catchment and valley characteristics in all efforts to streamline and simplify relevant regimes.



Accounting for groundwater, surface water and return flows

NFF supports the PC recommendation on undertaking further research on groundwater systems and their connectivity to surface water. The current immature understanding of the inter-relatedness of these systems is compromising the water reform agenda and leading to a breakdown of the confidence stakeholders hold in relation to objective outcomes. It is critical that the next steps of the water reform agenda are underpinned by sound science and a community and industry ground-truthing process (to ensure that exceptions to the general understandings of these systems are taken into account).

The second aspect of compromised policy frameworks and management plans is the under-development of water resource accounting systems. NFF's policy on water resource accounting highlights the importance of consistency and compatibility in supporting national water management. Indeed, NFF acknowledges the poor standard of many of our existing metering, measurement and monitoring systems. Rectification of this situation should be considered of critical and urgent importance, particularly in relation to the accountability of licensed entitlements, water sharing plans and National Water Initiative obligations.

Return flows

As recognised in the NWI risk assignment framework, it is untenable to expect a licensed entitlement holder to take less than 100% of their entitlement in order to supplement rivers and aquifers, environmental flows or other third party interests. A change to this principle would require full government compensation.

Indeed, if on farm investments in infrastructure and water use practices result in water savings then those savings must be available to the farmer to expand developments or invest in alternative commodities. Similarly, if there is a joint public/private investment, efficiency savings must be distributed proportional to the investment made.

Risk assignment

For NFF, a key part of the NWI Intergovernmental Agreement is the risk assignment framework. We continue to support clauses 46-51 of the NWI and see no basis for making changes to these widely agreed principles.

An area of increasing interest to the NFF is that of climate change and what this means in terms of the risk assignment framework and also the current proposals on the table to find water for the environment through efficiency gains. Farmers are not comfortable that sufficient information exists on the potential risks of climate change to make appropriate long term water management decisions.



Reducing constraints on water trade

NFF supports the development of a national water market that, as far as practicable, facilitates trade across and between districts and jurisdictions where water systems are linked.

NFF has adopted the following policy position in relation to water markets:

- The water market as with any market, must have defined rules of operation. These rules should address the following principles:
 - The limitations of the system and operational capacity need to be recognised (ie the ability to deliver water is a real constraint to trading);
 - Individual rights need to be protected (ie no third party impacts)
 - Environmental principles need to be protected; and
 - Avoid any party or parties developing a dominant market position.
- NFF supports rules being reviewed for relevance and agrees that there must be transparency and accountability for all trading rules.
- Where practical all available water and entitlements (including the environment) should be part of the trading system. Stock and domestic water supplies should not be tradable.
- The market should facilitate the trade of entitlements, annual allocations and supply delivery capacity on a permanent or temporary basis. There should be no constraints on the development of new products for trading.
- Social impacts (including loss of employment, services and facilities), especially on stranded assets, need to be understood and taken into account when moving to a free trading environment.
- Traded water should comply with management and accounting arrangements that are in place in the area where the water is going to be used.
- When water is acquired it should retain the characteristics of its origin (tagging). NFF notes the positive steps of various jurisdictions in this regard but emphasises the need for continued momentum.



- Trading should be able to occur via a range of mechanisms including the internet, telephone, facsimile, face to face etc in order to minimise cost and maximise opportunity.
- The environment is a legitimate participant in the market, and must be subject to the same governance arrangements and processes as other market participants.

Specific comment relating to exit fees

NFF does not support the recommendation of the PC for the removal of exit fees. While it is agreed that these may constrain trade, NFF believes that there are significant equity issues that exit fees address. These particularly relate to stranded assets. It is clearly inequitable for the remaining members of an irrigation scheme to bear the burden of another party's decision to sell water entitlements. To suggest that these issues can be dealt with by generic social policies is not a sufficient response to the problem. Any decision to remove exit fees can only be considered with a clear commitment by Government to take full responsibility for the equity issues that would result. Exit fees and tagged entitlements are part of the agreement irrigation corporations abided to as the trade off to open permanent trading.

Other factors affecting farmers' decisions on water use and trade

The PC recognises in Chapter 4 and Appendix C that irrigators are well and truly best placed to make decision about their farm businesses.

In the main, this is due to the numerous and complex decisions and trade offs affecting the use of farm resources, including water. The decisions include assessing climate, soils, water entitlements, commodity markets, competing on farm uses for capital and labour personal.

Externalities, assessment criteria and governance issues

NFF supports the introduction of water sharing plans as an accountable, transparent process to address environmental externalities on a system-by-system basis. In addition to the environmental obligations contained in each plan, other land and water management programs have also been introduced by many irrigation corporations to address specific environmental issues within their region.

Individuals have also established on-farm environmental programs and system-wide commitments for remedial work. This provides evidence of the commitment by farmers to sound environmental outcomes.



Commodity groups such as rice and cotton have established programs to further develop industry and system-wide programs to improve production and land and water use practices. In each instance, these are practical examples of industry exceeding its obligation to engage in positive responses to environmental challenges.

These initiatives deal with practical solutions and when combined with advances in on-farm technologies and other water-use efficiency programs generate a widespread positive commitment to and adoption of environmental management options.

In addressing the issue of environmental externalities, governments are encouraged to consider the commitment made by industry and work to build on and enhance this positive environmental contribution.

NFF does not support the introduction of a tax regime to offset environmental externalities. Funds removed from an enterprise by way of taxation simply reduce the opportunity for further adoption of or investment in programs and technology to address on-farm environmental issues.

Benchmarking of environmental conditions within each system is urgently required to ensure that industry and community have an accurate understanding of the effectiveness of environmental programs, the application of funds and environmental water and the condition of environmental asset.

From entitlement holders' perspective, the establishment of benchmarks is critical as assessment of the performance of water sharing plans at the end of their life and prior to roll-over exposes them to potential further loss of entitlement. Accountable benchmarks are required to ensure that the risk assignment provisions of the NWI are properly enforced.

Market mechanisms for altered river flows

Volumetric taxes

NFFs supports the PC comment on the use of volumetric taxes to manage externalities associated with altered river flow and notes the difficulties associated with the uncertainty regarding the interaction between irrigation water use and river flows. NFF considers such a tax to be a blunt instrument with limited potential to deliver the required outcomes. NFF could not support the introduction of a volumetric tax on irrigation water.

Market mechanisms to manage salinity

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NFF agrees with much of the PC discussion on the use of market mechanisms to manage salinity. NFF highlights the inherent difficulties in using many of these schemes at the farm level, where measurement of diffuse non-point sources is not possible, particularly at the farm level.

NFF notes that a significant driver of stream salinity is broadscale clearing of vegetation and feels the PC discussion has provided insufficient recognition of this. It is an imperative that this issue is taken into account in any scheme developed to address salinity.

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