



WH:BA

5 July 20006

Attention: Vicki Thompson
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Dear Vicki

**Re: Submission by the Shire of Campaspe
Rural Water Use and the Environment: The Role of Market Mechanisms**

The premise as suggested by the title of the report is that there is an emphasis on providing environmental flows to the detriment of agriculture and rural communities. No one would disagree that the environment needs its share of water and farmers today are conscious of the need for modern farming practices but there needs to be a balance and agriculture, due to its contribution to the Australian economy, is deserved of consideration.

The opening sentence of the key points summary from the discussion paper on the Productivity Commission's website, "*Markets are already making a significant contribution to allocating rural water to higher value uses*", is a misnomer that is being touted by economic rationalists with no understanding of the agricultural sector or the interdependence of rural communities.

The current crises in the citrus and grape industries are perfect examples of what has happened to irrigation water being transferred to the so called "higher value uses". What is a higher value use today? If it is deemed to be horticulture and horticulture production increases significantly, the market will over heat, growers will be at the mercy of the multinational supermarkets and similar crises to what is happening in Sunraysia will occur.

There are opportunities to improve entitlement and allocation regimes. Three priorities are: unbundling water entitlements and water use approvals; addressing linkages between ground and surface water, water use and return flows; and facilitating efficient intertemporal water use decisions.

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The first priority “unbundling water entitlements” is proving to create enormous financial difficulties for municipal councils due to a sharp fall in rate revenue once the unbundling/delinking occurs. The Victorian Government’s response to date has been to delay implementation by 12 months to allow councils to “adjust”. It has been estimated that the Shire of Campaspe will have a rate revenue shortfall of approximately \$1.038 million.

A number of impediments to water trade reduce economic efficiency and should be removed. In particular, governments should:

- *allow other participants to trade in water markets*
- *open up interdistrict water entitlement trade*
- *remove exit fees*
- *improve the transparency of trading rules*
- *benchmark approvals processes.*

Firstly, one of the key dangers for the agricultural sector and rural communities is allowing other participants to trade in water markets. Potentially this could be the instrument for the demise of rural communities already under stress. It will allow for large corporate organisations to enter and distort the water market and potentially hold the agricultural sector to ransom.

Secondly, by opening up interdistrict entitlements large volumes could exit an irrigation area rendering it unviable. This in turn has the potential to decimate manufacturing industries such as the dairy industry with the subsequent flow on to employment, rural services and communities.

Thirdly the removal of exit fees would place an unacceptable financial burden on existing irrigators threatening their viability. The exit fees as proposed allow for an adjustment period and support the viability of irrigation districts.

The last two dot points relate to processes and these need to be clear and most importantly workable.

As well cost recovery processes should be carefully examined for their impact on trade.

“Environmental managers and service providers should be able to enter water markets and develop portfolios of water and water related products.”

This is an equity issue as it places the agricultural sector at an unfair disadvantage when competing with cashed up environmental groups and investors.

Already corporations seeking taxation advantages are developing large scale farming enterprises in lower land value areas, transferring irrigation water from supply districts where the cost of irrigation water is between \$40 to \$50 per ML transferring it down the river and paying \$14 per ML to pump it out of the river. Whole tracts of productive irrigation land is now weed infested and laying idle not to mention the direct impact on the community.

One means of combatting this could be that the transferred water is tagged and irrespective of its new location, to pay the same water costs from its district of origin.

'Saving water via major infrastructure works to achieve environmental objectives is often costly compared with other options and may not increase water available for the environment.

If this is the case and the purchase of water is the preferred option the long term value to the community for the loss of that productive water from agriculture should be paid not just the face value of water

Environmental managers and service providers should be able to enter water markets and develop portfolios of water and water related products.

The Council and community disagree most strongly with this suggestion as it opens the door to water monopolies.

A variety of market mechanisms could combat the emergence of salt, but they would need to be targeted appropriately to location and scale. Cap and trading schemes seem most suited in a catchment and/or basin context, whereas offset, tender and related market-based instruments seem more appropriate at an individual property level. It may also be possible to establish markets to flush salt out of basins.

The cause and effects of salinity are still hotly debated topics between environmental experts. Until such time as a consensus of opinion is reached and reliable science is available to substantiate reasoning, future planning should be treated cautiously.

It is difficult to devise efficient and effective taxes on rural water use to address environmental externalities.

The Council and community would be united in opposing any suggestion that the agricultural sector is to blame for all the woes affecting the environment, which is totally incorrect. To suggest taxing farmers for rural water use is ludicrous.

The community has a responsibility to contribute towards the costs of water as it benefits as well – urban use, recreational etc. Environmental/ water issues are not just the domain of the farming community but water is an all of community issue and so the costs including the environment should be shared equally.

Conclusion

When the Rural National Water Initiative was signed off in 2004, communities did not fully realise the implications for their communities. It came in the middle of a drought and farmers were struggling to survive let alone come to terms with water reform.

The Victorian State Government has in turn brokered the 80/20 deal with the irrigation sector to return water to the environment. All these changes have been imposed on farmers at a cost.

There has been no socio economic study commissioned to assess the impact on communities. Communities have been completely disregarded and feel betrayed. In this area of the State great uncertainty prevails which in turn is stifling investment.

Irrigation water for agricultural is not being considered or acknowledged for its dollar value, its contribution to society or its financial support for the regional and national economy.

The Shire of Campaspe would be interested in being involved in any further discussions on the report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Wayne Harvey', with a stylized flourish at the end.

WAYNE HARVEY
CHIEF EXECUTIVE OFFICER