

7 July, 2006

Rural Water Study
Productivity Commission
LB2 Collins St East
Melbourne
VIC 8003



ABN: 75 266 051 838

Level 3, 122 Frome Street,
Adelaide, SA 5000

PO Box 6014,
HALIFAX STREET SA 5000

Telephone: (08) 8232 5555

Facsimile: (08) 8232 1311

Website: www.saff.com.au

To the Commission,

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

Thank you for the opportunity to provide comment on the discussion draft of the Productivity Commissions Rural Water Study (the study).

The South Australian Farmers' Federation (SAFF) welcomes the release of the draft which we consider is a comprehensive analysis of how market mechanisms can play a central role in improving economic water use efficiency. SAFF believes it is now critical for innovative legislative and institutional arrangements to be implemented to more effectively support both rural and environmental requirements. Overall the Federation supports the preliminary findings of the study.

Following are some comments from the Federation relating to specific parts of the study and preliminary findings.

Thank you again for the opportunity to respond to the discussion draft. If you would like to discuss any points raised in our submission please do not hesitate to contact either myself (ph: 08 8569 4001) or Dr Nigel Long, Natural Resources Manager at the Federation on phone number: (08) 8232 5555.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sharon Starick'.

for Sharon Starick
Acting Chair, Natural Resources Committee

Proudly supported by
our Corporate Partner



A Distributor of BP Products

South Australian Farmers' Federation response to
“Rural Water Use and the Environment: The Role of Market mechanisms”.

2. Improving existing entitlement and allocation regimes

Preliminary Findings 2.3 & 2.4 (ground and surface water management)-page 24

The Federation believes that the need to better understand the connectivity between groundwater and surface water is a matter of urgency, and the Murray-Darling Basin Cap has to account for groundwater extractions to be effective in managing the health of the river system. SAFF points to water management for stock and domestic purposes in the ACT, principally through dam construction, which is having a significant impact on recharge and surface water down stream. Greater control over dam construction is crucial to reduce diversions out of the system to a feature that is essentially for aesthetics and is not required to maintain typical stocking rates for the region.

Preliminary Findings 2.5 (efficiencies and return flows)-page 28

Industry in South Australia is already operating at efficiencies around 80-85% which is sustainable. Increases in efficiency beyond this benchmark will have a significant impact on sustainability, particularly through exacerbating irrigation induced salinity that would otherwise be managed by the flushing of soil through return flows.

Preliminary Finding 2.6 (carryover provisions)-page 31

The Federation's main concern with expanding carryover provisions is the capacity of the system to cope with greater demands for the resource in dry years. We believe a better approach may be through appropriate management and efficiencies of water use. Greater efficiencies established through voluntary infrastructure improvements will result in a greater percentage of water allocated not being used in an average year. However in dry years where allocations are reduced in response to poor seasonal conditions, the unused proportion of an allocation gained through efficiencies may not differ significantly to the revised allocation and the impact may be negligible.

Periodically setting allocations during the course of the year based on current seasonal considerations is part of the management of a working river. It could be suggested that there is a greater need for irrigators and other water users to understand how these allocations are made and on what criteria. A more conservative approach in allocating water at the start of the season rather than cutting allocations towards the end of an irrigation season would enable people to put in place risk management strategies.

3. Reduce constraints on water trade

6. Markets to improve altered river flows

SAFF fully supports reducing the constraints on water trade, in particular government taxes and charges that potentially distort the market and impede the most efficient use of water, and in addition enable other participants, such as environmental managers and service providers (EMSPs), to trade in the market. Allowing EMSPs to develop portfolios of water and related products, can have obvious benefits for irrigators, to derive additional income through leasing, options and contracts with environmental managers, and the environment, providing flexibility to access short term water to meet immediate environmental requirements. The Federation would also be particularly favourable to environmental managers having the ability to trade water to industry. Again, the benefits could be significant to irrigators and the environment. Where environmental requirements are lower than

entitlements, environmental managers could have the option of leasing excess allocations to industry. Industry would then have access to additional water in seasons where demand exceeds allocation. The income generated could then be used by environmental managers for seasonal purchases for environmental flows or other environmental works such as ameliorating and actively managing degraded wetlands.

Transparency of trade rules is of key importance; however we would stress that appropriate consultation and communication with communities on trade impacts is also critical to ensuring licence holders understand the process and the options available that may best suit their business needs.

Preliminary Finding 6.2 (infrastructure investment to gain environmental flows)-page 122

The Federation agrees with this finding, that water use efficiency initiatives alone will not achieve the amount of water savings required to increase the flows in the River Murray to meet the target of an extra 500 gigalitres by 2009. As we stated above, the majority of South Australian irrigators are already working toward long-term water use efficiency and the latest reports suggest that most of our irrigators are working at between 80 and 85% water use efficiency already. It is also apparent that saved water is being used to expand production or 'banked' as a risk management decision to accommodate allocation reductions in dryer seasons (see comments for preliminary finding 2.6), rather than being directed to environmental flows.

Purchasing water from willing sellers at market rates, and we believe there are many willing to sell their entitlements, will be necessary to meet environmental targets. And while the Murray Darling Basin Commission seem reluctant to go down this path, SAFF is of the view that we need to take this step sooner rather than later or we may find that markets will be skewed if we wait until the eve of the Living Murray deadline in 2009.

7. Markets mechanisms to manage salinity

The Federation believes there needs more attention directed to encouraging innovative industries to develop that utilise the natural salinity in our environment as part of an integrated approach to managing irrigation and dryland salinity.

SAFF would also like other potential market mechanisms to be explored in addressing irrigation salinity. The Upper South East Dryland Salinity and Flood Management Program in South Australia implemented an integrated approach to dealing with salinity from drain construction to flush out salinity through to agronomic practices. Funding for the various stages of the program was committed from both the State and Commonwealth Governments, with the balance contributed by landholders within the program boundaries through a levy. Under the program individual landholders may partially or wholly offset the levy through a Biodiversity Offset Scheme that will result in Management Agreements being executed in relation to biodiversity assets held (remnant native vegetation and wetland areas) on private land. To date there has been great interest from landholders in the scheme.

A similar trade system may be feasible to meet the dual target of managing irrigation salinity and provide an incentive to conserve and actively manage biodiversity assets.