Victorian Farmers Federation

Submission to

The Productivity Commission 'Rural Water Use and the Environment: The Role of Market Mechanisms'

February 2006

The Victorian Farmers Federation

The Victorian Farmers Federation is Australia's largest state farmer organisation, and the only recognised, consistent voice on issues affecting rural Victoria.

The VFF represents 19,000 farmer members, representing 15,000 farm enterprises. The VFF consists of an elected Board of Directors, a member representative General Council to set policy and eight commodity groups representing dairy, grains, livestock, horticulture, chicken meat, pigs, flowers and egg industries.

Farmers are elected by their peers to direct each of the commodity groups and are supported by Melbourne-based staff.

Each VFF member is represented locally by one of the 230 VFF branches across the state and through their commodity representatives at local, district, state and national levels. The VFF also represents farmers' views on hundreds of industry and government forums.

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Background

The VFF appreciates the opportunity to have input into the Productivity Commissions review of rural water use and the environment.

- The VFF believes that this review should be treated as a positive opportunity to:
- Improve the value that Australians realise from the efficient use of water resources;
- Enhance regional economic growth and the viability of agricultural industries and the rural communities that are so intrinsically dependent on them;
- Complement wider considerations about the community's desires for sustainability of economic, social and environmental values in a national context; and
- Improve Australia's international image as a source of high quality, sustainably produced agricultural commodities and products.

The VFF accepts that water will trade in and out production systems according to profitability of alternative commodities. However, this commercial market activity must be underpinned by large, reliable, sustainable irrigation industries that can buffer seasonal and annual fluctuations in economic conditions and international supply and demand.

Additionally, improved water efficiency by agriculture enables greater agricultural productivity. It does not create spare water that is then made available for urban or environmental requirements. Water use efficiency in agriculture should be viewed as enhancing agricultural productivity, economic growth, job growth and rural sustainability, rather than as an opportunity to take resources from one sector to benefit another.

Scope of the Study- Reallocating Water:

The issues paper identifies rural water often having competing uses, such as maintaining river health, fishing, recreation and consumptive uses. The paper identifies the possibility of reallocating water to consider the uses outlined above.

The VFF is not supportive of this approach and is concerned about any reduction in access to irrigation water to meet demands of urban users or the environment. Farmers must have secure access to water in the long term. Without water security there will be less confidence to invest for the future and therefore reduced ability for productive growth in irrigation.

The VFF also contends that an important aspect of gaining more value from the use of water resources is to constrain the overhead and operating costs associated with water management by state agencies. The costs of managing water and irrigation infrastructure is critical in minimising costs in the system, providing service and maintaining capital investment

Surface Water Focus:

This study suggests it will focus on extracted surface water from regulated river systems while also giving some consideration to groundwater.

The VFF believe, the Commission should consider the rights of all water users and uses. Equal consideration should therefore be given to surface water and groundwater as well as farm dams. The Commission should also explore the use of recycled water.

In years to come there will be greater use of recycled water in agriculture. Currently there are a number of inconsistencies in the pricing of recycled water. The price of recycled water to irrigators at Werribee results in significant loses for Southern Rural Water. The accumulated deficit is predicted to be $1.3 million by 2009. Southern Rural Water has not clarified how this defifict will be covered in the future.

This uncertainty is unacceptable to the VFF. Either the current prices for recycled water should reflect current costs or the Government should give a firm undertaking to meet the shortfall.

Recycled water must be priced consistently and competitively with other supplies. It is unreasonable to expect farmers using recycled water to pay a higher price than their competitors using traditional supplies. The Government has a target of recycling 20% of Melbourne's waste water by 2010. Competitive pricing of recycled water will be essential if this target is to be achieved.

Over Allocation Issues:

The paper asserts that the southern Murray-Darling Basin has well documented over allocation issues. This certainly is not the case for Victoria and therefore the VFF suggest the Commission explore over allocation issues within NSW.

Moving Resources to Higher Value Industries:

Diverting water from dairy to allegedly "higher value adding" industries such as horticulture is often raised in the literature as a desirable outcome. It is also mentioned in the Issues Paper in the context of creating opportunities for technology upgrades.

The VFF believes that such references are a serious over-simplification as there are considerable differences in the proportion of pre- and post-farm gate value added across different industries.

Market Mechanisms:

The paper proposes the Commission will investigate the potential for achieving environmental gains by allowing organisations responsible for river management to trade in water.

The VFF believe that a loan scheme would operate more effectively than a permanent trade.

The paper also suggests trade between rural and urban water sectors. The VFF are not supportive of this approach, rather it is essential to ensure the sustainability of efficient and productive irrigation districts against the purchasing power of large urban populations. Buying-out the water allocations of a district that is closest to a major population centre may seem cost effective from an urban water perspective, but may have significant negative consequences for the district involved, and ultimately, the taxpayer in terms of increased requirements for support.

True Value of Water:

The paper questions whether existing markets are providing clear signals on the 'true' value of water.

The VFF believe that the impact of water being traded out of districts and the ramifications on rural communities has not been adequately addressed. As outlined above water leaving farms impacts on the whole rural community, therefore the VFF supports regulatory restrictions on the amount of water that can be acquired by non-irrigators.

New water legislation introduced into Victoria will see non water users being able to acquire up to 10% of the systems entitlements. The VFF maintain that this should be restricted to agricultural use.

Water Authorities Investing in the Environment:

As a result of government policy initiatives water authorities are making substantial investments in water saving technology. These investments are in large part a reflection of a political commitment to invest in 'the environment'. These investments are rarely subject to conventional cost benefit analysis. Water authorities are not environmental benefactors; rather they are water supply *businesses*. From a customers perspective it is important that there is transparency and accountability in relation to water savings investments.

It is worth noting that Goulburn Murray Water has established a Water Storage Amenity business unit.

Environmental targets – Who Pays?

Goulburn-Murray Water is proposing new environmental targets for the organisation. G-MW is going to introduce an EMS based on ISO 14001 with independent external audits. The organisation is committed to improving biodiversity and ecosystems and contribute to the development and implementation of plans to improve land and water management.

This is very commendable and is likely to be widely applauded by the government and media. The Board and staff of G-MW may well be recognised for their efforts but they will not bear the costs. The cost of implementing this ambitions environment plan will be borne largely by farmer customers.

The VFF have continued to lobby that while particular lakes and dams are significant pieces of irrigation infrastructure, they are also important sites for recreational and tourist use, and therefore some costs must be shared.

Rural water customers are already making a very substantial contribution to environmental management on their own farms and through the implementation of government policies such as the so called 80/20 Sales deal which will see 20 percent of sales water reallocated to the environment. Over the next couple of years G-M Water customers will also have to adjust to a new operating environment following the unbundling of water rights.

Given the significant costs imposed on customers as a result of Government water policy the VFF believes water authorities should be adopting a slightly less ambitions approach to environmental management to ensure expenditure on behalf of customers is justifiable from a business perspective.

High and Low Impact Zones:

The rigid laws governing high and low impact zones in the Sunraysia region should be revised. Farmers are selling water out of the district, leaving stranded assets and burdening the remaining irrigators with increased costs.

Costs associated with storage and distribution of environmental water

The costs associated with the storage and distribution of environmental water is unclear.

For example, the financial implications of the 80/20 Sales deal are unclear. Following unbundling 20 percent of the medium security water shares will be held by the government on behalf of the environment. The VFF understood the government will contribute to the costs of storage and delivery of the environment's medium security water share on the same basis as other holders of medium security water share.

Similarly Grampians Wimmera Mallee Water irrigators also face similar concerns. When 80 000ML of water savings from the pipeline are returned to the environment/crown, irrigators are concerned they will be faced with increased headworks and bulk water charges.

Water Savings targets

The Sate Government has established a target of reducing water losses from rural water authorities by 25% by 2020.

Farmers are concerned that in the process of achieving 'within system' operational cost efficiencies the Authorities are imposing higher costs and less efficient systems on customers. For example water authorities could choose to run channels at lower levels or require farmers to take water at less convenient times.

While on paper these changes may appear to improve the efficiency of the water delivery system but they reduce on farm efficiency. There may not be an overall improvement in water use efficiency. When implementing changes to improve water use efficiency water authorities should be required to undertake an assessment of the impact on customers.

Future Recovery of Water for the Environment:

When Government needs to source additional water for the environment, the VFF believes this should be achieved by investing in infrastructure not entering the market and purchasing water. Investing in infrastructure ensures farmers and the wider community maintain the economic benefits and prosperity generated by the farm. By taking irrigation water out of productive use, the government is minimising the economic value of the region.

Socio-economic reporting of Environmental Water:

There is little discussion on the socio-economic impact of diverting additional water to environmental flows.

As national water reforms, including water recovery initiatives for the Living Murray 'First Step Decision' are rolled out, the socio economic impact on communities must be measured and publicly reported. With good information on the environmental benefits gained from additional water for environmental flows and the socio economic impact, governments and the community will be in a better position to make sound policy decisions in relation to any further commitments to return water to the environment.

Reviews of Future Water Allocations – Possibility for Compensation:

The recent Victorian Government water reforms passed in parliament implements a 15 year review period which assess the long term changes in inflows and whether this is having a disproportionate impact on the share of total water resources available for users and the environment; and whether there has been any decline in river condition attributable to flow levels.

When a review determines that changes in inflows has clearly resulted from climate change, and have led to a significant change in the share of total water resources allocated to the environment and consumptive use, adjustments may be made to restore the balance. The underlying principle is that the impact of changes in inflows will be equitably shared between users and the environment. Water users would not normally be compensated for any adverse impacts resulting from this adjustment. However, appropriate notice must be given of any reduction in water entitlements and any such proposal must be subject to approval of both houses of Parliament.

The VFF believe that compensation is appropriate where changes in inflows result from other causes, for example a reduction in inflows as a result of government policy.

Irrigation Infrastructure – the need for upgrades:

The VFF believe there is strong justification for the State and Federal Government to invest in upgrading existing G-MW system infrastructure to extend the current lifespan of assets. When assets were transferred to G-MW in 1994 following the reform initiatives of the National Competition Policy agreed by the Council of Australian Governments, they were transferred with a run-down life.

G-MW customers were expected to meet the full cost-recovery for maintaining assets and financing future infrastructure upgrades and replacement. From this regard, today's water users are being required to pay for the run-down of irrigation infrastructure in the past (pre-1994), current usage, and provide for the future upgrades of the system. This is an inequitable result.

By implementing the National Competition Policy principles for Water Industry reform, the Victorian Government received significant NCP payments from the Commonwealth. The VFF believe these payments should have been re-invested back into the water industry by fixing irrigation assets. Instead, the State Government now admits NCP payments have been used to fund recurrent government expenditure in the health and education sectors.

VFF believe this current review should recognise the responsibility of the State Government to invest in upgrading irrigation infrastructure which was handed over to irrigators from the old Rural Water Commission in a run-down state.

Government's will be putting pressure on GMW and other water authorities to make investments for environmental or other public good purposes. It is important irrigators are only responsible for investments and asset refurbishment where they are the beneficiaries.

Of particular note, in NSW the Government, as a matter of course carries one third of the cost of headworks and "running the rivers". This is in recognition of the substantial public good benefits associated with these aspects of the water business.

In any case there is a need for clearer rules about allocating costs of investment between irrigators and Government where investments lead to public good as well as irrigator benefits.