



Submission to

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

July 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 of 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.

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.

Reduce or remove constraints to trade:

"Relaxing restrictions on who can participate in water trade would improve the economically efficient use of rural water". (Pg xxv)

The draft paper proposes that prohibiting potential water users (such as environmental managers, environmental associations, urban water authorities and mining and power generation industries) from the market prevents the price of water from revealing the value of alternative water uses, and restricts the benefits the community as a whole can gain from the use of rural water.

The VFF question which 'community' the Productivity Commission is referring to that will benefit from the removal of rural water. The redirection of water currently used for agriculture to increase environmental flows may be highly valued by sections of the Australian community for aesthetic and philosophical reasons; however this value is likely to be disconnected both from the actual benefit the environment receives for the additional flows and the economic activity lost through the movement of water from productive uses.

Additionally, the transfer of water from rural to urban authorities to relieve household water restriction is a value for convenience reasons rather than an accurate reflection of the economic activity generated in rural areas through irrigation.

The VFF would argue there is no benefit to rural communities when water is either transferred to environmental flows or to urban water authorities. The trade of water out of rural areas is trading out jobs, population growth and economic development.

Water is the lifeblood of rural communities and if it was removed, jobs and wealth creation would also disappear and result in further urban migration. Research commissioned by the VFF has found that every megalitre of irrigation water removed from the Campaspe Irrigation District over the next 20 years is valued at somewhere between \$16 610 and \$21 741.

Further, the Goulburn-Murray and Broken irrigation systems produce \$1.8 billion in food, but generate an \$8 billion flow for the rural community. The draft report fails to adequately address the immense value of water to our rural communities.

Exit Fees:

"Exit fees and other unjustified limits on trade out of an irrigation district constrain trade in entitlements, impede adjustment and should be removed (Pg xxvii)

The Productivity Commission describe exit fees as 'distortionary' and can lock water into low productivity enterprises and regions.

The VFF fully support exit fees and does not believe they should be removed. The VFF lobbied strongly for the creation of exit fees to ensure farmers were protected from stranded assets. When water is traded out of irrigation districts the remaining farmers have been left to meet the on-going costs of supplying water and maintaining the infrastructure. As there are fewer farmers to meet these set costs, the result is price increases.

The Productivity Commission fail to acknowledge that exit fees are not on water, they are designed to meet the maintenance of irrigation infrastructure.

The VFF do not support the removal of exit fees, the Productivity Commission must give greater consideration to the impacts of stranded assets.

Markets to Secure Water:

"Opportunities to source water for environmental purposes through infrastructure investment at a cost below the current price of entitlements, appear limited. Further sourcing water through 'water saving' infrastructure investment may reduce water availability for other uses". (Pg xxxii)

The VFF fully supports investments in large scale infrastructure projects to deliver increased water to the environment. The VFF fails to support the Productivity Commission's concern that investments in infrastructure are more expensive than directly purchasing entitlements.

The VFF highlighted above that irrigation water is worth well above the market value to rural communities. The flow on economic benefits of jobs and wealth creation to rural communities as a result of water use must be acknowledged.

To propose that infrastructure investments are too expensive given the water can be purchased at market value totally ignores the value it creates to rural areas. The VFF believe that investments in infrastructure produce win-win measures for farmers, community and the environment. Farmers do not lose water, the community maintains its economic output and the environment gets the water savings.

Further the Productivity Commission is proposing to not invest in infrastructure as it may reduce water to others. The VFF do not support this argument. Creating water system efficiencies is vital to the long term viability of the irrigation industry.

Living Murray Initiative:

Environmental objectives of the Living Murray Initiative can be more effectively addressed through a range of water products".

The Federal Government is concerned with the lack of progress in meeting Living Murray commitments. This agreement will see 500GL returned to the environment; Victoria is to contribute 214GL and NSW is to deliver 249GL to this agreement.

The Productivity Commission must acknowledge that Victoria is progressing well with its Living Murray commitments unlike NSW. Victoria has most of its works underway and intends on meeting its 214GL by June 2009. NSW has only outlined projects to deliver 71GL and works for these are yet to start.

Infrastructure investments via channel automation provide an opportunity to deliver a large portion of our Living Murray commitments.

- Victoria is achieving its 214GL savings by:
 - 120 GL following the 80:20 sales deal which saw irrigators give up 20% of their sales water;
 - 25 GL from reconfiguration works.
 - 25 GL from decommissioning Lake Mokoan
 - 1.5 GL from investment in infrastructure in the Sunraysia pumped districts
 - 42.5 GL primarily from the roll-out of channel automation in the Goulburn-Murray Irrigation District.

Recent concern with the Living Murray commitments has seen the Federal Government developing a tender package to invest on farm and deliver the savings to the environment.

Given Victoria has largely met its required savings, investing in on-farm works is a quick and reasonably cheap alternative to deliver NSW's required savings.

Irrigation Tax:

"Volumetric taxes on water use have been suggested as a possible mechanism to address environmental externalities attributable to irrigation water use" (Pg. xxxiv).

The VFF opposes any attempt to apply a volumetric taxes on water for irrigation use and note the difficulty of this approach outlined by the Productivity Commission.

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.

Groundwater and Surface Water Connectivity:

"Undertaking further research on groundwater systems and their connectivity to surface water, and developing effective water accounting system are essential".

The VFF welcome research exploring the relationship between groundwater and surface water.

Trading un-used allocations:

"Trading unused seasonal allocations across districts may improve intertemporal water-use choices where carryover is not available in all districts".

Trading un-used seasonal allocations already occurs in Victoria. This allows Victorian farmers greater flexibility when managing their farm businesses.