

# WATER CORPORATION

**David Luketina**  
**(08) 9420 2116**

629 Newcastle Street , Leederville 6007 Western Australia  
PO Box 100, Leederville 6902  
Perth Western Australia  
Tel (+61 8) 9420 2420 Fax (+61 8) 9420 3626  
[www.watercorporation.com.au](http://www.watercorporation.com.au)

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Water Study  
Productivity Commission  
Locked Bag 2  
Collins Street East  
Melbourne, Vic 8003

Dear Sir/Madam,

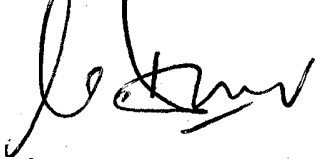
Thank you for the opportunity to comment on the Productivity Commission's Issues Paper:  
**Rural Water Use and the Environment: The Role of Market Mechanisms.** The Corporation  
has reviewed the paper and would like provide the following comments:

1. The paper should not treat the needs and efficiencies associated with farming in isolation from other users/potential users of water sources. For example, in paragraph 3 on page 9 it states "To be economically efficient, all inputs have to be optimally used (taking into account their relative costs, marginal contribution to output and the price of outputs)". Whilst this meets the best interests of the farming industry, it might not be in the best interests of the raw water quality of the water source. Water quality may not be a significant issue for irrigation, but it is a significant issue for public water supply. There are instances where the quality of raw water sources used by the Water Corporation for public water supply are deteriorating to the extent that either alternative sources will need to be identified or additional and expensive treatment facilities will have to be provided. The deterioration in raw water quality can be attributed to past and present land use practices within catchments.
2. Paragraph 2 on page 10 states "The competitive nature of agricultural markets provides discipline for producers to provide commodities sought by consumers and to use input efficiently". As water is generally a relatively cheap input, the incentive to use it more efficiently is probably not as great as for many other inputs.
3. A number of potential issues that may affect the future availability of water for consumptive purposes (including irrigation) should be considered. These include

- climate uncertainty, changing raw water quality and consideration of Ecological Water Requirements and Environmental Water Provisions.
4. Data and information for improved understanding and assessment of impacts of land use practices is not always readily available. If studies and trials are required, responsibility for conducting, and funding the studies needs to be considered.
  5. Climate change impacts on water availability and allocation mechanisms needs careful consideration, particularly with respect to ensuring environmental water requirements are preserved in the face of declining water supplies.
  6. Relatively cheap water for agriculture provides little incentive to improve efficiency of water use, relative to other agricultural inputs. Water allocation based on certified adoption of best management practices or a code(s) of practice for water use would provide a mechanism to enhance water use efficiency. This could be tied to requirements to improve climate variability management practices, as a further mechanism to 'drought proof' Australia.

If you have any queries in relation to these comments please contact David Luketina on (08) 9420 2116.

Yours sincerely



David Luketina  
Manager Environment Branch