



MALLEE CATCHMENT MANAGEMENT AUTHORITY

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Mr John Cosgrove
Commissioner
Impact of Competition Policy Reforms Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Mr Cosgrove

Impact of National Competition Policy on Rural Australia

I have much pleasure in providing a submission on the Impact of National Competition Policy on Rural Australia. The submission has been prepared by the Board of the Mallee Catchment Management Authority, which is based in the north-west of Victoria. The Board of the Mallee CMA was appointed on 1 July 1997 by the Victorian Government. The CMA's role is to oversee implementation of the Mallee Regional Catchment Strategy. The CMA also includes two Implementation Committees for irrigation and dryland issues. It co-ordinates the management of land, water and biodiversity through a wide range of stakeholders.

The primary interest of the Mallee CMA in competition policy relates to water reform and this is outlined in the attachment. The CMA is vitally interested in water reform and would have liked to attend the Commission's Mildura meeting, but regrettably did not receive notice of this function.

Please feel free to discuss any issues raised in more details with myself (phone 03 5094 1235) or Scott Glyde, Chief Executive Officer at the above address.

Yours sincerely

Gerald Leach
Chairman

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Impact of National Competition Policy on Rural Australia

Water Reform

1. *How is ongoing water reform affecting consumers and industries in country Australia. Are there likely to be adjustment costs?*

Water reform has facilitated major growth in high value irrigated horticulture in the Victorian Mallee. Since the water industry in Victoria was deregulated and water became a tradeable resource, there has been more the 5000ha of new irrigation in the region. This expansion has occurred since 1994 when Transferable Water Entitlements were introduced. Trade of water has been confined until recently to within Victoria. In this region, the process has been facilitated under the Nyah to the South Australian Border Salinity Management Plan, which was approved by the Victorian Government in 1993. The plan established a process by which conditions are attached to a new Water Licence upon transfer of water. Some of the conditions are identified through an environmental checklist, which a developer must undertake appropriate investigations identified in the salinity plan. Most of the water traded has moved from irrigated pasture upstream of this region to higher value crops in the Mallee.

The majority of the new irrigation development is being undertaken by private diverters, who purchase water, select the location of land and type of crops and establish their own infrastructure. At this stage there has also been a small expansion of the traditional large community pumped districts that rely on common infrastructure where settlement is intensive. Concurrently, there has been a rapid expansion of value adding industries such as wine production and food processing and service industries such as transport, financial and technological services, based on the new development.

Growth in new plantings of wine grapes has been significant, with seven wineries in the Mildura district crushing a total of 290,000 tonnes per annum of grapes or 35% of Australia's production. Water reform has allowed the industry to respond to higher wine grape prices. There is a similar rate of expansion in vegetable production in this region.

The new horticultural developments have brought massive investment into this region. On farm capital investment is in the order of \$37,000 per ha for wine grapes and \$12,000 per ha for vegetables (excluding cost of water and land). Taking the figure of 5,000ha, 50% of the area has been devoted to wine grapes, 45% to vegetables and 5% to other permanent crops such as almonds, olives and soft fruits. The farm gate gross margin for zucchinis for example is \$5,000 per hectare. It has been estimated that the total farm gate production value of the new developments in the Victorian Mallee is currently \$50 million per annum.

A benefit for consumers is that they can be assured that the production of commodities is having minimal impact on the environment, including the Murray River. The separation of water from a parcel of land has enabled use of the water without subsidies to go to the best land where the water can be used most efficiently to produce crops that the international and local market wants without environmental impact. As a consequence there is potential for industries to market produce with the appropriate "environmental tag".

Adjustment costs for new developments do not appear to be an inhibitor to adoption of water reform in the Victorian Mallee. However in the traditional pumped districts, the conversion of furrow irrigation of horticultural blocks to pressurised systems has a significant capital cost which may be slowing the rate of change. Furrow irrigation tends to be an inefficient and wasteful method of watering and water reform has helped catalyse adoption of improved technology by small block growers (see Q2).

In short, water reform has been a major benefit to rural communities and industries in this region.

2. *What are the environmental impacts on country Australia of the reforms?*

Water industry reform has led indirectly to the Bulk Entitlement Process (Cap) which takes into consideration the environmental requirements of the Murray River and its associated wetlands.

Through the Nyah to the SA Border SMP, new irrigation development has been encouraged in the designated Low Impact Zone rather than the High Impact Zone. These zones were identified in hydrogeological investigations and are defined by the impact that displaced salt would have on the Murray River. Developers are likely to select sites with the best soils for their purpose and apply water according to crop needs. The high price of water and the high cost of delivering it encourages its careful application.

Developers must do comprehensive soil surveys to determine the suitability for crops, irrigation design, watering regimes and drainage requirements. Water is scheduled based on crop needs and soil type. Also under the environmental checklist consideration must be given to on-site and off-site biological assets such as native vegetation, habitat corridors and wetlands. Future needs for drainage and its disposal also needs to be addressed. In a recent audit of new developments, the level of compliance to the environmental checklist had reached 85%. Compliance can be enforced as the checklist can be applied as conditions on the water licence. The high standards imposed on new developments have encouraged existing developments to improve their level of management. It is crucial that there is a consistent set of standards for new irrigation development across the Murray Darling Basin. This will ensure that regions or states that establish high environmental standards are not disadvantaged.

Water reform has benefited the Murray River as water transfer tends to shift water from upstream users to downstream users, and from high volume water application/low value pasture to lower volume water application/high value crop.

In the pumped districts water reform coupled with training and incentives through the Sunraysia Salinity Management Plan has had a major influence on growers to apply water more carefully using improved technology. This in turn has resulted in a major reduction in outflow of saline drainage water, which has both on-site and off-site environmental benefit.

This issue of altered flows in the Murray River could be increasing the risk of blue green algae outbreaks. The impact of an outbreak in the Mildura Weir Pool would be disastrous for the region "Clean-Green" image.

3. *How is the removal of cross subsidies in water charges affecting water rates in country towns and in metropolitan areas?*

The removal of cross subsidies in country towns has not had a noticeable impact. The CMA will not comment on metropolitan areas.

For domestic and stock water supply to dryland farms, in the past five years water tariffs have been altered from an area based water tariff to an area/volumetric tariff, which encourages more careful use. Some farmers claim that their domestic and stock water costs have increased markedly since the Northern Mallee Pipeline has replaced the channel system as the method of delivery. The water authority has maintained a uniform tariff regardless of distance from the source. A point of debate has centred on a small minority of farmers which seeks to opt out of the stock and domestic supply system and rely on their own "catchment dams". The CMA would encourage the principle that all properties in a water supply district be rated for the broad public benefit. An area based component in the tariff should be retained, and farmers in both new and existing Domestic and Stock Schemes should not be given the option to opt out and make their own arrangements for water.

In respect to stock and domestic water supply in the southern Mallee, which delivers water by earthen channel to on-farm dams, an assumption is made that dams are of a uniform size. Water is not measured, as this is difficult to achieve. The tariff consists of an area based component and a flat rate charged for each dam filled. The supply authority makes the assumption that all dams are the same. The Northern Mallee Pipeline on the other hand has enabled water reform to be applied because the use of water is measured whilst water delivered by channel is not accurately measured.

4. *Which activities are likely to contract or expand as a result of the reforms?*

Activities that are likely to expand are:

Industries: wine grapes, almonds, olives, vegetables, and specialist crops.
 Use of highly technical irrigation design and layout and pressurised water application systems
 Use of sophisticated monitoring equipment for weather and soil/water status
 Large corporate growers
 Property management planning, business planning
 Re-use of drainage water for salt tolerant crops or farm forestry
 Wine making, food processing and packaging, transport, service industries.
 Suppliers of agricultural materials, soil surveyors, farm machinery, contract harvesting, private farm advisory consultants.

Activities likely to contract are:

Industries: irrigated pasture.
 Use of flood or furrow irrigation
 Application of water by inefficient methods
 Small family horticultural holdings in relative terms
 Use of government advisory officers for operational agricultural advice
 Use of inefficient earthen channels to distribute water.

5. *Has the capacity to trade water entitlements helped to ease the financial problems of farmers and graziers?*

The capacity to trade water may have benefited farmers who formerly used large volumes of water to irrigate pasture. Growers in this situation who sell water would either retire the land from irrigation entirely or retain a small amount of water to use on higher value crops. The latter option usually requires a large amount of capital to implement. The ability to buy water has benefited many small private divertors, which have been able to expand their enterprise. Trading of saved water has enabled many small growers to convert from inefficient irrigation methods to pressurised systems. In the pumped districts trade of water has an annual cap but trade has not been significant. A limiting factor to restructuring in pumped districts is land value which is driven by off-farm income or competing land use. An issue that may arise in pumped districts is that land may become dryland if water is transferred out of the district, thus increasing overheads for the other customers in the water supply district.