



MIA Council of Horticultural Associations Inc.

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Productivity Commission
P.O. Box 80
BELCONNEN ACT 2616

Dear Sir,

RE: Impact of Competition Policy Reforms on Rural and Regional Australia.

Thankyou for the opportunity to review and comment on the Impact of Competition Policy Reforms on Rural and Regional Australia Draft Report.

We note that the Commission has reviewed many aspects of competition reforms, however we will confine our comments to the water reforms contained in section 5.4 of the report.

Water Pricing:

The NSW Department of Land and Water Conservation has not acted quickly to open the bulk delivery of water to direct public competition and we are concerned that pricing is less transparent than has previously been the case.

The DLWC has now established a "Commercial Business", State Water to manage the bulk delivery of water within the State. This business is already operating, however the Customer Service Committees are to be appointed soon after June 30 this year. The former River Boards will be decommissioned at the same time, however we are yet to see the operation of the Service Committees to assess their performance relative to the former River Boards. The River Boards were able to fully scrutinise the accounts for each valley and assist customers to determine those charges, which related to each valley in a transparent way. We hope this will continue with the Service Committees.

The \$1.35/ML environmental levy was defined for two years, however it has disappeared into consolidated revenue and customers have no way of knowing if this money is being spent on environmental projects or not, or if this is the most efficient use of the funds. This lack of transparency is very concerning.

The MIA Council of Horticultural Associations suggests that fully autonomous valley authorities be established to operate bulk supply of water (possibly including environmental management). This would allow the valley customers to determine the level and cost of service for the valley without the potential for intangible departmental costs to be added to service charges. This could be done in a way, which allows the Government to still control the CSO, and other community desired aspects. An example of this is Telstra, where it is now a private company with majority Government shareholding. The rules ensure that Community Service Obligations are met while delivering efficient services to customers.

In respect of infrastructure refurbishment financing, an allowance for depreciation and payment of an annuity may be appropriate in some circumstances, but this should be taken on a case by case basis. The privatisation of the former Irrigation Areas and Districts across NSW has come with a financial recognition from the State Government that appropriate financial arrangements were not made during the public administration of these schemes. Financial administration is now in the hands of shareholders, and they must deal with this issue for future infrastructure funding.

In respect of water assets still in public hands such as dams and weirs along rivers, again there must be Government recognition of past failure to properly account for depreciation. Perhaps an ex-gratia payment to State Water would be appropriate and then, from that point the Customer Service Committees could determine the appropriate refurbishment financing method. It is not appropriate for the Government to expect current or future generations to pay for earlier poor management and planning.

Whatever system is used, it should apply to all Government assets in the same way. Sydney rail systems for example, do not run at cost recovery for operating expenses, let alone refurbishment.

Accounting for Transmission Losses:

Transmission losses are an increasing issues, particularly with the encouragement of water transfers. The Lachlan River was used in the report as an example; the Murray River probably has an even higher loss ratio from the headwaters to the Murray mouth. As interstate trade becomes active this issue will need to be addressed. A related issue is that of water quality. Salt content of the water increases with distance, pricing should also eventually take account of delivery quality as well.

The NSW Government, in attempting to introduce the Farm Dams policy, developed a system of run-off gradients to indicate the size dam, which could be built in each area. This system was meant to recognise wide differences in run-off, but not local differences such as rain shadows.

A similar system could be developed that would take account of wide differences in system losses, so that within defined river stretches the loss factor would be x , but in another stretch it would be y , and a conversion ratio could apply to water being transferred from one stretch to another. This system would need to recognise that water transferred downstream would have a reduction factor, but water transferred upstream would have an increase.

Markets would then need to adjust pricing to reflect regional differences.

Water Trading

Clearly defined property rights are essential. The MIA Council of Horticultural Associations strongly objects to the recommendation 5.2 by the Commission as other reforms are continuing and the potential erosion of the base for a property right is constant. We would support the Commission if the recommendation were for a cessation of all reforms *until* a secure property right has been established.

The stakeholders in the water transfer market are avoiding the permanent transfer market in favour of the temporary market because of the lack of the property right and the more favourable tax regime applying to temporary water trades.

In the Murrumbidgee River for example, if an individual purchases 100 ML of permanent water, the introduction of environmental flow rules and continued policy change by the government creates a significant risk that less than 100 ML will be available in this current year. On the other hand the purchase of 100 ML on the temporary market assures the delivery of 100 ML in that year.

Many irrigators with farming systems built on use of more than former entitlements are attempting to enter into long term contracts for the supply of water through the temporary market. This also allows for a rapid expansion of a business without tying up valuable capital in permanent water.

The MIA Council of Horticultural Associations would also like to draw the Commissions attention to current attempts to limit access to the market for sleeper and dozer licences. It is our strong view that sleeper and dozer licences are an asset held by individuals who (under a property rights regime) should be able to use, not use, or dispose of water referred to in the licence, in any legal way.

There is a strong case for the State and Federal Governments to take responsibility for the level of licences issued, and if this amounts to an over allocation of a particular resource, then compensation should be paid to those adversely affected by that over allocation. Many irrigators have legitimately developed their properties under the former policy. As the policy changes, the Government should make a financial contribution to those adversely impacted. Many other growers are developing businesses under the present rules and would have a legitimate claim to compensation if the rules were again changed.

Any attempts to restrict trade by sleeper and dozer licences should come under the scrutiny of the National Competition Commission in relation to the Trade Practices Act.

If continued activation of sleeper and dozer licences would place a resource in jeopardy as well as creating adverse social impacts, the Government should be obliged to introduce a voluntary buy back of issued licences. This would provide a suitable compensation mechanism.

In the Murrumbidgee Valley for example, there may be a 15% over allocation of licences. (This is a rough estimate). If this were the case, then about 350,000 ML would need to be purchased. At the current price of between \$500 and \$1000 for permanent water, the total value would be between \$175 million and \$350 million. Taken across the State, the value could be easily in the order of \$1 Billion.

To pay for this, as the over allocation is Government's (and therefore the community's) responsibility, a levy could be placed on all households as has been done in Victoria, for environmental purposes. If there are one million households in NSW, the cost per household would be \$1000 each. If the levy were raised as a smaller amount over a number of years, an interest component would need to be included. There are obviously equity issues involved in developing a compensation fund, however a number of solutions could be found to raising the money.

In terms of the separation of water from land as separate assets, consideration must be given to the characteristics of the joint asset when the two were attached. The joint asset has enabled irrigators to seek and gain the support of financial institutions for development works and general farm operations. This has been allowed due to the ability of the financier to secure the funding through a mortgage over the joint asset. The separation of the two assets, leaves the financier with a mortgage only over the land, which is considerably reduced in value. Within the designated irrigation areas, the water is vested in the irrigation supply company and has effectively been removed from the land. The water supply is through contractual agreement with the company, and the irrigator has a new asset in company shares.

The banking industry needs to have confidence in the separation of the assets and the ability to secure financing over a collateral base. Therefore the new water asset must have the same characteristics as when it was attached to the land. Thus, it must be able to host a mortgage and have an interest registered in it. This system in land is called Torrens Title. The same title must be afforded to the new water asset.

Economic and Social Impacts:

The recent report by Marsden Jacob Associates to the NSW Department of Land and Water Conservation *Water Trading Development and Monitoring* estimates that the benefit to NSW in Gross State Product from water trade is at least \$60 million annually, with about equal proportions from temporary and permanent trade.

Temporary water trade by horticultural growers from within the Murrumbidgee Irrigation Area earned growers approximately \$2 million in additional revenue in the 1998/99-water year. This water was made available through the activation of unused entitlement which was surplus to on-farm requirements in that year. The water was purchased largely by farmers further downstream from the MIA on the Murrumbidgee River and in the NSW Murray Valley, who used the water to grow rice. A conservative estimate of the increase in rice production by those farmers who purchased the water is in the order of \$5 million. This cannot be related as a direct increase in a net sense, as the water reform process has also taken water away from many irrigators who have either reduced their production of rice, or other enterprises.

The funds returned to horticultural growers have assisted in maintaining farm viability, and acts as an incentive to increase water use efficiency.

The MIA Council of Horticultural Associations again thanks the Commission for the opportunity to comment on the draft report. Please do not hesitate to contact us if you need any clarification.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Bryan T. Clark". The signature is written in a cursive style with a large initial 'B'.

Bryan T. Clark
Chief Executive