



Executive Director: M.J. Hedditch
Yanco Avenue (P.O. Box 706)
Leeton NSW 2705

Telephone (02) 6953 0433
After hours (02) 6962 4616
Fax (02) 6953 4733

RICEGROWERS' ASSOCIATION OF AUSTRALIA

The Productivity Commission Inquiry Issues Paper Response

The Rice Growers' Association of Australia (RGA) represents around 2500 farm families in the Murray and Murrumbidgee Valleys of southern NSW. The Australian rice industry generates approximately \$700 million annually from value added earnings with nearly \$500 million of this coming from export income. Water from irrigation remains as the critical natural resource underpinning the rice industry and as such will constitute the focus of this response.

Firstly, it is necessary to identify an anomaly from page 11 of the paper, which states that; "around 90 per cent of water is used in country Australia for irrigation." This is not correct and in fact should read that around 90 per cent of water diverted or consumed is used in country Australia for irrigation purposes, not 90 per cent of the total water resource.

The RGA is a key stakeholder in the NSW government water reform process. As identified by the Commission, this process remains in negotiation with stakeholders and therefore it is difficult to gauge the full effects of water reform on our constituents. However, the reform process to date has impacted on rice farm businesses.

In attempting to deliver equity to all stakeholders, the water reform process has had the net effect of reducing water security for irrigators in the Murray and Murrumbidgee valleys. The further development of irrigation-based industries has been suppressed by the advent of the Murray Darling Basin Commission cap on diversions. The cap has resulted in lower maximum allocation announcements for general security irrigators, the majority of whom are rice growers. Lower allocations have most severely affected those irrigators who have historically used up to or more than their total annual allocation over an extended period. The on-farm capital investments made by growers on the basis of access to water over and above their annual allocation has been compromised by the introduction of the cap.

Uncertainty of Supply

There are also a number of other factors contributing to uncertainty of water supply leading to further impacts on the continued growth of irrigation-based industries. These factors largely stem from the NSW State Government water reform process, which has included:

- The review of bulk water charges by the Independent Pricing and Regulatory Tribunal resulting in the recommendation for a further increase in bulk water prices. Should this recommendation be adopted, it would represent an increase in bulk water prices of approximately 400% over a four-year period.
- The review of water access and use rights for irrigators. While still ongoing, the review process has raised fears amongst irrigators that any change to legislation under the Water Act in relation to water licences may result in the erosion of security of water access and use, currently provided under a single licence. The RGA would not support the possible separation of water access and use rights unless the access right is in perpetuity, any loss or reduction in the access right is left open to compensation and the use right is determined by a community process.
- The formation of River Management Committees. In the case of the Murrumbidgee Committee, irrigation representatives agreed to a set of river flow rules to balance the competing needs of river health and continued economic development. This has resulted in an average reduction in water allocations of 4.5% and restricted access to off-allocation flows.

In addition, the NSW and Victorian Governments have commissioned the Snowy Water Inquiry. While again, this process is yet to be finalised, the range of composite options proffered by the Inquiry team will impact to varying degrees on water allocations in the Murray and Murrumbidgee valleys.

The cumulative effects of state and interstate water reforms have the potential to compromise the viability of irrigation-based industries and the regional economies underpinned by these industries. Regardless of further efficiency gains created by a more active water market, reduced access to water for irrigation can only lead to reduced investment in irrigation industries and a downturn in regional economic development.

Environmental Impacts

To date, the water reform process has largely resulted in more water allocated to the environment and generally an increase in the frequency of higher in-stream flows for regulated rivers. While the RGA endorses the continued health of our river systems, there has been no definitive scientific data that suggests increased flows will maintain/restore river health. River Management Committees have the responsibility to commission work into the health of river systems, although this process will take some years to complete. In the interim, we question the benefit of obtaining water from irrigator allocations. Should the government intend to provide an increased supply of water to the environment in this period, then it should be purchased at market value.

The RGA is also concerned that reductions in allocations may also impact upon on-farm environmental works. In some instances, reduced water access and therefore profitability will force irrigators to cease non-profitable activities such as re-vegetation and water recycling.

Water Trading

The RGA recognises the benefits associated with the advent of intra-valley, inter-valley and inter-state trading. An open water market has allowed irrigators greater flexibility in responding to allocation announcements and external fluctuations at a price. Irrigators with low historical water use have gained advantage through higher prices for excess water.

However, the Productivity Commission must take into consideration the transfer of wealth between valleys and states as a result of a more open water trading market.

Rice Marketing Arrangements

The Issues Paper identifies that a review of the *Rice Marketing Board (Marketing of Primary Products Act)* under the guidelines of the National Competition Principles Agreement was completed by the N.S.W. State Government in 1995.

That review clearly identified that under the current structure of the NSW rice industry, using the vesting powers under the marketing of Primary Produce Act, 1983, a substantial net public benefit was achieved. The level of this benefit was calculated as being in the range of \$28 – 47 million in 1996/97 rising to \$38 – 57 million in 2000/01 as a result of the single desk export facility utilised by the industry.

The review also identified costs imposed on the Australian economy as a result of the arrangements within the industry of between \$2 million and \$12 million per annum.

Recommendations made by the review group were:

1. That the N.S.W. Government note the Review Group's findings that the current single desk export selling arrangements of the N.S.W. rice industry generate market premiums for the industry and a net public benefit.
2. That the N.S.W. Government apply to the Commonwealth Government for an export licence or equivalent that provides a single desk export arrangement for the industry.
3. That the N.S.W. Government agrees to provide a State-based regime to secure single desk export selling for the N.S.W. rice industry, but which has minimal anti-competitive effects, in the event that the Commonwealth does not grant an export licence or equivalent.
4. That the N.S.W. Government note the Review Group's conclusion that further net public benefits can be achieved by removing the current vesting provisions and their anti-competitive impact on the domestic market.
5. That the N.S.W. Government agree to the deregulation of the domestic market by not renewing the current vesting powers of the N.S.W. industry.
6. That the N.S.W. Government note the Review Group's conclusion that the National Competition Principles Agreement does not adequately address the situation applying to export oriented industries and that this matter be taken up with C.O.A.G.

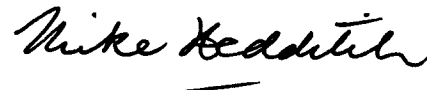
The N.S.W. Government had some discussions with the Commonwealth in regards to the issuing of a single desk export licence. No action was taken at that time. The N.S.W. Government also found that there was no State-based regime that could be put in place that secured the single desk export selling arrangement, and therefore extended vesting.

The National Competition Council has focused on Recommendation 4 only, with little regard for the export arrangements, and the other recommendations which should be read as a complete package. The Council does not understand that the N.S.W. rice industry is not a "Grain" Trader but is a supplier of a high-quality processed food product.

The impact of deregulating the domestic market at the grower level will have the effect that, not only will overseas countries be able to access the raw material, they will then be able to export Australian processing and, more importantly, export Australian jobs.

On behalf of the Ricegrowers' Association of Australia, I would like to thank the Commission for the opportunity to respond to the "Inquiry Issues Paper".

Yours sincerely,

A handwritten signature in black ink that reads "Mike Hedditch". The signature is written in a cursive style with a horizontal line underneath the name.

M.J.HEDDITCH
EXECUTIVE DIRECTOR