

CONTEXT OF SWI SUBMISSION

South West Irrigation (SWI) is the trading name of South West Irrigation Management Cooperative (SWIMCO) which along with South West Irrigation Asset Cooperative (SWIAC) form the fully privatised entity (SWI) which delivers irrigation water to 558 irrigators in the Waroona, Harvey and Dardanup Shires. The cooperatives are fully owned by the irrigators in the area who hold shares in proportion to their Transferable Water Entitlement (TWE).

Before privatisation in October 1996, the irrigation scheme was administered for nearly 100 years by a succession of government agencies including the Public Works Department, Water Authority and Water Corporation

The impetus for privatisation resulted from the coincidence of the Council of Australian Governments (COAG) led reforms in the water industry and the desire by the WA water authorities to rationalise their own operations as they moved towards corporatisation.

The irrigation area was not considered to be a profitable or core enterprise and a number of studies were carried out, pre-eminent among which was the McLeod Report. One clear option was to close the scheme down altogether but the McLeod Report also proposed a range of other options which would allow the scheme to continue. However the major requirement was that the local irrigators would have to take control on the basis of the user-pays philosophy.

The local irrigators were determined to ensure the long term viability of their industry, and led by a small group, negotiated the privatisation during 1995/6. The company has been operating for 2 years, and supported by 3 short term government subsidies (expiring in 2000), has performed above expectations in all areas of its business.

Although the company has been privatised through competition policy, it has to be said that SWI does retain a monopoly on irrigation water distribution at this point. This does not mean that it will retain that monopoly and unalienable rights to distribute water in the long term. The clear onus on SWI is to demonstrate that their shareholders and customers can make better economic use of the water than possible competitors. SWI accepts this challenge with considerable optimism and determination.

THE IMPLEMENTATION OF THE POLICY IN THE SWI AREA, ON OUR ORGANISATION & CUSTOMERS

After 2 years of operation SWI believes that the privatisation has had a significant positive effect in 3 main areas:

- the cost of irrigation water
- the maintenance of the system
- and the service to our customers.

COST OF WATER

SWI has increased the cost of water by 5.8% over the two years since taking over from Water Corporation. The price of water increased by 5% in the last year of administration by the Water Corporation.

SWI has significantly changed the ratio of Fixed to Consumption charges. Whereas the previous ratio was 32:68 it is now 44:56. This adjustment in ratios has been well accepted by irrigators. The purpose of the adjustment is to build a sinking fund to pay for repairs and maintenance which will be needed in the future.

Although SWI benefits from an income underwriting arrangement with government for the first 5 years of privatisation, it already has sufficient understanding and control of the financial aspects of its business to calculate that it would take water sales to be 30% lower than normal for it to run into financial difficulty. The 10 year average for sales has been 95 000 megalitres. Since SWI took over sales have been 75 000 and 81 000 megalitres partly due to seasonal conditions and partly due to a slump in the beef industry. SWI has not experienced financial difficulty as a result of these low sales. Our prediction is that sales will stay below the long term average for some years as beef production from irrigated pastures is unlikely to be economic.

SWI does not believe that operating or capital costs or requirements will require a significant rise in water price in future, provided that our customer structure and short term support remains similar.

Therefore, the privatisation of SWI as a result of implementation of competition policy has had the effect of stabilising the price of irrigation water and providing irrigators with the basis for a stable price in future.

MAINTENANCE OF THE SYSTEM

One of the features of the irrigation system in the last decade of administration by the government agencies was that the maintenance was allowed to fall to low annual levels. This has jeopardised the integrity of the system and provided weight to the government's decision to pass on responsibility to the users.

An annual payment will be made to SWI for the first 5 years of the privatisation in recognition of the poor state of the system and the significant amount of work needed to bring it back up to good operating condition.

The increase in the proportion of Fixed Charges to provide funds for this work has been well accepted by irrigators who now see that the system is being repaired and upgraded. They are happy to see tangible results for the levies that they pay.

One of the features and opportunities from privatisation is that the budgetary and expenditure process is more flexible than is possible in government. This has allowed programs to proceed and decisions to be made more quickly than might have been the case previously. This results in the impacts being seen and felt much more quickly. Expenditure is still closely monitored by means of detailed annual Asset Management Plans and budgets supported by Net Present Value (NPV) analysis where necessary on capital expenditure. There is a strong focus on making sure that shareholders' funds are spent responsibly which has led to closer attention to the justification for capital works projects.

There has also been a revitalisation of the technology employed in maintenance coupled with a significant movement away from a high level of employment by the company to one where contractors are freely used. These include previous employees of the organisation.

These adjustments have allowed projects to be completed at very much lower costs and very much more quickly than was previously the case. This has been one of the major achievements of the company to date.

As well, fresh thinking and ideas have been actively sought from the employees, other Australian agencies and internationally with the result that the system is much easier and safer to operate. It is our understanding that there was limited use of these methods in the past.

So from the point of view of system maintenance the greater availability of funds and flexibility to spend them on works has been a significant positive outcome of the implementation of competition policy.

CUSTOMER SERVICE

Behind much of the rationale for greater competition lies the premise that customers should benefit the most through price or other service as a result of implementing competition policy.

SWI can report with considerable confidence and some pride that the level of service to our customers has risen significantly.

Our customers require a certain volume and flow of irrigation water over a nominated period. SWI has carried out substantial customer surveys over the

2 years of our operation and with a 32% response rate to the most recent mail out survey can confidently state that we are meeting customers' expectations in service much better than under the previous administration.

These surveys are backed up with objective evidence which shows that we deliver the right amount of water when it is ordered. The timing of our delivery has improved significantly and we are steadily improving the strength and reliability of the flow.

This improvement in customer service has come about by adopting a customer focus and shifting the locus of control for service to those who are responsible for delivering it. This is the reverse of the previous philosophy where control of water delivery was administered from Head Office and the front line service agents had minimal control over what happened.

This change in control has been made possible by the adoption of new technology – which has seen a group of mature aged people take on and revel in the use of computer technology and IT. It has also been brought about by the company recognising that our customers are our shareholders and have a right and expectation to excellent service. This attitude is often more difficult to achieve in a government organisation.

The effectiveness of this approach has been recognised by SWI receiving an award from the WA Water Industry Awards for Innovation in Farm Water Supply Service in October 1998.

From the point of view of customer service the implementation of competition policy has led to the second most significant achievement of the company which is a marked improvement in service delivery.

In summary, the major benefits achieved above provide a positive stimulus to the SWI area because irrigated agriculture is the basis for much of the economic activity of the Shires of Waroona, Harvey & Dardanup. With greater certainty over the supply of water as their most significant input, the strong prospect of a steady price in the medium term and an efficient delivery system, SWI irrigators can remove problems in the irrigation system as one of the causes for uncertainty in their businesses.

OTHER EFFECTS OF COMPETITION POLICY

It is perhaps a paradox that the significant benefits obtained by irrigators as a result of the implementation of competition policy in the case of SWI are potentially jeopardised by its intended implementation in another industry.

Over 70% of our income comes from dairy farmers. There is significant pressure for deregulation of price and supply and greater competition in the dairy industry in WA.

Fortunately the effects of the dismantling of current price and supply arrangements have been seen in other countries such as the UK and New Zealand and in other states of Australia. They tell a common story.

So far the outcomes have been an increase in the price of milk to the consumer and a decrease in the price paid to the producer. It appears that the great majority of this transfer of income is being taken by the retailer and somewhat less by the processor.

It is of great concern and not a little wonder to us that this continued push for deregulation in the dairy industry can be proceeding under the guise of greater competition when in fact the intended recipient of the benefits, the consumer, is clearly not receiving them. In fact, they are being significantly disadvantaged by paying a higher price for milk in particular.

The benefits are clearly accruing to the very few large retailers and their shareholders, who exert their market power in quite a brutal way as far as all food grower / suppliers, and not just dairy farmers, are concerned. SWI is concerned to assist the search for other industries and opportunities which might use irrigation water more effectively. A significant hurdle in the production of food is the barrier placed on producers by the few large retailers. Any infant industry will struggle while dominant retailers apply unrealistic quality requirements and further apply savage price penalties which are heavily biased in their favour.

This whole process clearly represents another instance of the transfer of wealth from the country to the city because farmers are not significant shareholders in retailers and processors, although economic logic says perhaps they ought to be.

It is estimated that if deregulation is brought in in WA it will mean the loss of 70 dairy farmers from the irrigation area. This will have a significant effect on the income available to SWI since there is no guarantee that those lost farms and that land will be bought by larger dairy farmers and remain in production under irrigation. There is no doubt that SWI would then be under financial pressure to survive. Clearly we could put the price of water up, but in an interdependent industry situation it does not seem sensible to increase prices

when our customers would be under the pressure of reduced incomes. We could all go under.

Competition policy in this case will mean a further dismantling of the production base for dairy products in WA and social disruption and loss of jobs to the city will be an inevitable consequence. It may also mean reduced capability to reach the supply levels needed to support entry to and continued supply of export markets. If this happens, our Asian markets at least, will be under threat from European producers who are not so altruistic in their approach to industry.

SWI believes that the implementation of competition policy needs to be examined carefully and the actual outcomes scrutinised objectively and carefully and then publicised because our perception is that in this case it is not doing Australia any good on at least two fronts:

- consumers are not benefiting; shareholders of major retailers are
- the rural fabric is being sacrificed to urban gains.

SWI believes that there is a good case for slowing down the pace of the implementation of competition policy to minimise the unintended real outcomes and to devise better ways to ensure that all Australian citizens receive the intended results.

SWI notes that the implementation of competition policy is supposed to be accompanied by an analysis of the costs and benefits of the policy and a decision whether, on balance, it should be implemented in each case.

SWI suggests that the costs and benefits of the policy to the production and sale of dairy products in WA have not been made fully public and they have not included a study of the actual outcomes in other states or overseas. Before deregulation is allowed to occur in WA a case should be presented which proves that the theoretical advantages are matched by the actual outcomes in other economies and that consumers are benefiting.

SWI believes that in some cases the implementation of competition policy has moved too far and too fast while at the same time practical, hard headed business has compromised the intended theoretical outcomes.