

# **IMPACT OF COMPETITION POLICY REFORMS ON RURAL AND REGIONAL AUSTRALIA**

PRODUCTIVITY COMMISSION  
DRAFT REPORT

COMMENTS ON THE REPORT BY  
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OF



**SOUTHERN RIVERINA IRRIGATION DISTRICTS COUNCIL**

The Southern Riverina Irrigation Districts' Council would like to commend the Productivity Commission on a report which is comprehensive and covers a wide range of issues concerning decline in rural Australia.

Our comments are listed below on specific issues related to water.

## **Overview**

SRIDC agree with the Productivity Commission that there are other structural changes occurring in rural Australia which have had a significant impact. However, we see the National Competition Policy as exacerbating and accelerating these problems.

There have been too many changes occurring over such a short period of time that country Australia has found it difficult to adjust to this rate. We feel that there is little help with this adjustment process and that compensation is an issue that needs to be addressed where the National Competition Policy can be shown to have an affect on individuals, small business, large companies, local government and others.

### ***Part A: Developments in Country Australia***

#### **Structural Change in Country Australia**

##### Emerging Pressures For Change

SRIDC would strongly refute the suggestion on page 63 of the Draft Report<sup>1</sup> that there has been excessive irrigation fundamentally due to heavily subsidised water prices. Nor is irrigation totally responsible for degradation through salinity.

The Productivity Commission should also note that there is a significant problem in country Australia of *dryland* salinity. Thus irrigation is not the sole reason for salinity. It is linked with the removal of vegetation and the changing nature of land use in Australia since settlement, ie native fauna is genetically programmed to use all the available soil moisture. European plants (such as agricultural crops and pastures) are not designed by nature for this purpose. The link is that native plants lower the water table and European plants do not to the same extent. This has a direct impact on salinity as native plants do not allow the naturally saline soils in Australia to become more saline by a rising water table.

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<sup>1</sup> Productivity Commission 1999, *Impacts of Competition Policy Reforms on Rural and Regional Australia*, Draft Report, Canberra, ACT.

We do not feel that these comments on salinity are a justifiable reason for the increasing of water prices or the belief that the provision of infrastructure and related services has been heavily subsidised.

Further, the Productivity Commission should note that irrigators' are not the sole beneficiaries of dams. Dams provide water for industry, towns, tourism, recreation and the environment. Therefore, in justifying a capital cost for infrastructure, the cost should be contributed by all beneficiaries of that infrastructure, not just irrigator's. In addition, this cost sharing principle should be in a proportion of use. We acknowledge that there has been some problems in the past for determining the sharing ratios, however, it appears that irrigator's have been asked to implement these CoAG reforms before any other users' cost (particularly recreational, environment & tourism) is determined. We feel that there is an inequity in the implementation of this reform.

### Environmental Protection

SRIDC applaud the efforts of CoAG and the National Competition Policy for improved riverine health. Irrigator's also have a vested interest in water quality. It is in their best interests, both as Australian's and irrigators' to have good quality water to irrigate their agricultural produce.

SRIDC are concerned that the existing studies into environmental benefits of a myriad of improvement measures are insufficiently rigorous nor of sufficient duration to determine long term effects. At this point in time, it is not warranted that any government should go out in an ad hoc manner to transfer water from irrigation sector to the environment without first undertaking rigorous investigation. We have been informed by various interests that such work has been undertaken, however it has never been furnished to the irrigation sector to determine the validity of these claims, nor have we been informed of whether these scientific investigations are unbiased in nature. We have just been told that they are in existence.

The comment on page 65 of the Draft Report<sup>2</sup> regarding the return of water to the Snowy River is duly noted. However, the report fails to state the cost:benefit ratio is up to 8:1 against such an action (this is outside government guidelines on investment decisions), nor does it state that a 25% environmental flow would leave irrigators' worse off in 15% of drier years providing that the defined water efficiency savings are met<sup>3</sup>. This impact would have an adverse impact on the livelihoods of many irrigators and the communities which depend on irrigation. Therefore, with respect to water reforms, it will be some time yet before the impact is known on irrigation communities.

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<sup>2</sup> Ibid

<sup>3</sup> Snowy Water Inquiry 1998, *Snowy Water Inquiry*, Final Report, Sydney, NSW, pp ;33-36.

There needs to be an alternative compromise when making such decisions on the determination of environmental flows. Suggestions have been made a various times by SRIDC in an attempt to alleviate this problem. Valid suggestions include an appropriate government or combined government industry buy back scheme, purchase of environmental water on the water trading market and the use of the unused portion of sleeper and dozer licences for environmental allocations.

***Part B: The National Competition Policy Reforms***  
**Chapter 4: National Competition Policy Commitments**  
Competition Payments

We applaud the National Competition Council on it's attempts to institute the implementation by the States of the reforms via the Tranche payments. We note that the second Tranche payment is due this year and will be interested in the National Competition Council's recommendation regarding NSW's implementation of the required water reforms, eg will there be a recommendation to withhold payments to NSW for non delivery of property rights.

**Chapter 5.4 Water**

SRIDC would like to respond to the comments on page 128 of the Draft Report<sup>4</sup> regarding:

*"impediments to the transfer of irrigation water from low value broad-acre agriculture to higher value uses in horticulture, crop production and dairying."*

and

*"pricing regimes which often lead to ... the over-allocation of water (especially for irrigation purposes), environmental degradation and misallocation of investment".*

With regard to the first comment on trade impediments, SRIDC notes that this comment is simplistic in nature. There is very little low value broad-acre agriculture. The Murray Irrigation Ltd Environment Report (1997/98)<sup>5</sup> clearly states that the majority of water is used for the production of rice. Other uses include dairying and limited horticulture. The report shows a decreasing trend for using water in pasture situations.

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<sup>4</sup> Productivity Commission 1999, *Impacts of Competition Policy Reforms on Rural and Regional Australia*, Draft Report, Canberra, ACT, page 128.

<sup>5</sup> Murray Irrigation Limited 1999, *Environmental Report 1997/98*, Murray Irrigation Limited, Deniliquin, NSW.

It should be noted that Duane (1947) quoted in Crean & Davenport suggested that agricultural production from the bulk of the irrigation water is best directed towards fine wool production, crossbred wool, fat lambs, fat cattle, sideline cereals, and further suggested that horticultural developments were thought to be strictly limited.<sup>6</sup>

This suggests quite clearly that agricultural production is a boom and bust cycle whereby production in particular enterprises is high value, then becomes low value. In 1947 pastures were considered high value, but in 1999 horticulture has now become the high value crop. The idea that water should be traded to high value uses, puts at risk not only horticultural production (ie boom & bust cycle) but also cereal and particularly rice production. A preferred option would be state net returns or gross margins as this refers to the value of an enterprise after expenses have been accounted for.

To further support this argument, Murray Irrigation Limited is a net importer of water on a temporary and permanent basis. In fact since privatisation, a net 1820 megalitres of permanent water has been transferred in. Further, in the 1998-99 irrigation season over 60 000 megalitres of temporary water was transferred into Murray Irrigation Ltd via the SRIDC Water Exchange. This defies the intent of the transfer of water to high value uses such as horticulture.

With regard to the second quote above, SRIDC suggests that it is ludicrous to state that there has been over-allocation of water for irrigation purposes and misallocation of investment. It is implied that over-allocation is the fault of irrigators' when clearly this was a result of Government policies over a number of years. Governments' are doing nothing to rectify this problem apart from acquisition without compensation of entitlements. Further to express the view that there has been misallocation of investment in irrigation infrastructure is also untenable.

What has occurred has been a change in community and Government attitudes to both irrigation and the environment. Fifty years ago, Government invested in infrastructure for the irrigation land to provide food and fibre for a growing nation. In addition, towns, commercial, tourism and recreational users also benefited. This resulted in prosperity for towns west of the divide which would not have occurred. Recently, attitudes have changed. Degradation of the environment (including all natural resources) has become a primary concern for many Australian's and irrigators' have been portrayed as being the "villains". However, the community and governments will not accept any blame nor will they help provide a means that the community as a whole can

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<sup>6</sup> Duane, P 1960, *Economics and the Use of Snowy Waters*, Symposium: The Agricultural use of the Snowy Waters, Australian Journal of Agricultural Economics 4 (1): 36-51, quoted in Crean, J. & Davenport, S. 1999, *Balancing Trade-Offs In The Provision Of Environmental Flows in the Snowy River*, paper presented at 43rd Annual Conference Australian Agricultural & Resource Economics Society at Christchurch, NZ, 20-22 January 1999.

contribute to improved riverine environments, ie purchasing water for the environment either through the water trading market or directly from irrigator's.

What is concerning is that the community as a whole will do nothing to alleviate the continual degradation of irrigators' water rights. Any suggestion by the irrigation sector for a tenable solution has been refuted.

### The Water Reforms

#### *Progress In Implementing The Reforms*

Table 5.3 on page 131 and the statement on page 130 of the Draft Report that:

*"In regard to the reform of irrigation water pricing, investment appraisal for irrigation projects, environmental water allocations and the trading of water entitlements progress has been much slower and more variable."*

SRIDC would comment that water pricing is progressing well and the IPART process in NSW is ensuring that water pricing reflects the cost recovery principles of the water reform process.

However, with regard to the other issues, particularly property rights is not progressing. Please note our comments in specific sections below with regard to this.

### **Comments on Water Reforms**

#### Property Rights

SRIDC are not convinced that the NSW Department of Land and Water Conservation is sufficiently committed to the implementation of water reforms for separation of land and water and the provisions of tradeable water entitlements.

The Department of Land and Water Conservation issued the Access and Use Discussion Paper in 1998<sup>7</sup> which outlined a series of options for discussion regarding the water reforms in NSW. SRIDC have concerns that whilst this amounts to consultation with the community, the Department may already have its own agenda for implementation.

Further, Minister Amery has refused to commit to implementing property rights in the current NSW parliamentary term. The government's intention is clear - strip water from entitlement holders without compensation then allocate a temporary property right. Among suggestions are that the "property

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<sup>7</sup> NSW Department of Land and Water Conservation 1998, *Water Sharing In NSW - access and use Discussion Paper*, NSW Department of Land and Water Conservation, Sydney, NSW.

right” will have a term of five to ten years. Prior to the expiry of that term, investigations will occur regarding the right of the environment for further water supplies, which will again be ceded without compensation and a “property right” issued for another term. And so the cycle begins again. Community groups see this as a point in time when water can be extracted from irrigators’ without compensation. This view has been mentioned by environmental groups to SRIDC. This is further “legitimised” by the following quotes:

*Principle 2 - Water sharing arrangements should ensure the maintenance of the fundamental health of river and groundwater systems and processes. This is a prior right to water over extractive users.*<sup>8</sup>

and

*“Flows needed to provide adequate river health have a prior right over the provision of water for consumptive use”.*<sup>9</sup>

Therefore, SRIDC advocates that the water reforms must define a property right for extractive users in perpetuity with any reductions in water being compensated by the community.

This viewpoint has a precedent in the US Department of the Interior - Bureau of Reclamation/US Fish & Wildlife. This paper refers to the development of environmental flows in California. It is relevant because it:

- Provides water for the environment based on an environmental allocation and buy back scheme of entitlements from willing sellers.
- Clearly specified environmental outcomes before the establishment of a total environmental allocation.

SRIDC feels that the recommendations from this paper clearly supports our view that there must be compensation via community funded buy back schemes to provide compensation or water for the environment must be purchased on the water trading market either temporarily or permanently.

### Water Trading

Whilst water trading in itself is progressing well, SRIDC finds that there are considerable impediments. These impediments take the form of the DLWC’s approval system, industrial action of Departmental staff and the institution by some irrigation areas’ of financial or other trade restrictions.

The Department’s approval system is noted in the recently released report by Marsden Jacobs (1999) which recommends:

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<sup>8</sup> Ibid, p 11.

<sup>9</sup> Bob Carr 1999, *Letter*, Environment NSW, The Quarterly Newsletter of the Nature Conservation Council, vol. 5 No 2 Autumn 1999, p5.

*“The Department should facilitate trade through exchanges by integrating electronic approval systems.”<sup>10</sup>*

SRIDC are quite conversant with the Department’s trade impediments. We operate, in conjunction with Murray Irrigation Limited, one of the most successful and largest water exchanges’ in Australia (Kim Alvarez, 1999)<sup>11</sup>. In the last irrigation season we traded over 50 000 megalitres of water, consisting of both internal and external trades. Our first exchange operated on a tender system and the biggest problem was “clearing” transferred water from other irrigation areas within NSW. For this very reason we instigated the following year, an exchange which was computer based, available on the Internet, and whose main requirement was that water must be cleared and transferred onto Murray Irrigation Limited’s Bulk Licence prior to being listed on the exchange for sale. The time taken for the DLWC to approve and transfer water can be up to seven weeks and this was a regular occurrence during the 1998/99 irrigation season. SRIDC would like to see the system upgraded to enable water transfers to be effected within days.

Comments in the Draft Report on page 136 regarding the adverse affect on some regional communities of water trade and compensation is concurred with.

However, SRIDC is concerned specifically about the impact of regions “fencing off” their water allocations from trade. SRIDC feels that this impact has been seriously underestimated. The water trading market has been held up to be the answer to reduced allocations<sup>12</sup> however, if that trade is impeded there will be no recourse for our landholder members to achieve further water resources.

SRIDC have had discussions with both the Murray Regional Director of DLWC and the MDBC regarding this issue. David Harriss has indicated that he cannot interfere with such an issue, however, he can advise the particular irrigation body involved to remove such a policy. Where it constitutes part of the Memorandum & Articles of Association for the relevant body, then he had no jurisdiction. David further states that this issue will probably be decided in a court of law by the irrigator wishing to trade and if this constitutes an infringement of the Trade Practices Acts. The MDBC have also investigated the matter with similar results and indicated that it is a “grey area”.

### Water Rights & Sleeper Licences

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<sup>10</sup> Marsden Jacob Associates 1999, *Department of Land and Water Conservation: Water Trading Development and Monitoring*, Final Report, Marsden Jacob Associates, Camberwell, Vic, page ES.xvii.

<sup>11</sup> Kim Alvarez 1999, personal conversation with SRIDC on 14 May 1999 at DLWC Parramatta.

<sup>12</sup> Minister Amery, R. 1999, letter, dated 20 April 1999.



The situation canvassed in the report is accurate, especially as portrayed by Macphillamy & Caldwell on page 136. In the Murray Valley, the issue of sleeper and dozer licences can be traced directly to the implementation of the MDBC Cap on diversions, confusion as to the meaning of 93/94 levels of development, implementation based on average use over the valley Vs actual development in place in 93/94, lifting on the embargo of trading of sleeper & dozer licences (all outside Murray Irrigation Limited) and the reduction in allocations as trading and use of sleeper & dozer licences occurred. The result is an inequitable situation for some irrigators' and no compensation (even though over allocation & socialisation were DLWC policies).

Estimates indicate that for our irrigators:

		<u>Cumulative Loss of Allocation</u>
10 Year Pre-Cap Average Use =	111%	
MDBC Cap =	93%	18%
Environmental Flows* =	10%	28%
Rolling Cap =	87%	33%

\*Note that this figure is that quoted by the NSW DLWC and includes a portion for Snowy Flows, but the latter will depend on the as yet undetermined decision.

Thus, as Macphillamy & Caldwell indicate, there are going to be significant allocation reductions for specific irrigators without any form of compensation. As a group SRIDC have always indicated that compensation is an issue for discussion with regard to property rights and the development of environmental flow regimes for rivers. If the community has decided that it's values have changed, then it should be prepared to provide compensation for irrigators' through the purchase of environmental flows on the water trading market and or buy back schemes for sleeper & dozer licences (or other irrigators who opt to sell their entitlement).

A further issue which exacerbates the problem is the policy of reducing off allocation flows to extraction. Under the existing Cap regime, as water entitlements are progressively activated for irrigation development or trade, the volume of water available for off allocation extraction will reduce until it will no longer be available. The average off allocation use in the Murray Valley for the ten years prior to the Cap was 378 GL. Under existing rules, only 269 GL is available for extraction, with our landholder members allowed to extract 236 GL of this amount. As previously stated, this will be increasingly reduced, meaning that there will be reduced resource availability, even in high flow events. Irrigator's who "topped up" their water from off allocation sources will have this tool progressively taken away and the result will be more frequent occurrences of low resource years.

#### Price Effects - Irrigation Water

SRIDC represents a very progressive irrigation sector. Our irrigator landholder members have invested millions of dollars in the environmental sustainability of their property's, actively participate in water trading and irrigated farm competitions, and embrace technology in a multitude of ways.

What is apparent is the attitude that irrigators' do not realise the "true" value of water and that punitive pricing regimes will rectify this. However, SRIDC suggests that the effect of punitive pricing will be to further degrade the environment. Irrigator's that are unaware of the opportunity cost of using water in uneconomic ways tend not to be in business anymore. The premise behind this statement is that unless irrigator's are economically viable (on a whole farm basis) then they cannot and will not invest in the water efficiencies demanded of them by CoAG and the National Competition Policy. In other words punitive pricing mechanisms will be counterproductive to the environment.

There is a lack of recognition by governments, agencies, inquiry's, environmental groups and others that irrigator's are progressive and will continue to strive for water efficiencies (even if water is "cheap").

We reject the suggestion from the commissioner's that there should be an internal rate of return on "sunk" assets such as the Hume Dam. This is also the approach accepted by the NSW IPaRT Tribunal. This is particularly the case for the Hume Dam as it has no alternative use. If it did, applying an internal rate of return would probably be appropriate.

### Allocation Announcements

A further problem is the inefficiencies of the allocation announcement procedures. At present the MDBC determine if there are surplus flows into dams. MDBC then needs the gain the approval of the member states prior to announcing to the applicable State Government agencies that an allocation announcement is allowable. This occurs on roughly on a monthly basis. The State Agency can then determine it's requirements and publicly announce an allocation. However, monthly or at best fortnightly updates on allocations is inefficient, not transparent in process and unwarranted in this age of technological development.

In an annual cropping system and particularly with rice, this is just not good enough. During the initial stages of management decisions and rice establishment, it is very necessary and crucial that irrigator's are provided with daily updates of allocation announcements. Otherwise, irrigator's try and "second guess" when and how much an announcement will be. Thus, it is prudent to provide irrigator's with the ability to make timely decisions on what, when and how much to plant. For rice production, this crucial period lasts from mid September to early November.

Monthly allocation announcement could also constitute a breeding ground for “insider trading” on water announcements. In the previous season in NSW rumours of an impending 10% increase were about weeks before it was announced. Irrigator’s “in the know” delayed purchase until after the allocation announcement. This was clearly portrayed by the graph at the Public Hearing in Albury whereby a direct correlation was shown between allocation announcements and the price of temporary transfer. Therefore, SRIDC requests that allocation announcements be available on a daily basis.