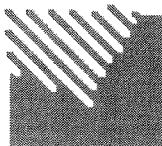


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**Submission to House of
Representatives Standing Committee
on Primary Industries and Resources**

**Inquiry Into the Role of Government in
Assisting Australian Farmers to Adapt
to the Impacts of Climate Change**

090320

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Introduction

NSW Irrigators' Council (NSWIC) represents more than 12,000 irrigation farmers across NSW. These irrigators are on regulated, unregulated and groundwater systems. Our members include valley water user associations, food and fibre groups, irrigation corporations and commodity groups from the rice, cotton, dairy and horticultural industries.

This document represents the views of the members of NSWIC. However each member reserves the right to independent policy on issues that directly relate to their areas of operation, or expertise, or any other issues that they may deem relevant.

General Comments

The agriculture sector is growing increasingly frustrated at the number of Inquiries, Reviews and Submission processes that are occurring at present. In particular, the sector is growing suspicious of the process, questioning whether this is true consultation or whether it is a "tick a box" approach.

These concerns are not unreasonable given the recent activity surrounding the areas that this Inquiry seeks to address. NSW Irrigators Council has provided submissions on the following in recent months:

- Senate Rural and Regional Affairs Committee Inquiry Into Natural Resource Management;
- Senate Rural and Regional Affairs Committee Inquiry Into Water Management in the Coorong and Lower Lakes;
- Productivity Commission Inquiry Into Government Drought Support;
- Submission to Emissions Trading Scheme;
- Senate Climate Change and the Australian Agriculture Sector Inquiry;
- Senate Inquiry Into Food Production in Australia; and
- Treasury Inquiry Into *Tax Laws Amendment Bill 2009*

The Australian Competition and Consumer Commission (ACCC) have also demanded a vast array of submissions from peak groups in the sector during this same timeframe.

NSW Irrigators Council has recently adopted a policy expressing the expectations of industry in consultation processes. A copy of that policy is attached to this submission. We ask that the Committee consider this policy and implement its not unreasonable requirements in future Inquiries.

Relevant excerpts of our submissions to the Inquiries listed above appear in this submission, together with specific answers to the Terms of Reference.

Terminology

It is important that the distinction of water assets is understood. In NSW, irrigators hold an *entitlement* to a *share* in an *available resource*. This share is known as an *allocation*.

The *entitlement* is the permanent license. In NSW, this is held as an asset separate to land pursuant to obligations taken on by this state as part of the National Water Initiative (NWI). It must be noted that NSW has been far swifter than other jurisdictions – particularly Victoria – in separating water entitlements from land holdings, a process known as “unbundling”.

The *available resource* in NSW is a judgment made by the Department of Water and Energy based on a range of factors, including inflows (real and projected). This process is known as an *Available Water Determination*, or AWD. Through a series of regulatory instruments known as *Water Sharing Plans* (WSP's), the available resource is allocated to a range of users, including irrigators.

The *allocation* that is made to an irrigators can, in many instances, be traded. The *allocation* is actual water, not an entitlement to a share in it. In trading terms, it is known as *temporary water*, as it is available only once and hence is the opposite of *permanent entitlement*.

For the purposes of clarity, it is our understanding that the current buyback process run by the Commonwealth is seeking to purchase *entitlement* and is not seeking to purchase *allocation*.

Terms of Reference

1. Current and prospective adaptations to the impacts of climate change on agriculture and the potential impacts on downstream processing.

Water Markets and the Commonwealth “Buyback” Program

Without question the largest adaptation measure promoted by Government within the irrigation sector of agriculture is the development of water markets, particularly interstate or “tagged” trading together with a massive pool of funds to purchase permanent entitlement for diversion to environmental use.

The underlying concept is that remaining water assets will move to their highest value use, pursuant to standard economic theory.

Economic theory, however, cannot take into account vested interests and parochialism. Whilst the National Water Initiative set out a series of obligations on States to remove barriers to trade, and whilst the Water for the Future program requires progress toward market aims as a precursor to funding, some states have kept trade barriers in place to protect their own interests.

In short, the Commonwealth rhetoric of “competitive neutrality” in the water market is nothing more than rhetoric.

Attached to this submission is a Briefing Note prepared by NSWIC to outline the trade barriers in place in the State of Victoria.

To date, neither the State of Victoria nor the Commonwealth have done anything to remove, or to cause to have removed, these barriers.

As a result, one of the major adaptation policies of the Commonwealth – the buyback policy – is in jeopardy both in the way that it is perceived by industry and the wider community and by the effect that it will have.

Perception

With Victorian trade barriers in place and a Commonwealth commitment to spend a particular amount of money on the buyback program, it is clear that water will have to be bought from states other than Victoria. In practical terms – and given the scale of NSW versus other basin states – this means that the vast majority of funds will be spent in NSW.

This potentially disastrous scenario was greatly exacerbated by the deal negotiated with Senator Xenophon in exchange for his vote on the stimulus package to “bring forward” buyback funds – in simple terms, to spend the same amount of money over a shorter timeframe

At a nominal price of \$2,400 per megalitre¹, the \$1.9 billion to be spent over 4 years (with no negotiated variance based on “value for money”) will purchase 791 gigalitres. Victorian trade barriers mean that *less than 25 gigalitres* can come from that state.

Some 766 gigalitres – in excess of 90% of the total – will come from NSW. This represents some 13% of total consumptive irrigation water in this state.

For the buyback process to be effective as a climate change adaptation and mitigation tool, it needs the support of stakeholders including irrigators and the communities that they support. Under this ludicrous scenario, that support will quickly ebb.

Effect

The effect in numerical terms is outlined above, although that does not adequately address the social and economic impacts of the program in light of trade barriers.

Thousands of jobs in rural NSW will be lost. Populations will drop significantly, together with the impacts of such a drop. The critical mass

¹ A nominal price only as the price will be market determined. This is based on a cap factor equivalence of 100%. For example, an entitlement with a 50% cap factor yield on average sees a nominal price of \$1,200 per megalitre of entitlement, or \$2,400 per megalitre of water annually.

effect will quickly be felt, meaning the closure of schools, the loss of services and, quite possibly, the closure of entire towns.

This is not an adaptation to climate change – this is a response of a poorly constructed policy and a lack of willingness to ensure equity and fairness in the water market and buyback process.

These impacts will be caused by Government, not by climate change.

Emissions Trading Scheme – Carbon Pollution Reduction Scheme

NSWIC lodged a submission to the Inquiry into the Emissions Trading Scheme (the Green Paper). We consider the ETS to fit within this term of reference.

Whilst acknowledging that agriculture has been left out of the ETS until at least 2015, NSWIC submits that the exposure of the sector to the carbon economy in terms of inputs will lead to significant costs of production with resultant increases the cost of agricultural outputs. This issue was dealt with extensively in our Submission to the Senate Inquiry into Food Production under the banner “The Price of Water Equals the Price of Food”. Australia needs to examine this extremely closely as our agricultural producers compete with imported foodstuffs. The implications for this countries food security, our biosecurity and our balance of trade are potentially significant.

The following is taken from our submission to the Green Paper:

Cost Implications for Irrigated Agriculture

In the period 2004 – 2006¹, marginally under 46% of the costs of a cropping farm were direct energy or energy related costs.

NSWIC understands that Australia can expect to see a 3 cent per litre increase in fuel prices for each \$10 per tonne increment in the carbon price. That is, with a carbon price of \$20/tonne, fuel with increase some 6 cents per litre.

We further understand that Australia can expect a 16% increase in the cost of electricity with a \$20/tonne carbon price.

These cost increases will have a dramatic impact on the nature of agriculture and potentially Australia’s food security. In many markets, irrigators are price takers. If they are not able to pass on increases in cost, there is a significant chance that Australia’s overall food production may dramatically decrease. This will have some serious economics and social implications, both regional and national.

A further dramatic complication of the ETS is the potential for a perverse outcome in respect of permanent plantings and an *increased* demand on limited water resources. The following extract from our ETS submission outlines the possible perverse result:

Potentially Perverse Consequences

There are potentially significant impacts on agriculture – and irrigated agriculture in particular – due to increased levels of “forestry” in order to obtain carbon credits.

NSWIC understands that when “forests” are planted, carbon credits will be allocated over a period of time in their early life to reflect their carbon storage capacity. Upon harvest of a plantation forest, those credits will expire (as carbon is effectively “released”) and the emitter will be required to re-purchase that carbon in the market.

As a result, we understand that there should not be a significant increase in plantation forestry due to the implementation of the CPRS. What the scheme aims to achieve with respect to forestry is long term carbon “sinks”. That is, permanent forests that aren’t harvested.

However the definition of “forest” is a permanent planting that is capable of exceeding 2 metres in height with a ground coverage in excess of 20%. This definition would appear to *include* certain permanent agricultural plantings.

New plantings require water – most probably high security given their permanent nature – that will need to be purchased from existing users. Carrying the issue further, the “upside” is unlikely to appeal to existing agricultural operations due to the risk (traditional agricultural risk, plus the risk of having to purchase carbon credits if the permanent plantings die). The “upside” is more likely to appeal to large scale emitters outside of agriculture who have a choice of purchasing carbon credits in the market, creating carbon credits through planting non-productive forests or creating carbon credits through planting productive plants. The further upside of the latter is the yield that it will produce over the course of its life. For example, an almond tree provides an income where a mallee doesn’t.

As well as receiving carbon credits progressively over the early life of the permanent planting to offset the costs of establishment, the tax advantages of a managed investment scheme can potentially be accessed.

The results are:

- A shift of resources (water) to a product based not on value but on an external consideration (potentially a perverse economic outcome);
- An increase in demand on high-security water (potentially a perverse environmental outcome); and
- Further competition for resources from the tax-sheltered MIS’s (potentially a perverse economic outcome).

NSWIC remains concerned at this potentially perverse outcome and submits that it ought be addressed by government.

Infrastructure Upgrade Projects

NSWIC has long maintained that the optimum method of adaptation to potential climate change is upgraded infrastructure – both delivery and on farm – to enable production to be maintained whilst using smaller inputs of water. That is, productivity gains should be seen as paramount.

Aside from the obvious benefit to irrigated agriculture of maintaining production with reduced inputs, significant social, economic and environmental benefits are achieved. In essence, the status quo for communities and local, regional and national economies is maintained whilst entitlement is made available for environmental purposes.

Significant funds have been made available by the Commonwealth to the States via the COAG process. It is imperative that the Commonwealth ensure the rapid roll-out of these funds.

The Commonwealth must also maintain its commitment to on-farm investment, commenced via a pilot phase that has not been followed up by further stages.

The buyback process will achieve entitlement for environmental purposes, but will come at a significant economic and social price. At very least, infrastructure investment must occur at the same value and pace, if not greater. The Commonwealth must recognise the added value of infrastructure upgrade benefits by accepting a higher nominal price per megalitre, essentially recognising the longer term economic and social benefit that will offset that price.

2. The role of government in:

a. Augmenting the shift towards farming practices which promote resilience in the farm sector in the face of climate change;

Storage Capacity and Use

By its very nature, irrigated agriculture is designed to deal with climate variability. Irrigation aims to capture and store water for application at optimum amounts and times. That capture is achieved both by social assets (large scale storages, most often on-river) and private assets (on-farm storage and ground water pumping).

If climate change models are correct, more intense rainfall events will occur although potentially further apart. This prediction serves to underline the necessity of irrigated agriculture and the regulation (physical, not legislative) of water by which it is underpinned. It also underlines the usefulness of the primarily northern-basin process of supplementary water and flood plain harvesting.

Government policy which actively promotes storage capacity and efficiency will be rewarded by the continued productive capacity of agriculture and its contribution to the Australian economy and regional communities.

In coastal areas, where drought effects have been less serious in recent years, storage capacity is a critical issue. Government policy that develops greater social storage capacity will promote irrigated agriculture investment and will assist to offset the demands on limited water resources from increased residential development. The legislative ability to place and increase on farm storage capacity will enable the capture of high flow events rather than the reliance on low flow events at the expense of environmental benefit.²

Investment in infrastructure (tax considerations)

In addition to the role of government in funding investment in upgraded infrastructure detailed elsewhere in this submission, NSWIC notes that irrigators are prepared to invest where the policy environment is favourable and stable.

In the recent stimulus package legislation, private investment in irrigation infrastructure was, in fact, discriminated *against*, as was noted in our submission to Treasury:

It is our understanding that the Bill will provide a tax incentive for investment in new plant and equipment as part of the "stimulus package".

We further understand that such incentive will not, in fact, be available for plant and equipment associated with irrigation.

In the broader context, we submit that it is inappropriate to exclude the irrigation sector from such investment incentive. As Treasury is no doubt aware, agriculture continues to be one of the driving forces of the Australian economy, with irrigated agriculture an important contributor to that. It is therefore appropriate that investment in this sector be promoted at least to the same level as other industry sectors. In the alternate, it is inappropriate that this sector be specifically excluded.

In a more specific context, the Australian Government has a clear policy objective to ensure the upgrading of irrigation infrastructure in the Murray Darling Basin and, indeed, across Australia. It is clearly contradictory, then, to exclude a broader incentive from a sector that the Government specifically wants to invest in upgraded plant and equipment.

For those reasons, NSWIC submits that plant and equipment for irrigated agriculture ought not be excluded from the Bill.

² For further detail, see the NSWIC Coastal Policy available at www.nswic.org.au

Drought support mechanisms relevant to irrigated agriculture

The Productivity Commission recently conducted an Inquiry into Drought Support Mechanisms. NSWIC submitted to that Inquiry that the current regime does not adequately address the needs of irrigation agriculture. We submitted that part of the current scheme need to be maintained, but that specific programs need to be developed to provide for our sector.

With respect to current programs, we submitted that Farm Management Deposits are a particularly useful tool to both *survive* drought and also to *rapidly recover* from periods of drought:

The ability to average earnings in respect of taxation and the existence of Farm Management Deposits (FMD's) allows irrigators to ensure sufficient cashflow to meet ordinary operating expenses in the event of drought. It enables them to preserve the enterprise to be ready to operate again when water is available.

FMDs play two roles – to assist farmers to operate through times of drought and, just as importantly, to quickly recover from drought. To expect FMDs to be fully drawn prior to providing EC relief defeats the second role entirely.

The submission further dealt with interest rate subsidies:

EC interest rate subsidies have been vital to the survival of a significant number of irrigated agriculture enterprises, but have been of little assistance to those that have invested in off-farm assets or income streams to protect their overall position.

At a time when both government policy and climatic circumstances are directing irrigators to invest heavily in water efficiency infrastructure, it is appropriate that a clear signal on the future of interest rate subsidies be provided.

NSWIC submits that interest rate subsidies should be maintained in exceptional circumstances, with the exceptional circumstances being determined specific to irrigated agriculture. This measure will encourage irrigators to maintain and increase investment in infrastructure, knowing that their business will be protected to a certain extent if that infrastructure cannot be used in exceptional circumstances. To aid this, the level of allowable off-farm assets and income must be increased. Failing to do so allows the perverse outcome of farmers not investing off-farm to provide protection for their overall business in dry years. For the same reason, off farm income limits should be increased.

By far the biggest drought relief issue for irrigators is that of fixed charges. Irrigators, in the main, pay a two part tariff for water – fixed charges, based on the size of their entitlement and variable charges based on annual consumption. In drought years where zero allocations are not uncommon, the latter is not collected, whereas the former is still charged. Whilst this is understandable in short periods of drought, the cash flow considerations for recovery and, indeed, survival are dramatic in extended periods of drought. NSWIC made this point in its submission to the Productivity Commission:

Irrigators pay to both the State Water Corporation and the NSW Department of Water and Energy a two part tariff – a variable charge (based on water consumed in a given year) and a fixed charge (based on the entitlement held). In years where no water is delivered, the fixed charge must still be met. NSWIC does not disagree with a two part pricing approach, but has called upon the NSW Government to provide relief from the fixed charge in times of severe drought where there are multiple years of extremely low allocation.

It is an appalling irony that whilst NDP (National Drought Policy) encourages a capacity for early recovery, the State of NSW is removing that capacity by placing demands on cashflow.

NSWIC submits that relief from fixed charges is a vital component of drought support for irrigated agriculture that the PC must consider.

NSWIC has advocated a policy in respect of fixed charges relief as a means of drought support based on a valley-specific trigger. That policy is attached to this submission.

It is likely that water pricing determinations – including the split between fixed and variable components – will become the domain of the Australian Competition and Consumer Commission in the very near future. The NSW Government has indicated that it will “opt in” to this pricing mechanism across the state, including coastal areas.

The ACCC has made it very clear that they intend to pursue equating fixed charges to the fixed costs of an operator.

NSWIC is firm in its opposition to this position, as was evidenced by our submission to the ACCC position paper on Water Charging Rules:

Recognition of the need for reduction of water volume to environmental assets

Irrigators recognise that under a climate change scenario, there is likely to be less water available.

Irrigators recognise that users must contribute to the required decrease in extractions.

Irrigators require, however, that *all* users of water – human, stock, irrigation *and environment* – contribute to that reduction.

At present, water sharing can be represented as a pie chart with varying percentages diverted for various uses. A climate change scenario is effectively a reduction in the size of the pie. If, however, water *volumes* for environmental use are kept identical then the portion of the “pie” in percentage terms is significantly greater.

In simple terms, if less water is available for all then less water should also be available for the environment. A difficult choice lies ahead in which environmental assets should be protected – or to what extent – but it is a choice that must be made. For example, in a climate change scenario with less water available, do we choose to maintain 100% of the Chowilla Floodplain, or a lower percentage?

As a further example, it is claimed that the lower lakes behind the Barrages have an “optimum” level of 0.3 AHD, where AHD is sea level. In a climate change scenario with less water availability, a far greater percentage of available water would be required to maintain this level. That percentage increases even further in the event that climate change results in a sea level change – in this instance, an increase in AHD. In essence, the concept of “optimum” needs to be reviewed in terms of volumes for environmental assets.

This was further spelled out in our Submission to the Senate Inquiry into the Lower Lakes and Coorong:

NSWIC is concerned that Government programmes and policies affecting irrigators – and agriculture at large – specifically require irrigators and farmers to prepare for the impacts of climate change.

Why, then, is the Parliament considering methods to continue managing the lower lakes and Coorong as though climate change does not exist?

Why are we aiming to maintain the level of the lakes at 0.3m AHD – the level that NSWIC was advised during an inspection was “normal” – when climate change theory dictates that there will be less water than “normal” available? Why are we attempting to preserve normal in one part of the system, but demanding changes to deal with a new normal in others?

If we are, indeed, aiming to manage the lakes and Coorong at 0.3m AHD, then rising sea levels (which form the AHD) mean, perversely, that *more* water in the lakes would be required.

NSWIC supports the maintenance of environmental wetlands and recognises the importance of the lower lakes and Coorong.

We reject, however, the notion that water is being used to an enormous extent elsewhere in the system and that this is the root cause of the problem.

Social and economic considerations to receive equal merit

The Basin Plan process set out in the *Water Act (Cth) 2007* was designed to provide equal consideration for environmental, social and economic consequences. This assertion is supported by Section 3(c) of the Act, the Objects:

“to promote the use and management of the Basin water resources in a way that optimises economic, social and environmental outcomes.”

Irrigators are greatly concerned at the current progress of the Basin Plan under the direction of the Murray Darling Basin Authority. We believe it is being developed as an environmental plan at the expense of economic and social considerations.

We do not, however, have any avenue of appeal in respect of the process as *absolutely no input from stakeholders whatsoever is possible.*

The MDBA was to have comprised 6 Members³ including a Chief Executive, Chairman and 4 other members. Despite applications have closed some 5 months ago, the Authority Chairman and Members have not been appointed. The Chief Executive jointly holds the position of Chairman and is overseeing an enormous staff currently working on the draft Basin Plan with *no external input.*

A Basin Community Committee was established by the Act⁴ to provide direct stakeholder input. That Committee has not been appointed. We understand from the Chairman/Chief Executive of the Authority that such appointment cannot occur until the Authority itself is struck.

The Act requires that “The Authority must ... establish ... the Basin Community Committee”⁵. If the MDBA is sufficiently formed to be proceeding at pace in drafting the Basin Plan, then it is sufficiently formed to appoint the Community Committee.

If it is not sufficiently formed, then work on the Basin Plan must immediately cease until such time as it is formed, that the Community Committee is appointed and stakeholder engagement can occur.

Anything short of this will rightly be seen as interference in the process.

Moreover, the timeframes surrounding development of the plan must now be extended to ensure complete and proper stakeholder engagement.

³ Section 177 of the *Water Act (Cth) 2007* (as amended)

⁴ Section 202

⁵ Section 202(1)

Risk Assignment

The National Water Initiative initiated the concept of assignment of risk pursuant to a reduction in allowable diversions (a “cap”). The provisions are now contained within Division 4 of the Act.

Compensation is payable over and above a 3% reduction as a result of “bona fide new knowledge” or a change to government policy. No compensation is payable for a reduction based on climate change.

The clear question that arises from this scenario is “what is the distinction between these three – and who decides?”

The compensation has clear implications for irrigators and the method in which they adapt to the impacts of climate change. If they have a reasonable expectation in respect of compensation payments, they can make investment decisions now with some certainty and security. Without that certainty and security, investment decisions will be, at best, delayed with the loss of positive consequences associated therewith.

We understand that both the Department of Water (Commonwealth – DEWHA) and the MDBA are currently assessing the distinctions. We are greatly concerned that the distinction is being determined on a “catch all” basis in respect of climate change. That is, the level of reduction is being determined, the level of policy change and new knowledge is being determined and the balance is being ascribed to climate change.

This is an inaccurate process, if, indeed, it is correct.

Irrigators rightly ask that the process of determination be decided upon in consultation with stakeholders in the very short term.

The development of fixed policy

Irrigators face a vast array of variables in their operations – from commodity prices to energy prices to rainfall patterns.

Clearly, the smaller the number of variables the simpler it is to run a profitable business as both a grower and asset manager.

One of the most significant and constant variables at present is the policy environment in which irrigators must operate.

Governments must set a clear policy direction and allow that direction to run its course, providing at least some certainty – and allow time for policy initiatives to have effect before further shifting goal posts.

b. Promoting research, extension and training which assists the farm sector to better adapt to climate change.

NSWIC is a strong supporter of research, extension and training for the agricultural sector. In recent months, we have been critical of the funding model and its capacity to survive periods of drought and resultant production levels.

Government contributions for many research bodies are on the basis of “matched funds” subsequent to production levies on output. In the event that output decreases, as a result of drought, the funding level will clearly decrease. On the basis of “matched funding”, the effect of the production decrease is effectively doubled in terms of research funds available.

In an extended drought – such as that currently being experienced – cash flow reserves of research organisations can be run down to critical levels. Given that they are generally located in regional areas, where attraction of qualified personnel is already difficult, the loss of staff in the event of revenue generated cutbacks is devastating. It is extremely difficult to attract staff back and, just as importantly, the corporate knowledge gained in a particular research project can be lost if there is a staff turnover.

Government needs to review the manner in which research contributions are made and to accept that research, extension and training are vital adaptation techniques.

NSWIC is active in the field of extension and training, having recently completed the successful *Sharing the Knowledge* process which provided irrigators with the opportunity to learn best practice techniques from fellow irrigators. Further funding is required to extend this program to a more regular and wider spread series of events. Further details are available on request.

3. The role of rural research and development in assisting farmers to adapt to the impacts of climate change.

The role is significant and obvious. Irrigation is made up of a large number of operators who do not have the capacity to engage in large scale, industry wide research and development projects. These must be undertaken at a social level.