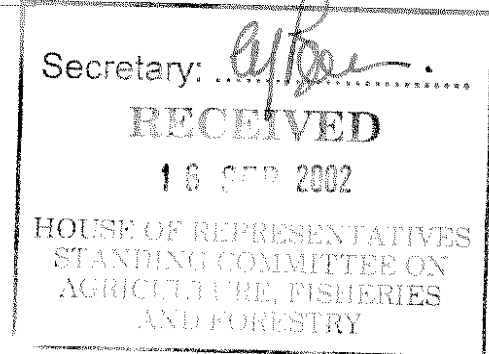


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Mrs. Kay Elson MP
Chair
House of Representatives
Standing Committee on Agriculture, Fisheries & Forestry
Parliament House
CANBERRA ACT 2600

Dear Mrs. Elson,

Enclosed is a paper that outlines the VFF's views relating to the Council of Australian Governments water reform agenda.

These views are provided in response to the House of Representatives Standing Committee's call for comments relating to the future supply of water for rural and regional Australia.

Please feel free to contact me if you wish to have any of the points made further clarified.

Yours sincerely,

Paul Weller
President

Water reform: A Victoria's Perspective

COPY

Introduction

The aim of this paper is to articulate the Victorian Farmers Federation position on the water reforms that have been implemented in Victoria since the introduction of the Council of Australian Government's water reform program during the early 1990s.

In terms of water reform, Victoria's rural water sector has been a leader in the way it has tackled the difficult water reform issues required to conform to the CoAG agenda.

The VFF's would not like to see any recommendations coming from the House of Representatives Standing Committee that will undermine the gains Victoria has been able to achieve in the rural water sector.

Erosion of Access Rights

The issue of access rights to water remains a vexed issue. Primarily, access rights to water are a State issue and each state government should implement a clear and robust system of rights to water resources. In the process of doing this problems arising from past over allocation need to be addressed. The VFF strongly supports the principle that if access rights are to be reduced, for example by allocating more water to the environment, then farmers must be compensated at the going market value of water. In general terms the VFF supports the system of access rights to water operating in Victoria. The market for water rights in Victoria is well established, growing and becoming more mature.

The VFF supports linking National Competition Payments to actions undertaken by the States to establish robust systems of tradeable access rights for water. Competition payments should be made transparent so that monies paid for reform within the water sector can be withheld from states which fail to act on their commitment or who allow erosion of farmer's access rights to water without due compensation.

While we believe the issue of Compensation is primarily a State responsibility, if the Federal Government deems it appropriate for political reasons, to provide compensation to farmers for the erosion of access rights, then Victorian farmers would expect to receive compensation for retrospective loss of their access rights to water.

For example, Victorian Irrigators (from Hume to Nyah) through the Bulk Entitlement process for the Murray River lost access to sales water, which was allocated to the environment. Similarly, the horticultural industry (from Nyah to the South Australian border) lost their full sales water rights in part to provide additional water to the environment. There has been no compensation for these changes.

Water Trading Consistency

The development of water trading markets is viewed as a means whereby water can move from the lowest value to the highest value within the agricultural sector. The VFF is supportive of the application of market mechanisms for the efficient allocation of the nation's limited water resources. But, water trading must occur through clearly defined water markets that are open and transparent. A common approach to water pricing is also an important prerequisite to an open and fair water market. If one organisation or state adopts water pricing framework that results in much lower prices for similar levels of service compared to another organisation or state trade in water right between the two areas potentially can be seriously distorted.

Of critical importance for the VFF is the issue of inter state trading of water. In particular, there needs to be greater clarity between state jurisdictions in relation to property rights and exchange rates where water is to be traded from one state into another. For example, there is a need for governments to ensure there exists volumetric equity and security of water right being traded across state jurisdictions, so that a megalitre of water in one state can be exchanged for an equivalent water right in terms of volume and security in another state. Furthermore fair ground rules for interstate trade must ensure there are equal opportunities for two-way trade and the pricing framework is similar.

Water Pricing Issues

One of the major CoAG reform principles is that the price of water should reflect its real value and that any cross subsidy should be progressively removed or made fully transparent. The VFF believes rural water pricing in Victoria now complies with the CoAG principle of 'full cost' recovery. However, the issue of what constitutes "full cost" is highly debatable. In some respects it is a meaningless concept.

The Victorian Farmers Federation believes the price of water should be set so that water authorities can remain viable long-term business and in general should reflect no more than the 'marginal' costs associated with the efficient delivery of water to the authorities customer base. Further, the Victorian Farmers Federation opposes the application of positive rates of return on irrigation and stock and domestic rural water pricing including any positive rate of return built into headworks pricing.

The inclusion of an "environmental" charge in the cost price structures of rural water is also not supported.

The Victorian Farmers Federation acknowledges the need to include an appropriate charge for asset replacement and refurbishment within the pricing framework for rural water. The asset refurbishment component of the pricing formula must be soundly based reflecting amongst other things the potential for new technology to reduce future asset refurbishment costs. Management projections of future asset replacement and refurbishment expenditure beyond a reasonable foreseeable time period can lead to over provision for future expenditure. This can lead to the risk of "gold plating".

Infrastructure Investment

Governments must take into consideration a broad range of issues when determining capital contributions to be made towards infrastructure investment. The VFF believes there is a strong case for Governments to contribute to the capital cost for infrastructure replacements or upgrades, which result in broader benefits to the community. For example, expenditure for headwork's refurbishments must not be borne by the farming community alone because of the substantial public benefit large dams provide to the wider community.

For historical reasons, the standards of rural water delivery infrastructure vary considerably between the various Rural Water Authorities and districts. Prior to being privatised, a number of Rural Water Authorities benefited greatly from government capital investment to upgrade rural water delivery infrastructure assets. Within Victoria there are large differences in age and condition of infrastructure between irrigation districts. This reflects the age of the infrastructure and previous investments made by the government in refurbishment.

Under the CoAG water reform principles prices in each irrigation district are intended to reflect real costs in each area. In effect this means irrigators within each area will compete with each other for water as well as on commodity markets. CoAG water pricing policy can only be reasonably applied if all irrigation districts inherit a

minimum acceptable standard of infrastructure. To ensure equity and a level playing field between irrigation districts governments have a responsibility to bring all rural water systems up to a similar operating standard. NCP payments to the states should be allocated for this purpose.

As the nation's water resources reach its full development potential, there will be a greater emphasis placed upon water saving initiatives. Governments should encourage water savings projects as they have both an economic and environmental implications.

The Victorian Farmers Federation strongly opposes governments compulsorily targeting on-farm water savings to secure additional environmental flows. If on-farm water saving are identified as a priority they must be freely negotiated on a case-by-case basis between the farmer involved and government.

Environmental Allocation

While much of the debate has revolved around farmer's rights, it is important to keep in mind the environments' "right to water". The environment must have an adequate supply of water to maintain healthy river systems and catchments. Healthy rivers and catchments are essential for the provision of good quality water to the nation's agricultural sector. However, to ensure the greatest benefit for the environment and the farming community there needs to be more than just additional flows allocated to the environment. These environmental allocations need to be 'managed' efficiently. The Victorian Farmers Federation sees little benefit in just returning water to the environment without putting in place an appropriate environment management assessment program.

Legislative Reforms

Currently, state governments have or are implementing legislative reforms to meet their commitment under the CoAG Agreements. The Victorian Farmers Federation supports legislative reforms that are designed to secure farmers access rights in water, and to facilitate greater flexibility for market allocation of the nation's scarce water resources. The Victorian Farmers Federation however is opposed to legislative reforms that undermine farmer's sense of ownership and autonomy in the management decisions undertaken by water authorities. It is important that farmers are actively involved in the decision-making process relating to the trade off between the level of service and water prices.

Conclusion

In general terms, water reforms in Victoria have delivered positive results. There are still a number of difficult issues to work through which centre the competing demands for water between the environment and consumptive use. The VFF will work hard to protect the rights of farmers and to encourage the efficient use of water resources in Victoria.