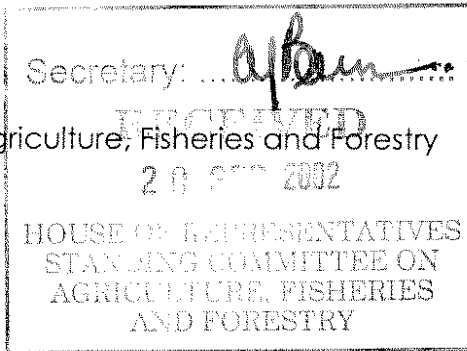


Australian Pork
LIMITED

10 September 2002

Committee Secretary
House of Representatives
Standing Committee on Agriculture, Fisheries and Forestry
R1 110
Parliament House
CANBERRA ACT 2600
AUSTRALIA



Dear Mrs Elson,

Subject: Submission to Water Supply Inquiry

Australian Pork Limited welcomes the opportunity to provide comments on the Commonwealth Government's water reform package.

A water property rights regime that is clearly defined, tradeable and provides security of supply is fundamental to the future viability of Australian agriculture through perpetual water licences with long term tenures. This will allow producers maximum security about the nature of the property right so that they are able to form reasonable expectations about the benefits that the right provides; and a move towards a market based system for water allocation.

Because the Commonwealth reform framework was written in terms of broad goals, rather than prescriptive requirements, interpretation and implementation of the framework in each state and territory have resulted in a glaring lack of consistency in the approaches taken by all states. APL believes that to successfully address the current anomalies:

- The Commonwealth Government must first readdress its policies and programs as they are not effectively achieving the outcomes originally set.
- Water reform arrangements, particularly water property rights, established by the individual state governments, should be addressed immediately by the Commonwealth government to avoid further uncertainty and decreased viability of agricultural producers.
- Farmer's asset security, as defined by water property rights, should be respected and adequately compensated should its value be eroded by government actions.
- Environmental water should be given the same status as water for extractive users, so that in times of resource scarcity, the environment will receive less water.
- Community developed water management plans should be assessed against environmental, social and economic impacts, with cost benefit analysis being carried out as required.
- The Government should focus on investing in environmental infrastructure to improve the efficiency, delivery and cost per unit of water. Government needs to be involved in this investment as there are no incentives for individual downstream water users to invest in upstream efficiency improvement projects because of the non-exclusivity or free rider problem, whereby down stream water users do not contribute but still gain benefits

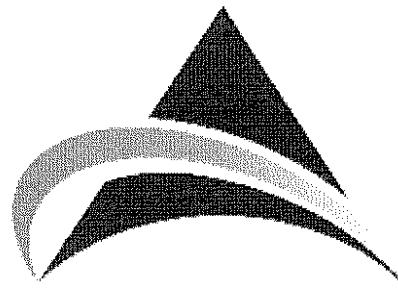
from the investment. The Commonwealth should, as a priority, increase funds dedicated to information gathering and monitoring of existing programs.

The attached submission provides further details on these recommendations.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'K. Plowman', written in black ink.

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Australian Pork

L I M I T E D

**Submission to the Water Supply
Inquiry – House of Representative
Standing Committee on
Agriculture, Fisheries and Forestry**

September 2002

1 Background

Australia must use its limited water resources in the most productive and efficient way possible to derive the maximum sustainable benefit. Inefficient and inappropriate land and water use have created problems of national significance such as rising salinity and falling water quality.

Water availability is crucial to all forms of agriculture. Without a reasonable degree of certainty of water supply, volume and value of agric production will be adversely affected. A healthy riverine environment is essential in delivering that water and providing a sustainable base for agriculture. There is no doubt that in developing water management policy, the environment should be adequately catered for, however costs and benefits to other stakeholders must be adequately addressed.

2 Overview of APL

Australian Pork Limited is the peak national body representing the interests of pig producers and the broader pork industry. It is a unique agricultural organisation that combines the functions of marketing, research and strategic policy development and implementation, supported through industry levy funds. There are currently 2500 pork producers in Australia, producing approximately 5.3 million pigs annually. APL has a membership representing approximately 70% of production. Pork production in Australia is an important and growing industry that generates significant employment in rural and regional areas through value adding activities. The gross value of production of the pig industry has increased from \$663 million in 1998/99 to \$855 million in 2000/01.

3 Overview of Water Reforms

In February 1994, the Council of Australian Governments (CoAG) endorsed a framework of initiatives for the water industry to run over a seven year period. The water reform package included:

- Changing the way water charges are set and the level of costs recovered;
- Refining existing allocation and water management systems; and
- Introducing trading in water rights so that those who accord the water the highest value can get access to the resource.

Well-defined long-term water property rights - involving clear specification of entitlements in terms of ownership, volume, reliability, transferability, and if appropriate, quality - are a prerequisite for all of these initiatives.

The current practice of state governments reclaiming over-allocated water licences, with no financial compensation, is at odds with the need of regional and agricultural communities for certainty in their infrastructure investments. Clawback without compensation actually threatens environmental outcomes due to the contention over equity grid locking the decision-making processes.

In Australia, state and territory Governments historically owned the rights to all ground and surface water. Governments then used licenses, permits and

agreements to share the resource between water users. However, these entitlements have often not been issued as part of a comprehensive resource management system.

Until recently, water entitlements were tied to a particular piece of land, water storage or irrigation scheme, limiting their ability to be traded and giving them no legal status independent of the land or infrastructure to which they were tied. All states and territories now have legislative frameworks in place that separate "water property rights" from land and title. However the frameworks are not consistent and often do not allow farmers and their financiers the ability to form a reasonable expectation about the tenure and the security that the entitlement will deliver over time. This has seen a significant reduction in asset security and investment in agricultural production systems and associated infrastructure, and needs to be addressed as the water reform is finalised.

In terms of water rights, APL supports the goals of the National Farmer's Federation:

- Australia wide recognition of and respect for secure water property rights.
- That, in establishing these rights, water users get the maximum degree of security about the nature of the property right, so that they are able to form a reasonable expectation of the benefits provided by the right.
- That compensation is paid where the value or security of water rights is eroded by government actions in order to achieve 'public good' outcomes (NFF, 2002).

4 The role of the Commonwealth in ensuring adequate and sustainable supply of water in rural and regional Australia

The main role of government in natural resource management is to improve resource use through a better system of institutional arrangements and property rights. When inefficient resource use is the result of inappropriate institutional arrangements or the way in which ownership is defined within an existing market, governments have the opportunity to improve efficiency by removing these institutional impediments or improving the definition of property rights. (ABARE, Feb 2001)

As long as property rights are well defined, the market system provides incentives for consumers and producers to respond to scarcity in a variety of useful ways. (Tietenberg, 2000 p580) The Government's role is to provide the necessary institutional support to provide the markets with the correct incentives to enable markets to automatically choose a dynamically efficient and sustainable path for the future. (Tietenberg, 2000 p 580)

Government intervention is needed to ensure an adequate and sustainable supply of water in rural and regional Australia, especially to ensure that farms which neglect environmental damage in their operating decisions do not thereby gain a competitive advantage. (Tietenberg, 2000 p581) However,

Government's must provide least cost mechanisms to achieve environmental goals.

Instead of mandating prescribed actions, an economic incentives approach to environmental and natural resource regulation achieves environmental objectives by changing the economic incentives of those using the water. (Tietenberg, 2000 p 583) When it is in the interest of individuals to change to new forms of development, the transformation can be rapid. The government must therefore ensure that the market is sending the right signals to all participants so the sustainable outcome is compatible with other business objectives. Conferring property rights provides an incentive to protect the environment. Only secure water property rights, which are tradeable, will ensure that water resources are used sustainably, for the benefit of all Australians, in the long term.

Government needs to be involved in investment in environmental infrastructure. There are no incentives for individual downstream water users to invest in upstream efficiency improvement projects because of the non-exclusivity or free rider problem, whereby down stream water users do not contribute but still gain benefits from the investment. (ABARE Current issues 02.6 July 2002) Because downstream users capture the benefits, there is also no incentive for the upstream irrigator to consider them when making investment decisions. As these benefits are not taken into account when investment decisions are made, there will be suboptimal investment in efficiency improvement projects. (ABARE Current issues 02.6 July 2002)

5 Commonwealth policies and programs

The Commonwealth reform framework was written in terms of broad goals, rather than prescriptive requirements, in recognition of the diversity of administrative, legislative and bio-geographic environments across the states and territories. Interpretation and implementation of the framework in each state and territory have resulted in a glaring lack of consistency in the approaches taken by all states. The Commonwealth Government needs to readdress its policies and programs as they are not effectively achieving the outcomes originally set.

A recent media release from Commonwealth Agriculture Minister Truss recognises that the water reform management arrangements put in place by the states may be reducing land values, deterring investment in better production systems and affecting rural and regional communities. This is a critical issue that needs to be addressed immediately.

The Productivity Commission notes that there is a lack of clarity in Government policy regarding what "Ecologically Sustainable Development" (ESD) means, water being one aspect of this.

Some criticisms that the Productivity Commission makes of the Government's approach to ESD are:

- Action has been crisis driven, taken in response to a growing problem;

- Sustainability objectives are sometimes seen as being too broad and are therefore not considered explicitly in the development of policies or programs;
- Many shortcomings of ESD implementation is due to failures to follow general good practice policy making;
- Departments and agencies do not always satisfactorily apply existing ex-ante assessment mechanisms such as regulations impact statements and environmental impacts assessments when they are formally required;
- Monitoring the effectiveness of policies and programs aimed at implementing the ESD does not appear to be undertaken routinely by government departments and agencies;
- There are few examples where the results of monitoring activities are incorporated into policy or program revisions via feedback mechanisms;
- A tendency to act on problems which are immediately visible, together with a shortage of required data and information on long-term problems, means that departments and agencies can fail to give adequate consideration to issues likely to be a problem in the long term;
- While some aspects of ESD implementation are highly informative and data intensive there appears to be little long term commitment to information gathering and reporting in relation to the environmental dimensions of ESD. (Productivity Commission, 1999)

In accordance with these short-comings, as highlighted by the Productivity Commission and witnessed in practice, APL believes that:

- (i) There is the need first to provide adequate property rights to producers;
- (ii) The government should focus on investing in environmental infrastructure to improve the efficiency, delivery and cost per unit of water;
- (iii) The government should, as a priority, increase those funds dedicated to information gathering and monitoring of existing programs.

5.1 Property Rights

Water use efficiency is one of the key ways of underpinning stability in supply or water.

Private investors will only base their investment decisions on internal benefits and not take into account the benefits derived by others. The nonexclusive nature of the benefits from an improvement in water use efficiency means that some form of government intervention is required if the net social benefit from efficiency improvement is to be maximized.

There needs to be internal benefits to producers from undertaking investment in water use efficiency improvement. The producers should be able to use these savings and these may be in the form of:

- (a) the irrigator can retain them, yielding internal benefits through an increase in agricultural revenue if the savings are used to expand production;
- (b) there is an operational water market;
- (c) the savings can be left either in the river or aquifer. If water is left in the river it may form dilution or environmental flows that have downstream water quality benefits. If a producer leaves the water in the aquifer, they should be credited with the water.

There are three potential options available to government:

1. Regulation with outcomes set through setting of rules or standards; This forces producers to meet the costs of improved water efficiency;
2. Use of taxes, which force beneficiaries of improved water to meet some of the costs of investment or increase the incentive for irrigators to make those investments directly;
3. Use subsidies or direct public investment. To get the optimal level of investment, institutional arrangements must be implemented that lead to an efficient combination of both public and private investment, as there will only be private investment when the cost of undertaking the improvements are less than the internal benefits.

Environmental outcomes are being achieved through the imposition of regulation on the use of natural resources which often have adverse impact on farmers. This approach amounts to uncompensated removal of farmer's property rights. Environmental regulations or legislation which aim to achieve better environmental outcomes often have significant, negative economic impacts, create perverse incentives and fail any test of equity – a cornerstone of good governance in a democratic society.

5.1.1 Compensation

The water reform system must protect the rights and investment of people who put water to productive use, while recognising the need for good stewardship of land and water resources. Compensation and transition incentives should be paid where legally defined entitlements to water are taken away or diminished as a result of the implementation or review of any water resource planning process.

Water entitlement holders should have a right of appeal if their entitlements and in turn their agricultural enterprise are affected by the implementation or review of water resource plans.

The concepts of equity and fairness dictate that as the community as a whole benefits from a healthy environment, the entire community should contribute towards the cost of maintaining that resource. High water costs and loss of security adversely affect agricultural competitiveness and regional development.

Governments should realise that savings in water use have significant environmental and community benefits, and thus compensate farmers for the loss of entitlements. Actual or potential restrictions on water availability mean

that water use efficiency is becoming increasingly important. The government should develop a financial package that encourages and aids water users in attaining increased water use efficiencies, such as lower interest loans. The lower availability of water and the increasing costs involved in water use have led to the development and adoption of greater water use efficiency techniques being used by producers in the pig industry, for example biodigesting facilities and water re-use. However, these are expensive investments and uptake by the industry would benefit from assistance such as lower interest loans.

APL believes that farmer's asset security as defined by water property rights should be respected and adequately compensated should its value be eroded by government actions.

5.2 Environmental Infrastructure

Water use efficiency can be improved through on and off farm infrastructure and management practices. Off farm, this may mean maintenance of irrigation channels or piping. On farm may be improvement of irrigation and water usage techniques.

The cost to the public of increasing water use efficiency should be the difference between the total cost of the investment less the privately retained benefits. If the water savings are used or sold by irrigators, the cost of the investment will be considerably lower.

There are external benefits that accrue to the downstream water users but these vary markedly depending on the site of the efficiency improvement and the allocation of the saved water.

Finally, the locality of the investment has a major impact on the magnitude of total benefits and also largely determines the distribution between private and external and public benefits. (ABARE 02.6 July 2002).

5.3 Information gathering

Information is another important issue in targeting cost effective public investment in water use efficiency. Producers have the best information on their capacity and the associated costs of increasing water use efficiency. Governments or government agencies are likely to have a better understanding of the downstream impacts of a change in water use efficiency.

6 Other Issues

6.1 Water Property Rights

One of the key steps in the COAG agreement is the establishment of property rights with respect to water, with water now separated from land title. Because water is not a fixed resources and, unlike land, cannot be fenced,

surveyed or identified on a map, the definition of rights to water are somewhat more complex than defining property rights to land. Well defined water rights are an essential foundation in ensuring that the water resources available are put to their best economic use in order to maximise wealth generation in the community.

APL is not opposed to the principles of the COAG water reform process but is concerned that these principles have not been applied in a consistent and transparent manner, and that the fundamental issues of water property rights has not been adequately addressed. Farmer's property rights are often reduced to achieve a community benefit, at no cost to the wider community. Producers should not be expected to pay for public good outcomes that benefit the broader community. This results in poor outcomes for the environment, the economy and for farming communities.

Despite all of the changes that have occurred water users have little more security and certainty at present than they had at the start of the COAG process.

6.2 Environmental Flows

Water that is especially allocated to the environment is known as an environmental flow. These flows are designed to mimic the natural conditions in our rivers.

In the future, when additional water is required for environmental flows, it should be bought from existing entitlement holders. Producers need to know and understand the security of their water. Any outside party (eg government) must not have the ability to make decisions that can change the specifications of the water entitlement. If water is required for another non-consumptive sector, the market place is where the water should be purchased by the government. APL believes that the government, where required, should buy back water entitlements that have been over allocated. This would then allow for true competition for the water resources available.

All states place the environment as the highest priority and extractive users have a lower priority. There is currently insufficient accountability and transparency in the management arrangements for environmental water within the state frameworks. Increasingly, farmers are being required to comply with environmental regulations that are designed to achieve a benefit for the entire community but which have significant cost to individual farmers, without compensation for uncertainty or decreased viability, as explained previously in section 5.1.1.

APL believes that environmental water should be given the same status as extractive users so that in times of resource scarcity, the environment also receives less water, which actually mimics the natural situation of the river.

APL believes that the quantity of water set aside for the environment and the information regarding the management of that water should be freely available to the community in that water allocation area.

6.4 Water Management Committees

Local water management committees provide flexibility to match controls to the needs of local areas and to give the local community a more formal and direct role in water resource management. APL believes that:

- Water management committees should be comprised of water users who reside in the catchment, and represent the water users in the catchment;
- Government representatives should act in an advisory capacity only, providing the committee with facts and information on how to improve the management of the riverine ecosystems. The committee is then able to base their decisions on the best available knowledge and argument;
- The role of the water management committees should be more clearly defined, providing the community with the ability to have greater input into the management of their rivers;
- The system of management planning and licensing should be conducted in a publicly accountable manner, which not only provides aggrieved applicants with rights of review before an independent tribunal but also ensures adequate public input into the management and licensing processes;
- It is important that water management plans are assessed against environmental, social and economic impacts and that cost benefit analysis are carried out where required.

7 Conclusion

A water property rights regime that is clearly defined, tradeable and provides security of supply is fundamental to the future viability of Australian agriculture through perpetual water licences with long term tenures. This will allow producers maximum security about the nature of the property right so that they are able to form reasonable expectations about the benefits that the right provides; and a move towards a market based system for water allocation.

It is therefore essential that the inconsistencies and uncertainties associated with water property right are addressed to ensure an equitable system for all water users (including the environment). The glaring inconsistencies between states due to the broad rather than prescriptive requirements of the Commonwealth's reform framework should be addressed as soon as possible to avoid further reduction of land values and the disincentive to invest in improved production systems.

8 Recommendations

APL recommends that:

- Water reform arrangements, particularly water property rights, established by the individual state governments, be addressed

immediately by the Commonwealth government to avoid further uncertainty and decreased viability of agricultural producers. Further, APL believes that farmer's asset security as defined by water property rights should be respected and adequately compensated should its value be eroded by government actions.

- Environmental water should be given the same status as water for extractive users, so that in times of resource scarcity, the environment will receive less water.
- Water management plans should be assessed against environmental, social and economic impacts, with cost benefit analysis being carried out as required.
- The Commonwealth government should focus on investing in environmental infrastructure to improve the efficiency, delivery and cost per unit of water. There are no incentives for individual downstream water users to invest in upstream efficiency improvement projects because of the non-exclusivity or free rider problem, whereby down stream water users do not contribute but still gain benefits from the investment.
- The Commonwealth government should, as a priority, increase those funds dedicated to information gathering and monitoring of existing programs.

9 References

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