

QFF MEMBERS

Australian Prawn
Farmers Association

CANEGROWERS

Cotton Australia

Emerging Primary
Industries Group

- Australian Ginger Growers
- Biological Farmers of Australia
- Flower Association of Queensland Inc
- Queensland Aquaculture Industries Federation
- Qld Olive Associations Group

Growcom

Nursery & Garden
Industry Queensland

Qld Chicken Growers
Association

Qld Dairyfarmers'
Organisation

Qld Irrigators Council
Association Inc

Qld Pork Producers
Inc.

1 December 2005

Ms Maureen Weeks
Secretary
Senate Rural and Regional Affairs and Transport References Committee
Parliament House
CANBERRA ACT 2600

Dear Ms Weeks

Re: Inquiry into Water Policy Initiatives

Please find attached the submission from the Queensland Farmers Federation to the above Inquiry. QFF would also appreciate the opportunity to address the Inquiry at any future public hearing.

I have also attached a recent Water Policy Brief prepared by QFF which may be of interest to Senators.

Please contact me should you require any further assistance.

Yours sincerely,



John Cherry
Chief Executive Officer

Submission to Senate Rural and Regional Affairs and Transport Committee inquiry into Water Policy Initiatives

Introduction

The Queensland Farmers' Federation unites 14 peak rural industry bodies that represent Qld's cotton, dairy, horticulture, sugarcane, pork, meat chicken, production and retail nursery, prawn farming, and aquaculture industries. It is a true 'umbrella federation' working on behalf of its member organisations.

QFF and its member bodies represent industries that will be significantly affected by the implementation of national water reform.

QFF's submission responds as follows to the specific matters listed in the Water Reform Assessment Framework 2005 released in August 2005 by the National Water Commission.

Summary of Submission

Water Access Entitlements and Planning Framework

- a) The pace of the water resource planning process has slowed considerably over the past 12 months and less than half of the water resource planning process is completed. Committed Australian Government funding to the States for the initiation of water reforms has now finished. QFF submits that it is inappropriate to proceed with such a significant uncompleted program for the initiation of water planning in Queensland without jointly committed resourcing from both the Queensland and Australian Governments.
- b) QFF is of the view that water resource planning that has been completed is giving adequate statutory recognition to environmental and other public benefit outcomes. Water Resource Plans finalised to date are showing that there are a few overallocation problems with surface access in Queensland catchments but overallocation of groundwater resources is expected to be a problem as the formal planning process extends to cover these resources.
- c) There is no planned and assisted process of adjustment for areas that have and may be identified to have overallocation or overuse problems. Without adjustment assistance in these areas, it will be difficult to achieve the desired outcomes and benefits of implementing a comprehensive package of reforms.

QFF seeks a commitment from both the Australian and Queensland Governments to more openly investigate and implement better management and adjustment support required in areas with overallocation problems and facing difficulties implementing and deriving the benefits of water reforms. Funding from the Australian Water Fund could be applied to develop partnerships between government, industry, water users and water providers to address difficulties with the implementation of reforms.

Water markets and trading

QFF is of the view that the development of water markets and trading in Queensland will be constrained for at least another 5 years by the ongoing program of reform implementation and a number of limitations on the effective functioning of trading markets in local areas. QFF submits that governments need to be encouraging productive links between rural water users working to better manage their demands for and use of water, water providers seeking to improve efficiency and to deliver commercially based services and agencies regulating water access and use.

Water Pricing

Water storage and delivery pricing

- a) *National Water Initiative* - QFF is concerned that the Federal Government has not adequately considered the impact on rural communities of the pricing aspects of the National Water Initiative. The implementation of upper bound pricing and, in many cases, lower bound pricing, would render the price of water unviable for many Queensland industries. In addition, the current review of SunWater prices will need to recover a substantial cost increase incurred in SunWater in recent years.

QFF is concerned that the National Water Initiative provides no recognition for the economic impact that moving to higher water charges will have on rural industries. The implicit assumption appears to be that water will be traded up to a higher value user. However, there are physical and economic limits to this adjustment, particularly given many of Queensland's irrigation schemes are small with higher costs (and lower economies of scale) than schemes in other states. Given most Queensland schemes are still yet to achieve lower bound, the NWI is likely to increase the water price advantage of larger, interstate schemes.

QFF recommends that the NWI be amended to allow for a broader definition of public interest exceptions to pricing reforms as was allowed in the original National Competition Policy agreement, such as economic and regional development and the competitiveness of Australian business.

- b) *Approach to new price path policy* - QFF is keen to see the direct negotiation process with SunWater and customer representatives continue to determine and implement efficient price paths for a five year period and to commit to a program to implement efficiency gains and achieve cost targets. CSOs must be provided where costs exceed efficiency targets.
- c) *Timing for price paths* - QFF submits that the time period of at least five years will be required for the post 2005 – 06 price path to implement lower bound prices across schemes. The Qld Government decision for a 2 year price path will not be sufficient and adds the uncertainty of significant increases for rate of return and water charges in two years
- d) *Rate of return* - QFF and the Customer Councils and Water Advisory Committees for SunWater schemes across Queensland are opposed to any proposal to impose a rate of return for existing schemes funded to achieve national, state and regional development objectives. Existing schemes must be considered as 'sunk' capital investments. It is expected that even low rates of return will affect the viability of irrigation farming and significantly reduce the capacity to implement water and other natural resource management reforms on farms. Rural water users recognise the need to invest in future development of their schemes but are opposed to decisions to apply rate of return policy on a statewide basis that shows little understanding of local needs and constraints.
- e) *Schemes unable to achieve lower bound* – These schemes will require continued subsidy but it is unlikely that pricing alone will facilitate the change required to reduce subsidy provision. A 'planned process of adjustment' is required to help these schemes transition.
- f) *Local management for irrigation schemes* - While priority has been given to the negotiation of lower bound water price paths with SunWater, many schemes are now of the view that local management of irrigation schemes is the only option to drive efficiency gains and better address other issues of scheme management including improved environmental management. As the State Government has decided that there is to be no local management of schemes before June 2008, QFF is intending to continue to work closely with SunWater to identify ways to better involve customer councils and scheme advisory committees in effective management arrangements

g) *Undue reliance on imposing prices and charges to drive efficiencies in the use of water* - The Queensland Government has chosen to impose determinations about irrigation prices and charges without adequate consideration of their impacts and with little attention to measures that will facilitate the adoption of reforms by rural water users. QFF has real concerns about the 'sustainability' of water and other reforms unless there is a concerted effort on the part of governments, rural industry and water providers to build capacity and drive efficiencies that will assist the implementation of water prices and charges and other reforms.

Cost recovery for planning and management

QFF is concerned that the Qld Government's recently announced water charges policy to recover planning and management costs fails to define the costs of the services being provided or justify the efficient delivery of these services. Concerns are also raised regarding the inequitable impact of the charges on SunWater scheme customers, water harvesters and small un-metered users. These issues must be addressed as part of a planned review of these charges to be completed by 2008.

Investment in new or refurbished infrastructure and the Release of unallocated water

QFF has been concerned for some time about the lack of planning at a regional scale for the development of water assets to meet projected needs and/or priorities. This planning gap has implications for release of new allocations and water trading markets and as a result impacts on regional development. Regional water supply strategies are now being prepared in a number of catchments but these initiatives must address all future water needs not just one sectors future requirements. The conduct of water resource planning must be supported by water development planning and implementation.

Farming Innovation to Address Water Reforms

QFF and members have taken a proactive approach and are developing Farm Management Systems to help farmers address the practical implementation of reform on their farms. QFF and Qld Government have agreed to work in partnership develop and promote FMS as part of an effective balance between voluntary and regulatory approaches to property management.

Support from the Australian Government, Department of Agriculture Forestry and Fisheries through the Pathways Program and the Queensland Government, Department of Natural resources and Mines through the Rural Water Use Efficiency Program has been valuable in developing the FMS Programs and Framework. QFF has also been progressing discussions with the Regional Natural Resource Management bodies regarding the development and implementation of Farm Management Systems.

While QFF supports the approach being implemented by the Queensland Government which seeks to address water use externalities through regulatory planning instruments such as Land and Water Management Plans, care needs to be taken to adopt a balance between voluntary and regulatory approaches to on farm use of natural resources. QFF and the Qld Government have a Memorandum of Understanding 'to work in partnership to develop clarity about respective roles, whole-of-government and cross-industry approaches and key future directions in order to promote FMS' as means of achieving this balance between voluntary and regulatory approaches.

It is hoped that the difficulties rural water users are finding in preparing land and water management plans in accordance with Government Guidelines will be addressed through improved coordination of FMS Programs and implementation of Land and Water Management Plans.

Integrated Management of Water for Environmental and Other Public benefit Outcomes

There is now a number of planning and management initiatives to progress the implementation of water reforms for environmental and other public benefit outcomes in Queensland. Governments can play a key role working in partnership with rural industry and other stakeholders to fully engage farmers and their communities to implement reforms using practical and efficient measures. To achieve this outcome, there is a need for Governments, rural industry and other key stakeholders to define and commit to a partnership approach to reform implementation. This submission deals with a number of the key issues that need to be addressed in developing such a partnership.

Governments must play an important role with the rural sector in ensuring the considerable planning programs and competition reforms adequately address the business development needs of the agribusiness sector. The focus of QFF and members efforts initially has been on interpreting sustainability issues to prepare for implementation and management on farm through the Farm management Systems initiative. Increasing effort is needed to facilitate implementation of sustainability measures as an integral part of productive farming. It is essential that Governments and agriculture industries address this key issue as a matter of urgency.

Climate Variability and Change

QFF recognises that responding to and managing for climate variability and change is fundamentally a responsibility of farmers and rural industries. It is also recognised that this management effort must also be supported by clearly defined government policy and targeted scientific research.

QFF and member organisations are interested in exploring with Governments how best to position not only farmers but also industries to best adapt and pursue opportunities that a changing climate may present.

The possible implications of climate variability and change for the industries which QFF represents are outlined in the body of the submission.

QFF does not believe that current drought programs adequately address the needs of intensive agricultural industries, continuous production systems, and those impacted beyond the farm gate. Recommendations for policy change include:

- A national approach to drought preparedness and drought management is a preferred position to the present reactive and uneven approaches embedded in the 'Exceptional Circumstance' programs.
- Farm management system programs which incorporate climate variability offer considerable leverage in dealing with future droughts and climate change/variability, and therefore should become the linchpins of future 'drought policies'.
- There is a need to prepare ahead for drought so the impacts can be minimised.

The submission contains specific recommendations regarding drought preparedness, risk management, climate applications and research. Priorities that QFF has identified to better equip Australia's food and fibre chain to deal with climate variability and change are also listed.

1) Water Access Entitlements and Planning Framework

a) Progress with Water Resource Planning

The current program for water resource plans and resource operations plans in Queensland extends until 2008-09. The catchment based approach to water resource planning is necessary to address the significant variation in catchments across the State. However, the State Government continues to significantly overestimate the progress that can be achieved in preparing and implementing complex water plans. It is of particular concern that the pace of the planning process has slowed considerably over the past 12 months. In particular, little progress has been made with ROPs in the Border Rivers and Condamine Balonne even though these plans have been completed for 12 months or more.

With less than half of the water resource planning process completed in this state and Federal direct funding for the COAG reforms now completed, the significant burden for resourcing the remainder of the water planning program will now shift to water users with the implementation of water resource charges. These charges are just an 'addition' to irrigation prices in schemes without any consideration of questions of size of these costs and any cost duplication between the Department of Natural Resources and Mines and Sunwater. It would also appear that questions about rural water users bearing an excessive burden of the costs of initiating implementation of water reforms will not be addressed now or in the future.

QFF submits that it is inappropriate to proceed with such a significant uncompleted program for the initiation of water planning in Queensland without jointly committed resourcing from both the Queensland and Australian Governments.

b) Protection of Rivers and Aquifers

QFF is of the view that water resource planning that has been completed is giving adequate statutory recognition to environmental and other public benefit outcomes. Water Resource Plans finalised to date are showing that there are a few overallocation problems with surface access in Queensland catchments but groundwater resources in many areas are yet to be subject to the formal planning process, and it is expected that there will be problems in areas such as the Lockyer, Callide and Lower Burnett as well as other groundwater areas. Overland flow planning which is being triggered as required through the conduct of water resource plans is adequate to deal with any significant interception activities in systems that are or are not fully allocated.

Significantly, an independent assessment has found the lower Balonne system to be in a reasonable ecological condition but has recommended that the overall take of water be better managed in the future to ensure that these conditions do not deteriorate¹. The Condamine Balonne Water Resource Plan addresses this outcome by adopting the Panel's recommendation of a more sophisticated 'event based management' tool rather than simple annual mean flow targets. The preparation of the ROP for the Basin has just begun.

c) Planned Process of Adjustment for Overallocation Problems

In areas where the water resource and resource operation planning process confirms that surface or ground water systems are unsustainable via overallocation or overuse problems, there is a need for a 'planned process of adjustment'. QFF is very concerned that there is no planned and assisted process of adjustment for catchments that have and may be identified to have overallocation or overuse problems as there exists in other States. Without adjustment assistance in these areas, it will be difficult to achieve the desired outcomes and benefits of

¹ Cullen P, Marchant R, Mein R "Review of Science underpinning the Assessment of the Ecological State of the Lower Balonne System" Jan 2003

implementing a comprehensive package of reforms. Landholders in these areas will be unable to cope with water reforms that deliver a mix of poor water access and security, water supply costs that exceed their capacity to pay, and the implementation of an increasing list of management practices on farm targeted at sustainable and efficient resource use.

QFF has always supported a planned approach to adjustment to return over allocated surface or groundwater systems to environmentally sustainable levels of consumptive use. The 25 June 2004 Council of Australian Governments (COAG) Communiqué noted that the Australian Government had agreed to discuss with the Queensland Government, as a signatory to the NWI Agreement, 'the provision of assistance to affected regions on a case-by-case basis and may also initiate on its own behalf, projects which assist with implementation of the NWI'. It is assumed that the Australian Water Fund has been developed to address this need but it is still unclear how these resources will be effectively applied in Queensland. It is important to note that the first two rounds of the Qld Government's Rural Water Use Efficiency Program helped farmers save over 350,000 ML a year by providing incentives to upgrade irrigation systems and practices. Farmers invested \$3 to \$6 of their own money for every \$1 offered by the State for improving water use efficiency. This program has since been wound back. Given the achievements of the Rural Water Use Efficiency Program to date, the level of awareness among producers, and the preparedness of industry bodies to encourage water use efficiency in the roll-out of Farm Management Systems programs, QFF would argue that improving rural water use efficiency should be a major priority for funding under the National Water Fund to supplement the funding made available by the State.

QFF seeks a commitment from both the Australian and Queensland Governments to more openly investigate and implement better management and adjustment support required in areas with overallocation problems and facing difficulties implementing and deriving the benefits of water reforms. Funding from the Australian Water Fund could be applied to develop partnerships between government, industry, water users and water providers to address difficulties with the implementation of reforms and to promote rural water use efficiency.

For example, government, industry and water providers could examine options to work with water users in problem areas to:

- Benchmark current practice and facilitate better property management planning;
- Establish effective and shared area wide monitoring programs to assess progress being made;
- Examine the implications for industry sector restructuring in terms of changes to farming scale and practice, market growth opportunities, supply thresholds in key markets etc;
- Investigate opportunities for water trading and measures to assist adjustment via water trades and to address potential obstacles to trading;
- Examine implications of water pricing reform and ongoing subsidies; and
- Design adjustment programs that address short and longer term outcomes in selected areas.

d) Assigning risks for changes in allocation

QFF welcomed the provisions of the NWI Agreement regarding a risk assignment framework to be applied to changes in allocation not provided in overallocation pathways in water plans. It is understood that the Qld Government will be seeking clarification of the options and implications of implementing the risk assignment framework before making any legislative changes.

2) Water Markets and Trading

Water markets are in an early stage of development in Queensland and it is expected that these markets will be slow to develop for a number of reasons including:

- a) The pace of the catchment by catchment based planning process places a restriction on the development of trading systems with only 2 substantive systems (Burnett and Fitzroy) having their ROPs in place now for some period of time. As more ROPs are put in place, the interest of the market place in servicing trading should increase eg provision of commercially based information and management systems to support a water trading market.
- b) The conduct of other natural resource management reforms such as vegetation and water quality and salinity reforms is likely to be placing some restriction on trades as rural water users are unclear about their responsibilities and resultant costs of using natural resources and further developing their farms.
- c) Rural water users are finding it difficult to prepare and implement land and water plans in accordance with State and regional guideline issued by Department of Natural Resources and Mines. Our member organisations are questioning whether the level of detail required for these property based plans and the prescriptive approach taken in the guidelines is appropriate or necessary. In addition, it is expected that the growing list of 'triggers' for a land and water management plan will further complicate the process for both the farmer and the government officials responsible for administering the plans. This growth in the complexity of regulation and regulatory process will impede water trading and the implementation of sustainable farming practices. QFF is of the view that a more concerted effort is required to facilitate effective implementation of land and water management plans or alternative on-farm natural resource management processes at the farm and local level.
- d) The prospect of future water development in the major coastal catchments will also have implications for the development of trading markets. While the market in the Burnett has been recently informed about water releases from new infrastructure, comprehensive water supply development investigations addressing new water, traded water, waste water access and water savings from improved management are only just proceeding in other significant catchments such as the Fitzroy and South East Queensland.
- e) Uncertainty about water trading could also increase with further pricing reform including:
 - i) Lower bound prices are currently being reviewed.
 - ii) It is expected that smaller rural water supply schemes will find it increasingly difficult to meet water reform pricing objectives
 - iii) State Government has signalled its intention to introduce a rate of return in 2008 based on a consistent national approach.
 - iv) There is a question regarding the impact on scheme prices from spillway upgrades to address public risk issues.
 - v) The State Government has also announced water charges of \$4/ML to recover up to half of the current costs (\$68 million in 2003-04) of implementing water planning and management reforms.
 - vi) Rural industry has a growing concern about the level of these reform costs and the negative impact on trading markets if these costs render individual enterprises and industries non viable.
- f) The nature of both supplemented and unsupplemented water supply systems in the State will place significant limitations on the development of water trading markets. The development of the ROPs in both the Burnett and Fitzroy Basins has involved the implementation of a detailed

zonal system and associated trading restrictions to protect the security of water entitlements against trading impacts.

- g) Unresolved Capital gains tax issues may also impede trading. We understand from discussions with the Queensland Department of Natural Resources and Mines that there are a number of detailed issues regarding the issue of tradable water allocations under the Water Act 2000 and capital gains tax that they are seeking to resolve with the Australian Tax Office. We look forward to further advice when these issues have been addressed. However, there is still a great deal of confusion amongst rural water users about how the cost base for the assessment of capital gains tax is to be assessed under the requirements of the Income Tax Assessment Act.
- h) Recent amendments to the Water Act should provide for the management of stranded assets within schemes and local areas by implementing contractual arrangements between water authorities and customers to manage the implications of stranded assets. The amendments provide for water service providers operating within SunWater supplemented schemes to be issued with a Distribution Operations Licence (DOL) with protection against trading out of the scheme.
- i) With the emphasis on water planning it is not expected that significant progress will be made in the short term on NWI requirements for review of water products and the investigations of new approaches to sharing delivery capacity and extraction rates among users and markets to provide incentives for investment in water use efficiency and farm management strategies for dealing with environmental externalities. However, these measures need to be progressed to facilitate trading as well as ameliorating the impact of other reforms such as significant jumps in water prices.

QFF is of the view that the development of water markets and trading in Queensland will be constrained for at least another 5 years by the ongoing program of reform implementation and a number of limitations on the effective functioning of trading markets in local areas. QFF submits that governments need to be encouraging productive links between rural water users working to better manage their demands for and use of water with the implementation of reforms by government agencies and action being taken by water providers to improve efficiency and to deliver commercially based services.

3) Water Pricing

a) Water storage and delivery pricing – Rural and regional

National Water Initiative

QFF is concerned that the Federal Government has not adequately considered the impact on rural communities of the pricing aspects of the National Water Initiative. Of the ten objectives of the agreement, not one deals with water prices. Even objective (ix) on ‘future adjustment issues’ is subsequently limited to entitlement issues in clause 97. Fundamentally, the NWI demands full cost recovery, the achievement of lower bound pricing for all rural systems (i.e. cost recovery) and continued movement towards upper bound pricing (i.e. including a rate of return on assets). The implementation of upper bound pricing and, in many cases, lower bound pricing, would render the price of water unviable for many Queensland industries. A \$20 per megalitre increase would, for example, represent around 10% of the value add from that water for a cane farm, around 5% for a cotton farm, around 2% for a dairy farm and around 1% for a fruit or vegetable farm. A full 5% rate of return on assets in Queensland would add upwards of \$60-90 per megalitre to the cost of Sunwater-supplied water. Moving to lower bound pricing without an on going CSO based on the price path calculated in 2000 would, in 2004-5, have meant an increase in water charges of around \$8 a megalitre for the Bundaberg scheme,

\$14/ML in the Dawson Valley, \$13/ML in the Monto scheme \$20 a megalitre in Callide Valley, \$110/ML in the Central Lockyer and \$45/ML in the Lower Lockyer.²

QFF is concerned that the current review of SunWater prices will need to recover a substantial cost increase incurred in SunWater in recent years. The SunWater Annual Report for 2004-05 revealed a 14.6% increase on costs, on top of a 7.7% increase in costs in the previous year. A substantial amount of this increase has been due to the compliance cost of water planning functions within Sunwater, which raises concerns of a 'double dip' for Government, which is now also collecting a \$4/ML water resource management charge for water planning functions by Department of Natural Resources and Mines.

QFF is concerned that the National Water Initiative provides no recognition for the economic impact that moving to higher water charges will have on rural industries. The implicit assumption appears to be that water will be traded up to a higher value user. However, there are physical and economic limits to this adjustment, particularly given many of Queensland's irrigation schemes are small with higher costs (and lower economies of scale) than schemes in other states. For example, a fruit and vegetable grower in the Bundaberg Irrigation Area in 2002/3 was charged \$48.58/ML, compared to \$30.73 in the Goulburn Valley or \$30.25 in the Murrumbidgee Irrigation Area.³ A dairy farmer in the Mary Valley was charged \$50.18/ML compared to a competitor in the Murray Valley being charged \$23.57/ML. A cotton grower in St George in 2004/5 was charged up to \$30.20/ML, compared to \$10.11 for a cotton grower in the Gwydir Valley.⁴ As such, given most Queensland schemes are still yet to achieve lower bound, the NWI is likely to increase the water price advantage of larger, interstate schemes.

Interestingly, the 1995 National Competition Policy agreement recognised the need for structural adjustment policies and public interest exceptions to the changes on public interest ground such as reemployment and regional development effects (clause 1(3)), but these commitments are not reflected in the Water Agreements, including the most recent NWI. QFF is concerned that State Governments may use the NWI as a trigger to increase charges on the rural community to fund other aspects of strained State budgets.

QFF recommends that the NWI be amended to allow for broader definition of public interest exceptions to pricing reforms as was allowed in the original National Competition Policy agreement, such as economic and regional development and the competitiveness of Australian business.

Approach to new price path policy

QFF has had an opportunity over the past eighteen months to consider policy issues involved with pricing of water for SunWater schemes in accordance with a three-staged consultative process put in place by the Queensland Government.

The second stage is now complete with the Government's recent determination on the policy framework for setting prices and the price setting process. The 5 year price paths set in place in October 2000 for most schemes have been extended to April 2006 with an adjustment for the Consumer Price Index. This is to allow SunWater to negotiate new rural water prices and service standards on a scheme-by-scheme basis in accordance with arrangements agreed between SunWater, QFF and the Customer Councils to negotiate lower bound prices for existing schemes. This process was begun mid year and it is expected that statewide negotiations to define scheme reference tariffs will be completed by the end of the year allowing Customer Councils and scheme advisory committees to consider setting tariffs during the first four months of next year.

² Sunwater Annual Report 2004-5 pp.37-46

³ ANCID "Australian Irrigation Water Provider Benchmarking Data Report" May 2004 p.54

⁴ IPART 2005/6 report p.18, Qld Govt Rural Water Pricing Direction No 12000

QFF supports the negotiation process with SunWater determining and implementing efficient price paths for a five year period. As part of this process, SunWater and the Customer Councils and scheme advisory committees must commit to a 5 year program to implement efficiency gains and achieve cost targets. CSOs must be provided where costs exceed efficiency targets. Care is needed not to apply measures that could discourage the achievement of efficiency gains. For example, adjusting prices for CPI does little to encourage change by the water provider and leaves the customer coping with these substantial increases and no way to recover these costs in the market place.

Timing for price paths

The QLD Government has also determined that SunWater's costs are to be transparent and benchmarked to ensure efficient costs of delivery with the aim of implementing new scheme prices by 1st April 2006 and to apply until 30 June 2008.

QFF submits that this time period will not be sufficient to implement lower bound prices across schemes.

Rate of Return

The State Government has not required SunWater to recover a rate of return on invested capital where practical for the period 2006-2008 until issues of asset valuation and rates of return are resolved at the national level.

QFF and the Customer Councils and Water Advisory Committees for SunWater schemes across Queensland are opposed to any proposal to impose a rate of return in setting new water prices. We know as farmers and representatives of farmers in our areas that all schemes will face considerable difficulty in accepting and implementing a rate of return. Successive Queensland and Australian Governments invested in rural water supply schemes in the past with a primary aim of increasing agricultural production and fostering economic development in rural and regional areas. We do not believe it is legitimate to seek a return on capital assets funded to achieve national, state and regional development objectives. Existing schemes must be considered as 'sunk' capital investments.

Where new infrastructure is involved a capital charge by way of the sale of allocation at a value established by the commercial market will offset the investment in such infrastructure. Industry agrees with this approach and will accept such an obligation.

There are a range of other concerns about the feasibility of imposing a rate of return and are summarized as follows:

- Farmers statewide will have difficulty coping with a rate of return. The impact on industries such as cane and dairying which are undergoing significant restructuring will be devastating. Cane industry analysis shows that a typical grower gets revenue of \$190/ML and it costs \$175/ML to apply the water. Imposition of even a low rate of return will 'consume' this small profit margin.
- The capacity of other intensive agricultural industries to cope with price increases is also limited. They have no opportunity to pass on cost increases in the market place and accordingly would have to make adjustments to on farm costs to accommodate these imposts as well as the costs of other reforms.
- The magnitude of the impact of a rate of return will also vary considerably from scheme to scheme and for different commodities within these schemes. For example, some schemes which supplement natural supplies are designed for specific crops such as sugar. Imposition of a rate of return will do little to encourage higher value use where the scheme would have difficulty supplying the water needs of these higher value users. The fruit and vegetable industry is particularly concerned about rapid

shifts from cane to fruit and vegetable production and the negative impacts that these shifts will have on returns they receive from both domestic and overseas markets.

- A Government decision to impose even low rates of return will trigger market place adjustments that industry, communities and governments will have difficulty handling. In addition, we have serious doubts about the capacity of SunWater to cope with the demands and adjustments required. If it is intended to levy a rate of return there must be full and open assessment at a scheme level of the economic and community costs and benefits of such a proposal. Industry and communities must have an opportunity to comment on these assessments so that an informed decision can be made about the 'value' of proceeding with a rate of return in each scheme and statewide.
- Imposition of even a low rate of return will mean that most major Queensland schemes will endure the highest charges across Australia for medium reliability supply. For example imposition of a 1% rate of return on SunWater's current asset valuation and water allocations would increase water prices on average across all schemes by \$11 to \$12/ML. A decision to impose a rate of return now or in the future would severely impact on the competitive position of Queensland irrigated product in the market place. We are already at a significant disadvantage because our schemes are not reliable enough to maintain market supply needs. The decision of southern states not to seek a rate of return on current infrastructure further undermines the competitive position of Queensland schemes if a rate of return is applied.
- The imposition of a rate of return will discourage customers from promoting and investing in improvements in the efficiency of schemes. Similarly, a rate of return will shift responsibility for risk management fully to SunWater. If customers are discouraged to share the costs and benefits of efficiency gains and improved risk management through the imposition of a rate of return, these rates will have to be increased to provide the funds required by SunWater.
- Payment of Part A tariffs has proved difficult in many schemes over the term of the current price paths, particularly during periods of low and or fluctuating seasonal supply. Implementation of a rate of return would make it increasingly difficult for rural water users in many schemes to cope with water prices.
- A rate of return on existing water supply will discourage investment in additional water access.
- Customers are already facing significant difficulties implementing other water and natural resource management reforms on their farms and local areas. A rate of return will make the implementation of these reforms much more difficult and costly for customers and Government and extend the term for the implementation of reforms.

A decision to implement a rate of return in the near future will be at a cost well above the forecast returns to SunWater. The impacts of this reform will vary considerably by commodity and schemes. However, we have no doubt that the substantial increase in prices signalled by a Government decision to impose even low rates of return will affect the viability of irrigation farming and significantly reduce our capacity to implement water and other natural resource management reforms. Schemes recognise the need to invest in future development but are opposed to statewide decisions that show little understanding of local needs and constraints.

Schemes unable to achieve lower bound

There are a few schemes that were determined as unable to achieve lower bound prices for the current price paths. The QLD Government has requested SunWater to prepare a report on options for dealing with these schemes by December 2005. Many of these schemes face difficulties with over allocation or overuse of water resources.

It is clear that these schemes will require a 'planned process of adjustment' to address their problems. A range of measures will need to be examined to assess the feasibility of reducing community service obligations. Pricing alone is unlikely to facilitate required change. In addition it is not clear at this stage what impact new lower bound price setting will have on the current Category 3 schemes and other 'marginal schemes'.

Local management for irrigation schemes

Customer Councils and other scheme advisory committees are increasingly concerned about the ability of the current SunWater structure to manage schemes across the state through effective engagement of customer advisory arrangements to undertake business planning, asset management planning and refurbishment programs.

Advice to QFF from representatives of the scheme councils during the last 6 months has indicated that SunWater was not acting upon advice being provided by their organisations on issues of strategic importance to the ongoing management and development of schemes. While QFF and schemes have given priority to the negotiation of lower bound water price paths with SunWater, many schemes are now of the view that local management of irrigation schemes is the only option to drive efficiency gains and better address other issues of scheme management including improved environmental management.

While the Queensland Government has decided that there is to be no local management of schemes before June 2008, it is expected that the need for an alternate model to the current SunWater structure will be tested by the outcomes of lower bound pricing to deliver efficient costs and viable irrigation schemes. QFF is also intending to continue to work closely with SunWater to identify ways to better involve scheme advisory committees in effective management arrangements.

Undue reliance on imposing prices and charges to drive efficiencies in the use of water.

QFF has been making a concerted effort over the past few years to take a proactive approach to addressing the implementation of reforms. The process with SunWater to negotiate lower bound prices is an example. We have established with SunWater a very transparent process to provide the opportunity for customer representatives to understand scheme costs and to have significant input to the setting of efficient prices for reference to each Customer Council and scheme advisory committee. In particular, the process is very much geared to SunWater and customers having the opportunity to identify efficiencies in both the supply and use of water resources in schemes and then the time to implement these changes.

QFF has also been developing farm management systems with member industries to encourage the sustainable and profitable use of natural resources on farms and to avoid excessive and costly regulatory arrangements.

The Qld. Government has chosen to impose determinations about irrigation prices and charges without adequate consideration of how these decisions impact on the price setting process or unregulated water users

These determinations are part of a 5 year Water Plan which makes little reference to measures that will facilitate the adoption of reforms by rural water users apart from the rural water use efficiency program that was substantively completed 2 years ago.

QFF has real concerns about the 'sustainability' of water and other reforms unless there is a concerted effort on the part of governments, rural industry and water providers to build capacity and drive efficiencies that will assist the implementation of water prices and charges and other reforms.

b) Cost recovery for planning and management

The consultation process has provided a much more limited opportunity for rural water users to consider issues involved in the recovering the 'value of water' including the costs of water planning and management, environmental externalities and the scarcity value of water.

The Queensland Government's recent decision seeks to implement charges to recover the costs of activities to support water planning and management, administration of licences and entitlements, accounting and measurement and monitoring and compliance. The charge is imposed on all water users (urban and rural except stock and domestic) for the next 3 years to recover up to half of the costs currently being incurred by the Department of Natural Resources and Mines to implement water planning and management across the state. These charges are to come into effect from 1st January 2006 and are to be reviewed in mid 2008 to ensure that the full and hopefully the efficient costs of water planning and management that is attributable to water users are recovered.

QFF raises the following concerns about the water charges policy:

- *Assessment of the transparency and efficiency in the implementation of the charges has been delayed until 2008. In addition, the current policy decision provides no basis for the review of charges.*
- *There will be no opportunity to consider the implications of the water charges for the implementation of efficient scheme prices at least until 2008.*
- *As the charge is just an 'addition' to irrigation prices in schemes no consideration can be given to the prospect of significant overcharging in schemes for water resource management due to duplication between the Department of Natural Resources and Mines and Sunwater.*
- *Questions about rural water users bearing an excessive burden of the costs of initiating implementation of water reforms have not been addressed and there is no indication that the Government intends to assess the impact of charges into the future.*
- *With less than half of the water resource planning process completed, the significant burden for resourcing the remainder of the initiation of the water planning program now shifts to water users with the implementation of the water resource charges and lower bound prices in 2006.*
- *Water charge impacts inequitably on water harvesters and other unsupplemented users because scheme customers pay only for losses within distribution systems and not losses from storages.*
- *There are no defined commitments in the Water Plan 2005-1010 to reinvest the revenue from the charge to improve the delivery of water planning and management services.*

c) Investment in new or refurbished infrastructure and the Release of unallocated water

While it is understood that the all new or refurbished infrastructure is assessed under the Guidelines for Financial and Economic Evaluation of New Water Infrastructure in Queensland released in 2000, this assessment process assumes that there is adequate planning to ensure that project opportunities are being identified for more detailed assessment.

QFF has been concerned for some time about the lack of planning at a regional scale for the development of water assets to meet projected needs and/or priorities. This planning gap has implications for release of new allocations and water trading markets and as a result impacts on regional development. The conduct of water resource planning must be supported by water development planning and implementation.

The lack of planning to address water development needs is very evident in South East Queensland and has prompted significant activity in the development of the SEQ Regional Water Supply Strategy over the past 18 months. Similar water supply strategies have begun in Central Queensland and other regions.

4) Farming Innovation to Address Water Reforms

a) Farm Management Systems

QFF and members have taken a proactive approach and are developing Farm Management Systems to help farmers address the practical implementation of reform on their farms. A farm management system is a voluntary, systematic approach to agricultural business management that can be used by primary producers to identify and manage risks which may occur as a result of their enterprise. It is a tool to help drive sound business development and management.

By using a farm management system, a producer maintains a continuous improvement process, focusing attention on implementing recommended practices then reviewing progress made against enterprise plans. A farm management system can help draw diverse on-farm management issues together under a common flexible 'systems' approach. It is a tool that is easy to implement and has the benefit of allowing individual producers to decide their rate of improvement depending on their individual circumstances.

QFF members are developing Farm Management System programs in conjunction with their farmers. An FMS framework is being developed to provide a means of supporting QFF members to deliver FMS at the farm level. The framework will assist in identifying the common elements of industry FMS programs, facilitate the application of industry FMS programs across the landscape and provide a foundation for the formal recognition of industry FMS programs by governments and other stakeholders.

Discussions between QFF and Qld Government agencies regarding Farm Management Systems have highlighted the need for both 'to work in partnership to develop clarity about respective roles, whole-of-government and cross-industry approaches and key future directions in order to promote FMS as part of an effective balance between voluntary and regulatory approaches'. A Memorandum of Understanding recently by the Queensland Government and QFF has initiated a partnership to:

- Advance FMS programs for Queensland's intensive agricultural industries.
- Enhance cooperative and effective working arrangements between the Queensland Government and the intensive agricultural sector.
- Recognise industry-led FMS approaches as a key component of the policy mix in delivering sustainable and profitable agriculture in the State.
- Progress a whole-of-government approach to policy and planning processes related to FMS as part of an effective balance between regulatory and voluntary approaches.

The Water Act 2000 has been amended to recognise a FMS that is certified under an accredited FMS program as the equivalent of a land and water management plan.

Support from the Australian Government, Department of Agriculture Forestry and Fisheries through the Pathways Program and the Queensland Government, Department of Natural resources and Mines through the Rural Water Use Efficiency Program has been valuable in developing the FMS Programs and Framework. QFF has also been progressing discussions with the Regional Group Collective regarding the development and implementation of Farm Management Systems.

b) Regulation to Address Environmental Externalities

QFF supports the approach being implemented by the Queensland Government which seeks to address water use externalities through regulatory planning instruments such as Water Resource Plans and Land and Water Management Plans. Analysis undertaken by independent consultants recommended against a state-wide externalities charge in view of the impracticability and discouragement to water users effort to address these issues.

However, as outlined in the section on trading, rural water users are finding it difficult to prepare and implement land and water plans in accordance with State and regional guideline issued by Department of Natural Resources and Mines. There is a need to better coordinate FMS Programs and implementation of Land and Water Management Plans to help address a range of issues being raised by water users concerning the preparation of the regulatory plans such as:

- Flexibility in the guidelines to address differences between farming enterprises
- Clarity about outcomes being sought from sections of the guidelines
- Access to area wide data necessary for the preparation of a LWMP (eg base mapping, soils data)
- Monitoring requirements appropriate for areas of risk and the level of risk posed by the activities of the farm
- Arrangements for plan reviews taking account of areas of risk
- Variation of plans and farming practices taking account of areas of risk and the nature of the enterprise

5) Integrated Management of Water for Environmental and Other Public benefit Outcomes

There is now a number of planning and management initiatives to progress the implementation of water reforms for environmental and other public benefit outcomes in Queensland. Rural industries in Queensland are facing an unprecedented reform agenda which includes competition based reforms, natural resource planning and management reforms and structural reforms in the sugar and dairy industries.

The reform agenda is complex as it involves a number of staged reform initiatives (such as water, vegetation, salinity) being implemented through a range of different processes by a plethora of government agencies. The reforms are being driven through national and state policy frameworks and catchment wide plans. Farmers and local and regional communities find these frameworks and plans difficult to interpret let alone respond to.

The time frames for the development of policy frameworks and plans are continually extending, yet there is insufficient time made available to assess, explain and gain commitment to the changes required by the reforms at the local level. Also there is insufficient science available to validate the plan targets (e.g. catchment environmental flow objectives). This raises questions regarding the credibility of the plans.

Farmers have a very real fear that the mix of reforms will drive them out of business rather than open opportunities for development. Considerable effort will be required over at least the next ten years to ensure that farming enterprises can cope with the implementation of reforms.

Farmers and rural communities need to be able to address the following to effectively engage in the reform process:

- How are farmers' rights of access to and use of natural resources likely to change with the implementation of reforms? If these changes reduce accepted rights of access and use, does the community share some responsibility for these impacts?
- How can science be improved to provide better assessment of not only the need for reform but also the quantum of change required at a regional and local level to meet catchment/regional targets?
- How can farmers improve their on-farm environmental performance to achieve adaptable and sustainable outcomes?
- How can farmers be sure that their efforts on-farm will improve environmental conditions at a catchment and regional level?
- How can farmers make better use of the available natural resources (once environmental requirements are determined) to improve business performance and market competitiveness?
- What will it cost farmers to access and use natural resources? What are the implications for farm viability?

Governments can play a key role working in partnership with rural industry and other stakeholders to address these issues and fully engage farmers and their communities to implement reforms using practical and efficient measures. To achieve this outcome, there is a need for Governments, rural industry and other key stakeholders to define and commit to a partnership approach to reform implementation.

QFF is actively pursuing the development of effective working partnerships with Governments, Regional bodies over the next five years to:

- Recognise and assist with implementation of FMS programs on farms in intensive agricultural areas as an important priority for the implementation of more integrated regional NRM programs.
- Assist with the improvement of FMS programs to address the complexity of water reforms and NRM planning and management requirements
- Provide for condition and trend monitoring at local area and subcatchment scales to assess the progress and impact of the implementation of FMS programs and provide a basis for assessing longer term outcomes at the catchment scale.
- Address common policy issues for industries, Government agencies and regional NRM bodies
- Assist the development of a common framework for property level management systems including FMS

QFF is also investigating the value of an integrated area wide approach to engage farmers that prepared to work together in an area to address natural resource management issues. Projects currently funded as part of the Agricultural State Investment Project (AgSIP) under the National Action Plan for Salinity and Water Quality are providing useful guidance about how farm system performance can be compared with environmental indicators to show farmers the progress they are making in farming sustainably and to identify where they can make improvements. The project is also documenting measures and tools that are effective in implementing FMS programs on an area wide basis.

QFF expects that the further development of the partnership with the Government and the Regional NRM bodies to address the implementation of FMS programs on farm and on an area wide basis will help farmers and their communities to better respond to reforms

Governments must also play an important role with the sector in ensuring the considerable planning programs and competition reforms being undertaken adequately address the business development needs of the agribusiness sector. QFF members would be well placed to work with Governments and their agencies on strategies for accelerated growth, such as:

- Facilitation of new investment and domestic and overseas market development
- Industry development and management strategies, new investment in supply chain development and input to new infrastructure planning
- Increased export trade and knowledge-based exports

The focus of QFF and members efforts initially has been on interpreting sustainability issues to prepare for implementation and management on farm. Increasing effort is needed to facilitate implementation of sustainability measures as an integral part of productive farming. It is essential that Governments and agriculture industries address this key issue as a matter of urgency.

Scope exists to link FMS programs into value chain development, access to financial markets and access to product markets here and overseas. QFF members will be considering their selective approaches to these issues but there is scope to examine ways for these individual approaches to be enhanced by joint promotion and coordinated approaches to supply chain participants, the financial sector and possibly markets. Investment should not just reflect priority areas but also catalyst areas, areas where in which the best bang for the buck for the outcome can be attained.

6) Climate Variability & Change

a) Implications

QFF recognises that responding to and managing for climate variability and change is fundamentally a responsibility of farmers and rural industries. It is also recognised that this management effort must also be supported by clearly defined government policy and targeted scientific research.

At a forum held in April this year, co hosted by QFF and the Regional Groups Collective exploring a range of issues faced by the Queensland agricultural sector in responding and adapting to a changing climate, there was a strong recognition of and call for rural industry leadership in this area. It was also recognised that farmers and agriculture in general are the most adept of all sectors in factoring in weather and climate variability as a management risk in running their business. QFF followed this forum up with a second industry forum in November focusing on climate adaptation and policy consequences.

In November, the Queensland Government released a discussion paper on Climate Adaptation as the first step to developing a whole of Government policy. QFF regards this development as long overdue, as both State and Federal Government appear to be more active on reducing climate change mitigation (i.e. reducing greenhouse gases) rather than adapting to climate change. With the discussion paper suggesting a scenario of a 15% reduction in rainfall across much of Queensland and a 2 degree rise in temperatures in the next 30 years, the need for government and industry to address climate adaptation is becoming more profound.⁵

Responding and adapting to a changing climate be it in the short (within seasons, one - five seasons) or longer term (25-50 seasons and beyond) is a major challenge for farmers particularly bridging the short, medium and long-term horizons. A part of this challenge is also 'making sense' of projections by relating this to what a farmer should do now and into the future to mitigate

⁵ Queensland Government "Climate Smart Adaptation – A Public Discussion Paper" November 2005 pp. 5-7

identified risks. QFF believes that Farm Management Systems may offer a way in which farmers can, through the process of identifying risks and employing practices to mitigate those risks, start to better address extreme climate events, prepare and adapt to longer term trends in climate, and reduce greenhouse emissions.

QFF is highly conscious though that while Farm Management Systems may be a good avenue to improve farmer's tactical and strategic decision making about climate and advance a drought preparedness agenda, both industry and government activity must not add to the already complex reforms impacting upon farmers.

QFF and member organisations are interested in exploring with Governments how best to position not only farmers but also industries to best adapt and pursue opportunities that a changing climate may present.

The following summarises the implications of climate for the industries which QFF represents:

- Annual crops such as fruit and vegetables will be more exposed in temperate than tropical regions and will be at risk to increases in diseases and pests following summer rainfall which is likely to increase. There will be higher risks from extreme events such as drought & hailstorms. For irrigated crops there will be greater priority on ensuring reliable supply of water as it is likely that there will be less water available coupled with higher demand and higher costs of access and use. Clearly rain fed crops will be more susceptible with lower soil moisture levels.
- Perennial crops such as apple, stone fruits and tropical fruits will also be more exposed in temperate than tropical regions and to diseases and pests following higher summer rainfall. The risks from extreme events such as drought & hailstorms will be much higher which will have implications for crop insurance and farm infrastructure damage. These irrigated crops will also find similar difficulties accessing water supply and the increasing cost of supply
- Broad acre crops could face heat stress problems and increased susceptibility to pests and diseases. Changes in seasonal rainfall patterns could increasingly deliver rain when it is not needed and longer drought periods. Reduced rainfall and increased temperatures may provide opportunities in some regions but it is expected that overall there will be an increased reliance on nitrogen fertiliser to achieve current production rates.

b) Policy proposals and implementation

QFF does not believe that current drought programs adequately address the needs of intensive agricultural industries, continuous production systems, and those impacted beyond the farm gate. QFF recommends a platform for policy change that can yield greater benefits to the public through the delivery of better climate management tools and broader risk management strategies to deal with drought preparation, management and recovery activities and longer term climate change scenarios. This will provide for a better return on public and private monies invested in climate risk management.

Recent rare and severe droughts have exposed more than enough failings with the 1992 to 2005 Commonwealth – State approaches to drought to warrant a completely new approach to this national challenge. QFF acknowledges that some progress towards reform has been made at the Primary Industries Ministerial Council, but cautions against selective or partial implementation of the National Drought Roundtable findings. With the risk of climate viability continuing to change and perhaps increase, there is a very strong case for a more complete approach to Government investment and intervention to satisfy the needs of the whole economy and community.

QFF suggests that a national approach to drought preparedness and drought management is a preferred position to the present reactive and uneven approaches embedded in the 'Exceptional Circumstance' programs.

There is clear evidence that farm management tools, which incorporate climate variability, have been operating with some degree of success for 'non exceptional droughts'. QFF contends that these programs offer considerable leverage in dealing with future droughts and climate change/variability, and therefore should become the linchpins of future 'drought policies'.

Regional employment is the main driver of the policy changes proposed by QFF. The best solution to drought and climate change is to prepare ahead for the impacts so that they can be minimised. This way, the retention of important skills and general employment considerations become less of a problem than under the current policies.

Recent events have shown there is no effective way to 'secure' employment during the downturn associated with drought. This a major problem for all specialist service providers ranging from cotton and cane agronomists to animal husbandry specialists for pig and dairy operators, and to the special operators further down the supply chain including the meat processors, packing shed and refrigeration operators. The major issue is that if these staff have to be 'let go', even if only for a short time, they invariably leave the district (there being no alternative work available within the district), and it is very difficult to entice these people back when business resumes with the return of more favourable weather.

QFF recommends that industry measures for drought management / climate change incorporate the following foundations;

1. Drought Preparedness

- Focusing on the education of primary producers and the community about possible future climate scenarios and allows for the development of strategies to either mitigate or adapt to these scenarios. These to include specific programs noted below.

2. Risk Management

- To ensure environmental and animal welfare are at the forefront of sustainable land use, primary producers, regions and industries must be educated in and encouraged to use risk management strategies that can cope with any form of climate extremity.
- It should also encourage and reward those who take a co-operative approach in their land management systems, recognising that climate extremities know no boundaries, and impacts are generally wider than the farm boundary.

3. Climate Applications

- This is related to risk management, and the vast array of scientific research being undertaken. This information is crucial in assisting the rural sector plan and manage its resources. The information therefore needs to be made available in a form that land, water and business managers can utilise and incorporate into their decision-making processes.
- Processes should be developed to enable scientists, land managers and water managers to work together to formulate ways in which climate application information can best assist them in decision making.

4. Public Research

- This point is related to climate application, and how the information is utilised by those on the ground and the wider community. A comprehensive communication strategy needs to be developed and information packaged in a way that individuals and communities can use the information to make on-the-ground decisions.
- It is important that public research incorporates not only environmental aspects, but also considers the social and economic impacts of a region/industry.

Priorities that QFF has identified to better equip Australia's food and fibre chain to deal with climate variability and change include:

1. ***Risk Management Strategies Incorporating Drought – FarmBis and TASK Rural Training Programs.*** Programs that educate and promote a whole-of-farm approach to managing water variability and consequent income fluctuations are demonstrably beneficial to individuals and communities and should be retained. These include programs which encourage best practice or best Farm Management Systems.

Equally important are programs that train primary producers to take a whole-of-life approach to managing income flows and investments both on and off farm.

2. ***Long-Range Seasonal Forecasts Linked into Production Systems, including Water Management Systems.*** Public research in the areas of climate risk management and climate changes must be further encouraged as it is likely to yield significant benefits over time, as we learn to predict and manage weather and climate variability, particularly when results are presented in a format that can be applied by agricultural enterprises.
3. ***Rural Water Use Efficiency.*** The Rural Water Use Efficiency initiative, supported by four commodity-specific delivery programs, delivers long-term sustainable benefits for primary producers, and warrants further support, and should be extended to cover additional farming activities. Public assistance is required to create the constant learning environment that will extend the value of similar research and development programs with broader education and extension effort.
4. ***Regional Water Infrastructure.*** Drought is generally taken to mean 'a prolonged or chronic shortage of water'. The obvious counter to drought is to store water appropriately to better manage for variable rainfall and runoff events. Water allocation planning currently being conducted state-wide is identifying opportunity for further water supply development in many of the major catchments. It is important that future planning for the development of these unallocated water supplies take specific account of benefits of project proposals for drought mitigation for water users.
5. ***National Water Initiative.*** CoAG has agreed under the National Water Initiative that water users should bear the risk of reduced or less reliable water allocations arising from reductions in water supplies as a result of seasonal or long term changes in climate and natural events such as drought. Commitment on the part of governments to progressive improvement to the catchment based water resource planning and monitoring is essential if rural water users are to effectively manage for the risks of climate and natural events such as drought.
6. ***Recycling of Water for Rural Use e.g. City to Soil.*** Governments must give priority in all growth planning programs for the reuse of water from the treatment of municipal sewage effluent, industrial and agricultural effluent and urban stormwater. In particular, the development of recycled water projects for a wide range of agricultural activities should be explored.

Water Policy Brief No. 1

Nov 2005

Why farmers are worried about water prices

Water is the lifeblood of Queensland's farms. As our climate becomes more unpredictable, farming without access to reliable water becomes riskier. Successive Governments have recognised this and invested in irrigation schemes to allow the agricultural sector (and the towns that they serve) to grow. In the last three decades, more reliable water has delivered economic growth to towns like Emerald, St George, Goondiwindi, Bundaberg, Mackay, Proserpine and Ayr.

In 1994, the Council of Australian Governments, concerned that the water resources of the Murray Darling basin were being misused, commenced a major reform of national water policy under the National Competition Policy. Queensland (and its farm sector) have met all of the commitments under NCP. This has not been without cost. Irrigated farms in Queensland pay \$20 million a year more for water now than they did five years ago. That is an increase of around 70%.

Water policy reform requires more rigorous water resource planning to meet and balance environmental flows, urban, industrial and rural needs. Water users will pay for much of the cost of that planning.

In 2004, the Council of Australian Governments launched a new round of reform, the National Water Initiative, backed by a \$2 billion National Water Fund. Under the NWI, the States have to meet commitments on pricing, tradeability, planning, transparency and the environment.

In August, Premier Beattie released the State Water Plan 2005-2010 on how the State will meet its NWI commitments, particularly on cost recovery, with significant implications for Queensland's 9,500 irrigated farms.

What is in the pipeline for water charges

- ➔ **Cost recovery for the State's water policy** management functions, assessed at around \$30 million (a third from farmers), resulting in a \$4 per megalitre charge on all irrigation water, to be reviewed in 2008;
- ➔ **Cost recovery for Sunwater's water services**, to meet the NWI requirement of 'efficient lower bound price where practicable'. This could mean cuts to community service obligation (CSO) subsidies to uneconomic schemes, as well as price increases to meet Sunwater's much increased costs. The Government wants the new prices to be set by April of next year.
- ➔ **Cost recovery for a 'rate of return' on Sunwater assets:** The NWI calls for progress towards 'upper bound prices' i.e. recovering cost plus a rate of return on sunk assets. Currently, the NSW Independent Pricing Tribunal has refused to recover costs on assets that were pre-1997, while Victoria generally doesn't collect a rate on return on its locally managed schemes. QFF opposes imposing a rate of return on historical investment. The Queensland Government has deferred this issue until after 2008 to see if a national consensus emerges. A 1% rate of return would add around \$12 a megalitre to Queensland irrigation prices, a full commercial rate of return would add around \$60 a megalitre.
- ➔ **Cost recovery for spillway upgrades:** The State proposes stringent new engineering standards for dams to be able to withstand a 1 in 10,000 year event, with water users paying much of the cost of spillway upgrades on a case by case basis. QFF argues that as the upgrading flows from a new public policy decision, the public should pay the bulk of the cost of upgrades.



"The State Government will, by April 2006, set price increases for the 7,500 farms irrigated through Sunwater schemes.

"The economic consequences of this decision will be more significant and immediate than were the native vegetation laws.

"Water charges have risen 70% for many producers since 2000.

"While farmers are prepared to pay a fair price for water, they should not be asked to pay for service inefficiency, new public policy or for the application of unreal economic models.

"QFF, Sunwater and the State are currently engaged in a discussion of the technical issues on pricing through the "Tier One" negotiation process.

"But, in the next few months, political decisions will need to be made about water charges to meet the April deadline.

"This is the first monthly QFF briefing to political and industry leaders on water policy.

"We cannot emphasise enough how important the issue of water and water pricing is to the rural sector, and to the sector's relationship to Government."

**Gary Sansom
President
Queensland Farmers' Federation**

History of Sunwater Price Paths

Sunwater was formed as a Government owned enterprise (GOE) in 2000, taking over the State's bulk water supply. The State, after negotiations with QFF, set a five year price path progressively increasing cost recovery from rural water users, with revenue rising from \$30 million to \$40 million.

At the same time, the GOE model was to put pressure on Sunwater to reduce costs, so that by 2004, most schemes would have full cost recovery (to 'efficient lower bound'), with the exception of a handful of inefficient schemes where this was not viable (e.g. Lockyer, Warrill). That was the plan:

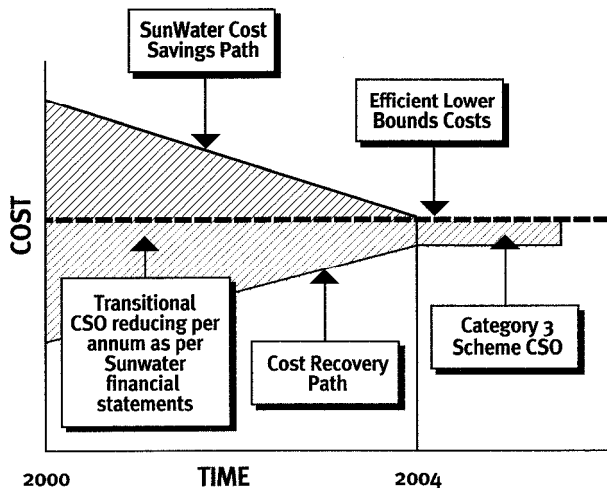


Figure 1 : The costs and revenue gap for the irrigation sector for the five year price paths

Source: DNR "Talking Water Reform" Info Paper Nov 2002 p.14

Since 2003, Sunwater's costs have increased sharply, partly as a result of water policy reforms. Costs rose 7.7% in 2003/4 and 14.6% in 2004/5, with most of the increase in labour, professional services and related costs.* With the water planning (ROPS) process adding millions each year to costs, QFF suspects costs continued to rise in 2005/6.

This suggests Sunwater could need as much as a 30% price increase (or \$12 million) to recover lower bound costs. If the State cuts CSO subsidies to Sunwater, the bill rises by up to \$6 million, and by a further \$18 million if a rate of return is imposed after 2008.

Notwithstanding the cost blow-out, Sunwater reported an increase to profit to \$50 million in 2004/5.*

Under the NWI, water users are only expected to pay for 'efficient' lower bound prices. A key question for QFF negotiators and for Government policy makers is how efficient is Sunwater.

QFF contends that the Sunwater cost blowout is due partly to inefficiency, as well as new public policy requirements flowing from Government. Users will be paying twice for some water planning functions — with the new State Water Resource Management Charge and with Sunwater charges. These will be key price negotiation issues for QFF and its members over coming months.

* Source: Sunwater Annual Reports

PRICE PATHS READY RECKONER

Scheme (\$/MI)	A 2000	B 2005	C 2006	D End CSO	E Add 30%	F Add 1% R of R
Bundaberg	40.5	49.1	54.3	62.1	79.8	91.8
Burdekin	36.0	34.4	39.3	39.3	49.8	49.8
Warrill Valley	14.5	25.6	32.8	38.1	48.3	60.3
Mackay (Eton)	37.0	44.6	49.7	52.0	66.4	78.4
St George	24.5	30.2	35.0	36.8	46.7	58.7
Emerald	25.9	25.5	30.1	30.1	38.0	50.0
Dawson Valley	33.0	50.0	55.3	68.9	88.4	100.4
Mary River	30.4	45.4	53.8	59.1	75.6	87.6

A, B: Rates for channel irrigation (Part A & B charges), set in 2000 review
 C: For 2006, add \$4/MI water resource charge, plus CPI, as per August announcement. Some schemes continue on extended price path.
 D: Removal of CSO (2004/5 figures) per MI of allocation
 E: Column D plus 30% (indicative purposes only!!!)
 F: Add \$12/MI for 1% rate of return on sunk assets

USING THE PRICE PATHS READY RECKONER

The Ready Reckoner is purely indicative, and is only to give an indication in the broadest terms of what a large blow-out in Sunwater costs (30% is assumed), the removal of CSO payments and introduction of a rate of return would mean. QFF and its member organizations will be working hard to prevent such a 'worst case' scenario occurring.

The Ready Reckoner does give an idea of just how important the Sunwater price review is to rural producers.

A \$20 a megalitre increase in water charges represents around 10% of the value of the cane crop from that water for a canegrower, 5% of the value of the cotton for a cotton grower, 2% of the value of milk for an irrigated dairy farm, and 1% of the value of fruit and vegetable production on irrigation. QFF has commissioned modeling on the economic impact that such increases would mean for growers.



QFF members:

CANEGROWERS
 Growcom
 Cotton Australia
 Qld Dairyfarmers Organisation
 Nursery & Garden Industry Qld
 Aust. Prawn Farmers Assoc.
 Qld Irrigators Council
 Qld Chicken Growers Assoc.
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