

Public Submission
to
Water Market Rules Issues Paper
by
United Dairy Farmers of Victoria, District Council 3
On
May 2008

United Dairy Farmers of Victoria – District Council 3:

The United Dairy Farmers of Victoria District Council 3 is made up of UDV branches from Benalla, Cobram, Katandra, Invergordon, Katunga, Nathalia and Strathmerton.

We source our water from the Murray, Goulburn and Broken systems and therefore have provided comment on concerns relating to these systems.

We are all volunteers within the District Council and work to further the issues of our local dairy farming community.

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INTRODUCTION:

The Northern Victorian Dairy Industry:

Northern Victoria is the largest dairying region in Australia which produces 22% of the nation's milk¹.

Dairy farmers across Northern Victoria use 67% of the water² and are therefore actively involved in the water market. In times of drought the water market has allowed dairy farmers to temporarily sell water and purchase fodder. Alternatively dairy farmers have temporarily bought water to bolster water for their pastures.

A strong and confident dairy industry will be essential if the region is to maintain its economic and agricultural performance into the future. Therefore any paper impacting on the water market across Northern Victoria must also have a strong focus on ensuring the viability of the region's dairy industry.

The United Dairy Farmers of Victoria, District Council (DC) 3 is pleased for the opportunity to provide a submission to the Australian Competition and Consumer Commission (ACCC) on the "Water market rules issues paper".

Our comments are outlined overleaf.

¹ Dairy Australia, *Dairy 2007- Situation & Outlook*, Pg 69

² GMW, "G-MW Water Plan 2006-07-2007-08", Pg 17.

1) FACILITATING EFFICIENT WATER MARKETS:

- **Trade Processing Time:**

Currently farmers are faced with a number of delays when their water trades are processed by Goulburn-Murray Water (G-MW). In its own Water Plan for 2008, G-MW has failed to meet its own Key Performance Indicators regarding the processing of water trades³, see below:

Indictor	2006/07 TARGET	2006/07 ACTUAL
Processing of Temporary Transfer of Water entitlement within 5 days	100%	90%
Processing of Permanent Transfer of Water entitlement – for applications not requiring a channel capacity and salinity assessment or diversions inspection within 15 days	92%	80%
Processing of Permanent Transfer of Water entitlement – for applications requiring a channel capacity and salinity assessment or diversions inspection within 30 days	92%	50%
Processing of Permanent Transfer of Water Entitlement – Diversions Licenses within 10 days	92%	50%

There appears to be very little ramifications when G-MW fails to meet its targets, even the Essential Services Commission (that is responsible for evaluating Victoria's water prices) has failed to take any action on this issue.

Farmers need a market that responds quickly so they can effectively manage their businesses. For instance, a rain event fails to occur and farmers quickly need water to maintain their pastures. Delays by G-MW in processing the trade can leave pasture heat stressed and damaged.

Recommendation 1:

That the ACCC develop clear rules on acceptable water trade processing times.

- **Distortion and Transparency of the Water Market:**

Our District Council does not support Government in the water market to secure further water for the environment. While this is potentially the lowest cost option for Government and the quickest to implement it runs the risk of distorting the water market. Furthermore it risks farmers losing confidence with the water market as they are forced to directly compete against Government.

Many farmers are uneasy with the recent announcement by the Commonwealth Government that they will spend \$3 billion purchasing water for the environment. The lessons learned from their recent purchase of \$50 million of water has had significant impacts on the transparency of the water market.

Farmers are unclear what price the Government is prepared to pay and there is vast inconsistency between prices paid between the states. Our District Council has members on the Murray system with high security water that were unsuccessful in selling to the Federal

³ Goulburn Murray Water, "2008 Water Plan", 8 October 2006, Pg 12.

Government for \$2200, which is arguably current market price. Clearly greater transparency is needed.

Furthermore, the Federal Government must acknowledge Victoria's efforts in securing water for the environment. Victorian has largely met its Living Murray commitments and proposing further water savings for the environment through the Foodbowl Modernisation project. Therefore It is only fair that other states meet their environmental commitments.

Recommendation 2:

That the ACCC request that the Federal Government develops a public website on its water tender that monitors the asking and selling prices and the amount of water traded and the waters location.

2) RECOGNISING THE NEEDS OF THE ENVIRONMENT:

Our District Council notes with interest that the ACCC describes water for the environment as a "public good", the paper also goes onto say that:

"benefits generated from the good cannot be confined to those who are willing to pay for the provision of this good".

Our District supports the ACCC's position on this issue and has developed an issues paper to the Victorian Government highlighting inequalities imposed on the farming community regarding environmental water (see Appendix A for a copy of the paper).

Unfortunately the storage/headwork's charges of environmental water are currently being met by irrigators in Northern Victoria.

Farmers across Northern Victoria are currently paying over \$2.5 million to store existing environmental water and look set to pay an additional \$1 million in creased charges due to new infrastructure projects that will deliver further water to the environment. Furthermore, if Government is going to enter the market to secure water for the environment then farmers cannot be expected to meet the cost of storing it.

We believe the beneficiary principle should apply to environment water, this being that given environmental water provides a community benefit then the community should pay.

The previous Commonwealth Government agreed to fund the headwork's charges of environmental water; while some verbal commitments from the new Labor Government have been made, there is no firm agreement.

Recommendation 3:

That the ACCC enforce consistency regarding environmental water management and all State and Commonwealth Governments be required to fund the headwork's charges of environmental water.

⁴ Australian Competition & Consumer Commission, "Water Market Rules Issue Paper", April 2008, Pg 11

3) WATER RESTRICTIONS THAT SHOULD BE PERMITTED:

- **4% limit on trade out of an irrigation district:**

Our District Council does not support the 4% limit being reviewed before the interstate agreement of 2009 is reached.

The 4% rule was established because of:

“issues such as stranded assets and the community's capacity to adjust to change⁵”

Similarly Schedule 3 of the *Water Act* outlines as one of its objectives in its *Basin water market and trading objectives and principles* that it

“provides appropriate protection of third-party interests”.

The ACCC must acknowledge the intense pace of water reform across Northern Victoria and farmer's ability to remain abreast of all the issues. Farmers need time to adjust to such rapid changes and therefore the 4% limit should remain in place.

Recommendation 4:

That the ACCC support the 4% limit on trade out of an irrigation district remaining.

- **10% limit on water shares held by non-landholders:**

Our District Council does not support an increase to the 10% non-landholder limit. The farming community never supported any non-landholders holding water.

The Government in its 2005 “Water Share” fact sheet noted that:

“There has been some concern from the irrigation community that speculators might enter the water market and set themselves up as ‘water barons’ by buying large quantities of water and then manipulating its price⁶”.

This concern still exists and therefore the 10% limit should not be changed.

Recommendation 5:

That the ACCC ensures the 10% limit on water held by non-landholders remain.

⁵ MDBC, Interstate Water Trade Factsheet, May 2006

⁶ Victorian Government, “Water Share Fact Sheet, October 2005

4) INTERACTION BETWEEN OPERATORS AND INTERMEDIARIES:

- **Code of Conduct for Water Brokers:**

With an ever-growing water market many farmers are using water brokers to help them source water. Unfortunately, a number of brokers have acted unscrupulously to the detriment of local farming businesses. We believe the registration/licensing of water brokers and a national code of conduct for water brokers would help to avoid this.

Recommendation 6:

That the ACCC ensures that water brokers are registered or licensed and be required to comply with a code of conduct.

- **Termination Fees:**

Our District Council supports the use of termination fees as a way of protecting remaining farmers from increased charges and stranded assets when water is traded out of irrigation districts.

However, the funds collected from termination fees must be quarantined within the district to ensure there is no increase in charges to remaining irrigators. The fees must not be allowed to disappear into consolidated revenue.

Recommendation 7:

That the ACCC ensures that termination fees are accounted for separately and not included in consolidated revenue.

5) MARKET INFORMATION:

- **Timely and Relevant Market Information – Impacts of Carryover:**

The ACCC is seeking feedback on the water market information available. While data relating to water in storages is available on G-MW's website and published weekly in the local paper the greater uptake of carryover will have to be communicated with greater clarity. While there may be water in storages it does not mean this is available to be allocated, but rather is water held by individual irrigators as carryover.

G-MW must articulate clearly water that is available for allocation in storages and water that is stored as carryover.

Recommendation 8:

That the ACCC ensures that information regarding water in storages and water stored for carryover are clearly articulated across the Murray Darling Basin.

BIBLIOGRAPHY:

Dairy Australia, *Dairy 2007- Situation & Outlook*

Goulburn Murray Water, "2008 Water Plan", 8 October 2006

Goulburn Murray Water MW, "*Water Plan 2006-07-2007-08*"

MDBC, Interstate Water Trade Factsheet, May 2006

Victorian Government, "Water Share Fact Sheet, October 2005

APPENDIX A:

Environmental Headwork's Charges An Inequity to Resolve:

INTRODUCTION:

In 2004 the Victorian Government introduced legislation which established the Environmental Water Reserve (EWR), which is water set aside for the environment. Unfortunately, they also introduced a policy which saw the environment not have to pay the storage (headwork's) costs associated with this water, and the costs associated with this storage is currently being met by farmers, despite this water providing a benefit to the whole community.

New upgrades to irrigation infrastructure will see the EWR increase and so to will the costs to farmers having to pay these headwork's charges. Farmers across Northern Victoria are currently paying over \$2.5 million to store existing environmental water and look set to pay an additional \$1 million in creased charges due to new infrastructure projects that will deliver additional water to the environment.

This inequitable situation could easily be resolved if the Victorian Government accessed funds from it's Environmental Levy. The levy targets all water users (rural and urban) to meet costs associated with managing environmental water. Of the 165 million collected through the levy over the past 3 years only, 138 has been spent. \$27 million remains unaccounted for and clearly could be used to fund environmental headworks.

ENVIRONMENTAL WATER RESERVE (EWR):

In 2005, the Water (Resource Management) Act was passed which saw the creation of the Environmental Water Reserve. The EWR is the legal term used to describe the amount of water set aside by law to meet environmental conditions through:

- Statutory environmental entitlements (such as a volume of water held in storage)
- Conditions on bulk entitlements, licenses and permits,
- The establishment of limits to diversions.

Water gained for the environment through infrastructure upgrades and other works are added to the Environmental Water Reserve.

CHARGES FOR THE MANAGEMENT OF THE ENVIRONMENTAL WATER RESERVE

The Victorian Government's White Paper in 2004 set out the following in regards to charges for the EWR.

"where the Environmental Water Reserve is provided as a bulk entitlement for the environment through a bulk entitlement conversion process, there will be no headwork's charge;"

"where the Environmental Water Reserve is provided as a non-tradeable entitlement or through conditions or rules attached to a consumptive bulk entitlement, there will be no headwork's charge";

However, the cost of storing this water must still be met and unfortunately this leaves those remaining customers having to meet the costs of storing the environment's share. More importantly this creates an inequitable situation where farmers have to pay headwork's charges for environmental water when it provides a benefit to the entire community, not just agriculture.

THE BENEFICIARY PAYS PRINCIPLE:

Clearly, the costs associated with storing environmental water provide a benefit to the whole community. Under the beneficiary pays approach, the people that benefit from the activities pay for the costs of those activities.

In February 1994 the Council of Australian Governments agreed that an Expert Group be established to report on asset valuation methods and cost recovery definitions for the Australian Water Industry. The Expert Group produced pricing guidelines that were endorsed by ARMCANZ⁸ Minister and Senior Officials.

The Expert Group agreed that where the implementation of new resource management initiatives benefited the wider community, then:

"these costs would be borne by government"⁹.

Even Environmental Bodies such as the Wentworth Group agree that:

"the current generation of farmers are not responsible for all the damage that has been done to our landscape over the past 200 years, and that if Australia wants this damage repaired, all Australians should be prepared to provide the financial assistance to help achieve this outcome."¹⁰

⁷ Victorian Government, 2004 "Securing Our Water Future Together White Paper", Pg 65.

⁸ Agriculture and Resource Management Council of Australian and New Zealand

⁹ Expert Group 1995, "Report of the Expert Group on Asset Valuation Methods and Cost-Recovery Definitions for the Australian Water Industry, Pg. 45)

¹⁰ Wentworth Group 2002, "Blueprint for a Living Continent: A Way Forward from the Wentworth Group of Concerned Scientists".

Water stored to increase environmental flows benefits a number of parties, not just agriculture, these include:

- 1) The Australian community by reducing the pace of environmental degradation and preserving biodiversity and providing other environmental benefits;
- 2) The local community by maintaining the long term environmental health of the region,
- 3) Industries that rely on long term environmental health, for example fishing and tourism;

More recently, the Victorian Government acknowledged in their Northern Sustainable Water Strategy Discussion Paper that:

“the EWR also provides for other community benefits including the recreation and tourism, social and heritage, and economic values which are dependent on the environmental condition of rivers¹¹”.

Therefore while the Victorian Government acknowledges the community benefits from the EWR, the cost of storing the water is inequitably being met by farmers rather than the whole community.

This inconsistency within Government policy clearly must be resolved.

EXAMPLE: WIMMERA MALLEE PIPELINE:

The piping of the Wimmera Mallee stock and domestic system is projected to save 80 000 ML of water. Under a new piped system a number of reservoirs and in-stream diversion structures that store water will no longer be required. Grampians Wimmera Mallee Water is currently involved in a community consultation process to review its bulk water supply reservoirs and in-stream assets. While parts of the agricultural sector see little benefit in maintaining these assets, other sectors of the community see the need for these to remain for environmental reasons.

It is inequitable to expect farmers who are already contributing over \$150 million to the cost of the pipeline to then fund the cost of storing environmental water in assets that are not required under a piped system.

¹¹ Victorian Government, 2008, “Northern Region Sustainable Water Strategy Discussion Paper”, Pg 29

EXISTING ENVIRONMENTAL ENTITLEMENTS IN THE NORTHERN REGION¹²:

River System	Volume of Entitlement (ML)	Comments	Storage Cost per ML	Storage Charge Total
Murray	99,000	Living Murray Bulk Entitlement	\$6.17	\$610,830.00
	27,600	Flora and Fauna Bulk Entitlement	\$6.17	\$170,292.00
	75,000	Part of Barmah-Milleawa Forest Environmental Water Allocation	\$6.17	\$462,750.00
Goulburn	30,000	Goulburn Murray Bulk entitlement (Water Quality)	\$4.92	\$147,600.00
	221,000	Goulburn Murray Bulk Entitlement	\$4.92	1,087,320.00
Campaspe	5000	Campaspe Bulk Entitlement	\$4.92	\$24,600.00
Loddon	2000	Loddon Bulk Entitlement	\$4.92	\$9840.00
TOTAL	459,600 ML			\$2,513,232.00

ADDITIONAL ENVIRONMENTAL ENTITLEMENTS:

A number of other water infrastructure projects are proposing to return water savings to the environment. Some of these include:

Project	Volume of Entitlement ML	Storage Cost per ML	Storage Charge Total
Decommission Lake Mokoan	53,000	\$4.92	\$260,760.00
Shepparton Modernisation	38,000	\$4.92	\$186,960.00
Foodbowl Project	75,000	\$4.92 ¹³	\$369,000.00
		\$6.17	\$462,750.00
Wimmera Mallee Pipeline	80,000	No per ML storage cost available	Unable to calculate storage charge
TOTAL	246,000 ML		\$816,720.00 \$910,470.00

The tables above identify over 700,000 megalitres of water either allocated or earmarked for the environment. This means that farmers are currently meeting the \$2.5 million shortfall for storing water for the environment and similarly face close to \$1 million in future charges for storing additional environmental water.

¹² Victorian Government, 2008, "Northern Region Sustainable Water Strategy Discussion Paper", Pg 30

¹³ It is difficult to determine the exact figure for storing environmental savings made as part of the Foodbowl Project given storage costs for the Murray and Goulburn systems differ.

As highlighted earlier, increased water for the environment benefits the whole community. It remains totally inequitable for farmers to have to fund the costs associated with storing this water. Further, the Victorian Government created an environmental levy in 2004, to meet increased environmental costs and yet the levy has not been used to fund the costs associated with storing environmental water.

WHAT IS THE VICTORIAN ENVIRONMENTAL LEVY?

The Victorian Government in 2004 introduced the *Water Industry (Environmental Contributions) Act*.

Section 194 states that the purpose for the collection of contributions is to:

- a) *promote the sustainable management of water; or*
- b) *address adverse water-related environmental impacts.*
- c)

The “*Securing our Water Future Together White Paper*” states that:

“For an initial period commencing 1 October 2004 and ending 30 June 2008, approximately \$225 million will be raised, with all of this revenue being used to fund water related initiatives that seek to promote the sustainable management of water and to address adverse impacts to the environment associated with its use. This is likely to increase prices by an average of five per cent for urban water customers and two per cent for rural customers¹⁴”

In commenting on the Environmental Levy, the Victorian Government states:

“to apportion the responsibility for the degradation and damage of our natural ecosystems to certain sections of the community would be unjust and inequitable, thus the decision that all water authorities should make a contribution to the costs of repairing and managing our environmental assets¹⁵”.

Schedule 4 of the *Water Industry (Environmental Contributions) Act 2004* sets out the amount required from each water authority each financial year. The Government has collected over \$165 million over the past 3 years, but only spent \$138 million, \$27 remains unaccounted for and clearly could be used on funding the headwork’s charges of environmental water. (For further detail see Appendix A)

WHAT HAPPENS IN OTHER STATES?

In New South Wales, Queensland and South Australia the Government’s fund the cost of storing all environmental water.

¹⁴ Victorian Government, 2004 “*Securing Our Water Future Together White Paper*”, Pg 129

¹⁵ Victorian Government, 2006, Submission to the Productivity Commission – Rural Water Use and the Environment: the Role of Market Mechanisms.

WHAT ABOUT THE FEDERAL GOVERNMENT?

Despite a number of outstanding problems with the Federal Water Plan, one issue the VFF did resolve with the former Howard Government was the payment of headwork's charges for environmental water. The former Water Minister, Malcolm Turnbull confirmed in writing that:

"The Australian Government will pay the standard charges for water entitlements that it holds. Water savings held as entitlements by irrigators or irrigation water providers will also need to pay those charges"

The new Federal Government is yet to confirm if they will honour this commitment.

LET'S USE THE ENVIRONMENTAL LEVY AS IT WAS INTENDED:

This paper has been developed to highlight the inequities associated with farmers having bear the costs associated with storing environmental water.

We believe a solution to this problem is already available but not yet realized. The environmental levy was created to promote the sustainable management of water and address adverse water-related environmental impacts. Given that \$27 million remains unaccounted for, it is very clear there is the potential for Government to fund the headwork's charges of environmental water.

We call on the Victorian Government to acknowledge this inequity and use the environmental levy to fund costs associated with storing environmental water.

APPENDIX A:

Schedule 4 Water Industry (Environmental Contributions) Act 2004:

	AUTHORITY	2004-05	2005-06	2006-07	2007-08
1.	Barwon Region Water Authority	\$2 760 000	\$3 680 000	\$3 680 000	\$3 680 000
2.	Central Gippsland Region Water Authority	\$1 520 000	\$2 030 000	\$2 030 000	\$2 030 000
3.	Central Highlands Region Water Authority	\$1 140 000	\$1 510 000	\$1 510 000	\$1 510 000
4.	City West Water Limited	\$7 660 000	\$10 220 000	\$10 220 000	\$10 220 000
5.	Coliban Region Water Authority	\$1 270 000	\$1 740 000	\$1 740 000	\$1 740 000
6.	East Gippsland Region Water Authority	\$440 000	\$590 000	\$590 000	\$590 000
7.	First Mildura Irrigation Trust		\$100 000	\$100 000	\$100 000
8.	Gippsland and Southern Rural Water Authority		\$210 000	\$210 000	\$210 000
9.	Glenelg Region Water Authority	\$170 000	\$230 000	\$230 000	\$230 000
10.	Goulburn Valley Region Water Authority	\$1 130 000	\$1 500 000	\$1 500 000	\$1 500 000
11.	Goulburn-Murray Rural Water Authority				\$1 240 000
12.	Grampians Wimmera Mallee Water Authority	\$790 000	\$1 240 000	\$1 240 000	\$1 240 000
13.	Lower Murray Urban and Rural Water Authority	\$600 000	\$980 000	\$980 000	\$980 000
14.	Melbourne Water Corporation		\$6000	\$6000	\$6000
15.	North East Region Water Authority	\$890 000	\$1 180 000	\$1 180 000	\$1 180 000
16.	Portland Coast Region Water Authority	\$170 000	\$230 000	\$230 000	\$230 000
17.	South East Water Limited	\$11 340 000	\$15 120 000	\$15 120 000	\$15 120 000
18.	South Gippsland Region Water Authority	\$400 000	\$530 000	\$530 000	\$530 000
19.	South West Water Authority	\$470 000	\$670 000	\$670 000	\$670 000
20.	Western Region Water Authority	\$970 000	\$1 300 000	\$1 300 000	\$1 300 000
21.	Westport Region Water Authority	\$340 000	\$450 000	\$450 000	\$450 000
22.	Yarra Valley Water Limited	\$12 540 000	\$16 720 000	\$16 720 000	\$16 720 000
TOTAL COLLECTED FROM WATER AUTHORITIES:		\$44.6 million	\$60.236 million	\$60.236 million	\$61.476 million
ACTUALLY SPENT (As detailed in DSE's Annual Reports)		\$44.6 million ¹⁶	\$48.562 million ¹⁷	\$44 million ¹⁸	Annual Report not complete

¹⁶ Department of Sustainability and Environment Annual Report 2004-05, Appendix 16, Pg 163

¹⁷ Department of Sustainability and Environment Annual Report 2005-06, Appendix 17, Pg 232

¹⁸ Department of Sustainability and Environment Annual Report 2006-07, Appendix 21, Pg 167

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