

1 June 2011



Ms Julie Dennett
Committee Secretary
Standing Committee On Legal And Constitutional Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Ms Dennett

References Committee Inquiry into the Provisions of the Water Act 2007

The National Farmers' Federation (NFF) have no changes to make to Hansard for the above inquiry hearing held at Parliament House on 18 May 2011.

Further, the NFF took one question on notice (from Senator Xenophon, p. 28-29 of Hansard) in relation to how the Sustainable Diversion Limits (SDLs) might be constructed to take into consideration early adopters of infrastructure (notably, those in South Australia).

During the hearing, the NFF noted that early adopters:

- Can be found across the Murray-Darling Basin; and
- Self-funded early adopters have retained all their water entitlements to increase productivity on farm, i.e. retained 100% of the benefit for the farm business.

Further, the NFF would like to make the following observations:

- All irrigators have a choice about whether or not to participate in government programs – so this is voluntary decision with consideration of all the positive or negative impacts to the farm business.
- Early adopters (and indeed some irrigators today) have used their own capital and in return, have retained all the savings on farm individually to increase production. Some will have associated debt for that investment but this may not apply to all irrigators (or they may have already repaid this debt). The issue of whole farm debt must be carefully considered and particularly what this debt arises from (i.e. drought impacts, carry on finance, the purchase of temporary trade water during drought, purchase of plant or land or other reasons) versus debt directly related to the infrastructure and/or efficiency investment.

- Those participating in State or Federal Government infrastructure or efficiency programs are required to give up some water entitlement in return for the government investment. This group may also have some associated debt (government investment alone does not usually cover the entire cost; also note above comments in relation to whole farm debt).
- Therefore, if the above is considered in relation to how SDLs may impact on individual entitlement holders, there are a couple of options:
 - Where the gap is closed (by Government recovery of water through purchase and or infrastructure investment), there is ought to be no impact on either group of irrigators. It should be noted that there may be other impacts to all entitlement holders arising from the Basin Plan irrespective of the SDL – NFF has not attempted to include any discussion on these policy impacts in this response.
 - Where the gap is not closed, the reliability of individual entitlements will be affected. Therefore, in such a situation, those who kept all their entitlements (self-funded investment) will be better off, particularly for those relying on high security entitlements where their history of use closely matches the full water entitlement held. Those who gave up entitlement may be disadvantaged but this will entirely depend on the efficiency investment put in place and whether this investment allows them to produce more from two cuts in water (i.e. first in relation to water going back to government due to the infrastructure investment and second in relation to reduced reliability from the SDL).
 - It should also be noted that risk assignment may apply (only the Commonwealth and NSW have legislated for risk assignment). Moreover, under the provisions of Sections 76 and 82 of the Water Act 2007, the Commonwealth is required to compensate for any reductions to the reliability of water entitlements (which is different to risk assignment). The Commonwealth investment in water recovery (purchase and efficiency) is the method the Commonwealth has implemented to offset their risk assignment liability – which will be further augmented by \$310M/annum from 2014-15 to purchase additional entitlements (see 2011 Federal Budget risk liability). Given this, it is unlikely that the Commonwealth will expose itself to compensation for risk assignment or reliability impacts.

Yours sincerely

MATT LINNEGAR
Chief Executive Officer