



Submission to the Environment and
Communications Legislation Committee on the
Inquiry into the Water Amendment Bill 2015

By

Victorian Farmers Federation

July 2015

Foreword

The Victorian Farmers Federation (VFF) is Australia's largest state farmer organisation, and the only recognised, consistent voice on issues affecting rural Victoria.

The VFF consists of an elected Board of Directors, a member representative Policy Council to set policy and eight commodity groups representing dairy, grains, livestock, horticulture, chicken meat, pigs, flowers and egg industries.

Farmers are elected by their peers to direct each of the commodity groups and are supported by Melbourne-based staff.

Each VFF member is represented locally by one of the 230 VFF branches across the state and through their commodity representatives at local, district, state and national levels. The VFF also represents farmers' views at many industry and government forums.

Peter Tuohey
President

Victorian Farmers Federation
Farrer House
Level 3, 24 Collins Street
Melbourne 3000
1300 882 833
www.vff.org.au

Executive Summary

The VFF is a key voice for Victorian irrigators and rural communities. The agricultural sector in Victoria contributes 4.9 per cent to gross state product and in 2013-14 it was valued at \$11.8 billion. The food and fibre sector employs 191,700 people in rural and regional communities of Victoria. The majority of our horticulture and dairy industries are located in the southern part of the Murray Darling Basin.

We welcome the opportunity to provide a submission to the Inquiry into the Water Amendment Bill 2015. We have made the following specific recommendations:

Recommendation 1

The VFF supports a legislated cap of 1500GL on water buybacks.

Recommendation 2

The VFF supports the water recovery activities under the Water for Environment Special Account being included in the scope of the 1500GL cap.

Recommendation 3

The VFF supports the operation of the cap as a ceiling, not a target.

Recommendation 4

The VFF seeks further clarification on how much water has already been recovered from water buybacks, according to the criteria in the amendment.

Recommendation 5

The VFF recommends that the Commonwealth undertake some analysis of the impact of buybacks to date.

Recommendation 6

The VFF supports the amendment to enable the funding available under the 450GL to be used for off-farm projects.

Recommendation 7

The VFF recommends that the funding available under the 450GL be apportioned between the States and for each State to control its own share.

Amendment of the Water Act 2007

Support for a legislated 1500GL cap on water buybacks

The VFF has consistently advocated for water to be recovered from modernising delivery systems and improving on-farm efficiency. We also support the building of environmental works to reduce the amount of water needed and to ensure that water recovered for the environment is used as efficiently as possible.

The benefits of investing in infrastructure go far beyond recovering the water. With more efficient delivery systems and on-farm use then farmers need less water to grow the same volume of produce – the food we all eat. The use of pumps and regulators to deliver environmental water will enable the environmental water holders to use less water to meet their objectives. This will be particularly important in dry years when there are low allocations, and will be vital for developing drought resilience in the longer term.

Recovering water through infrastructure investment instead of buybacks also has positive impacts on the supply chain. Where farmers are able to maintain their productivity this helps to protect on-farm employment and jobs in milk factories, wineries, fruit and nut processing plants as well as sustaining jobs in transport and marketing. Keeping jobs in small and medium sized towns is critical to the economic and social survival of regional communities. These long term benefits are also supported by a short term boost to local economies as contractors are employed to construct the infrastructure projects.

The VFF supports the intention of the Commonwealth Government to enshrine the 1500GL cap on water buybacks in legislation. We believe this is an important move to prevent future governments from taking the easy way out by re-entering the market. It will provide a greater level of certainty to farmers and rural communities, enabling them to get on with their businesses and lives.

Recommendation 1

The VFF supports a legislated cap of 1500GL on water buybacks.

Design of the cap legislation

The VFF notes that where the cost of the water access entitlement purchased under the contract is or was debited from the Water for the Environment Special Account (WESA), that this is exempt from the cap on water buybacks.

The Explanatory Memorandum notes that:

Paragraph e) provides that water recovery under the Water for the Environment Special Account is excluded for the purposes of the 1500 gigalitre cap. Additional water recovered under Part 2AA must be recovered in a way that ensures social and economic outcomes for Basin communities are maintained or improved. Under this Part the Commonwealth will not recover this additional water through open market water

purchase. Instead, water access rights may only be obtained in conjunction with projects to improve water use efficiency or alternative arrangements proposed by a Basin State, as set out in section 7.17 of the Basin Plan.

The VFF supports the cap on water buybacks being extended to water recovery activities under the WESA. Whilst the VFF recognises the legislation governing the WESA provides some constraints on how funds can be spent, this hasn't been tested yet. If the WESA legislation is effective and provides sufficient constraints to prevent direct buybacks being undertaken then including it in the cap will have limited impact. However if the WESA legislation is proven to be deficient then including the WESA activities under the cap will provide a greater level of certainty to farmers and regional communities. Excluding the WESA from the buyback cap, as currently proposed, potentially leaves open a door back to buybacks.

Recommendation 2

The VFF supports the water recovery activities under the Water for Environment Special Account being included in the scope of the 1500GL cap.

Operation of the cap legislation

The VFF does not want to see the 1500GL cap on water buybacks being used as a target to be achieved. Our view is that the cap is a ceiling and as such direct water buybacks should only be undertaken as a last resort and in circumstances where other water recovery options have been tried and proved unviable.

We support investment in infrastructure to recover water for the environment (efficiency measures) and to use water for the environment more efficiently (supply measures).

Recommendation 3

The VFF supports the operation of the cap as a ceiling, not a target.

Reporting on buybacks to date

The VFF notes that the 1,500GL cap on water purchase contracts is to apply from the 2 February 2008. The VFF would also like to understand how much water the Commonwealth Government has bought back using the criteria in the proposed amendment. Progress on water recovery is reported on the Commonwealth Department of Environment's web-site, however it is not clear whether or how this aligns with the proposed legislation.

Recommendation 4

The VFF seeks further clarification on how much water has already been recovered from water buybacks, according to the criteria in the amendment.

Impact of buybacks to date

Providing a cap on future water buybacks is one means of providing some more certainty for farmers. However we cannot lose sight of the impact that previous buybacks have had on farmers. The VFF believes there is a need to further understand the consequences of these early direct water recovery efforts.

In the Southern Basin we have been somewhat insulated from the impacts in recent years because of decent rainfall and in-flows. This has suppressed the demand for irrigation water and enabled irrigators to build up their allocations for future years through carryover.

However the failure of the spring break last year meant that irrigators started using allocations earlier than normal and ate into their carryover to complete crops. In this situation the price of temporary water in the 2014-15 season climbed steeply and remained high.

The dry outlook for the 2015-16 season has resulted in forecast opening allocations of 50% and below. The reduction in carryover from last year and the dry outlook are likely to combine to make this a season a real test of the impact of water recovery. A key indicator will be the price of temporary water as this will immediately reflect the impact of reduced allocations and reduced water availability.

The VFF is concerned that the Commonwealth Government has lost sight of these broader economic and social outcomes in the rush to recover water at the lowest possible cost. The Commonwealth needs to pay attention to these signs and more seriously consider the broader socio-economic impacts from the policy decisions and actions already taken. Any further water recovery will now be undertaken in a changed context and the effects will be compounded. Thus it is even more important to understand the existing level of impact so that future decisions can be more fully informed.

Recommendation 5

The VFF recommends that the Commonwealth undertake some analysis of the impact of buybacks to date.

Amendment of the Basin Plan 2012

Including off-farm in efficiency measures

The VFF notes that the amendment to enable participation of consumptive water users in projects that recover water through works to improve water use efficiency off-farm will provide for a greater level of flexibility in recovering the additional 450GL from efficiency measures.

However the VFF is concerned about how this impacts on the on-farm programs. Discussions about the design of on-farm efficiency measures program so far have centred on the Commonwealth Government recovering 100% of the water savings. The VFF believes this is unacceptable.

Firstly it assumes that the calculations of water savings will be accurate. This assumption potentially leaves farmers exposed in an environment where the availability of water is limited and the cost is continually increasing. Seeking to recover 100% of water savings from farmers participating in the on-farm efficiency program puts them in a very risky position. If 100% of water savings are sought and the new infrastructure does not deliver the expected level of efficiency then the farmers will be worse-off. Whilst this proposed program design may meet the technical wording of the evidence – “the participation of consumptive water users in projects that recover water through works to improve irrigation water use efficiency on their farms”(s7.17 Basin Plan), the VFF does not believe it respects the intention of neutral or improved socio-economic outcomes.

The VFF believes this design is missing a substantial opportunity to improve irrigation efficiency. For many farmers and their irrigation districts the water recovery program is a catalyst to examine their water use and change their technology and practices. Seeking to recover the water at the lowest possible cost is missing the opportunity to engage with the wider benefits of improving irrigation efficiency for the future. Demand is likely to be further suppressed amongst farmers who have seen previous programs which offer a proportion of water savings back to the irrigators.

The VFF is worried that if the on-farm program is not designed to be attractive to farmers then with this amendment there is potential for the Commonwealth Government to shift efforts towards off-farm projects, and beyond this to direct buybacks – as the funding under the Water for the Environment Special Account (WESA) is specifically excluded from the water buybacks cap. It is unclear how effectively the WESA legislation would be able to prevent direct buybacks. The push to recover water quickly and cheaply when the socio-economic impacts are not yet well understood and the environmental benefits have not yet been proven is a recipe for poor outcomes which irrigators and regional communities will be living with well into the future.

The VFF is also concerned that the test for neutral or improved socio-economic outcomes is not sufficient. The participation of an individual in a project to recover water through works does not take account of the collective impact of these decisions. The collective impact of individual decisions may result in the closure of a milk factory or a fruit processing plant. The closure of such a business in a regional town will mean the loss of local jobs and will have wide negative impact down the supply chain. These downstream impacts will be felt further into the future, after the water recovery processes have been and gone.

For these reasons the VFF would like the funding available under the 450GL to be apportioned between the States and for each State to make its own decisions about how to spend the funds and to design projects which will support the future of agriculture and regional economies.

In Victoria there is still plenty of demand for on-farm efficiency projects. Eligibility for the current on-farm efficiency program is restricted to farmers who already have a connection to the modernised backbone through the Connections Project. However as that program is not scheduled to be completed until 2018 there are plenty of farmers who have not yet been able to express an interest in this program. In States where there is limited demand for on-farm efficiency programs then these States can more effectively use the funds for off-farm efficiency projects.

Recommendation 6

The VFF supports the amendment to enable the funding available under the 450GL to be used for off-farm projects.

Recommendation 7

The VFF recommends that the funding available under the 450GL be apportioned between the States and for each State to control its own share.