National Irrigators' Council

Submission to Productivity Commission National Water Reform Inquiry

Removing productivity barriers towards building a sustainable irrigated agriculture sector

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Contents

The National Irrigators' Council (NIC) is the national peak body representing irrigators in Australia. The Council supports twenty-nine (29) member organisations covering the Murray Darling Basin states, irrigation regions and the major agricultural commodity groups. Council members collectively hold approximately 7,000,000 mega litres of water entitlements.

The Council represents the voice of those involved in irrigated agriculture who produce food and fibre for Australia and significant export income. The total gross value of irrigated agricultural production in Australia in 2014-15 was over $15 billion (ABS). The sector produces essential food such as milk, fruit, vegetables, rice, grains, sugar, nuts, meat and other commodities such as cotton and wine.

The Council aims to develop projects and policies to ensure the efficiency, viability and sustainability of Australian irrigated agriculture and the security and reliability of water entitlements. The NIC advocates to governments, statutory authorities and other relevant organisations for their adoption.

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Executive Summary

Irrigated agriculture is a vital contributor to providing the food and fibre enjoyed by Australians and makes a critical contribution to earning current and future export income for our Nation. Australia's irrigators are among the most efficient in the world, with efficiency driven by industry innovation and investment assisted in part by Government programs.

It is an industry which is committed to being efficient productive and to achieving healthy rivers and environment. This submission deals in some detail with a number of aspects of the implementation of the National Water Initiative over many years. It also refers to issues in the Murray Darling Basin Plan though we acknowledge that the Productivity Commission will be looking in more detail at the implementation of the plan next year. In summary, some of the key issues raised in this submission include:

- Irrigators' commitment to a genuine triple bottom line outcome from water reform;
- Irrigators continuing advocacy for achieving environmental outcomes not just the ticking off flow targets. Including the need for complementary measures to improve the health of our river systems;
- Change fatigue experienced by irrigators and irrigation communities;
- The need for bulk water pricing policies to adequately and transparently account for Community Service Obligations to ensure that Irrigators are not paying for expenses that are more appropriately borne by the community as a whole;
- Water property rights and the need to ensure they are not diminished by planning processes and that the allocation of risk is appropriately spread;
- The need to avoid duplication in planning processes;
- Reducing red tape in reporting and monitoring;
- Improving the timeliness and transparency of water market information;
- Opposition to water buyback and the need to ensure that any analysis of "least cost" includes full assessment of community impact and benefit rather than simple dollar cost;
- The reasons member owned Irrigation Infrastructure Operators (IIOs) should be more lightly regulated than Government owned operators;
- The need for less regulation in the charging rules applied to IIOs.

Introduction

National Irrigators' Council (NIC) appreciates the opportunity to provide this submission to the Productivity Commission inquiry into Australia's water resources sector. While this submission will seek to address the raft of matters raised in the Issues paper, NIC will also seek to highlight, on behalf of our members, the irrigated agriculture sector and dependent communities, the impact of water reforms in recent years.

It is not an overstatement to suggest that our members and the sector more broadly is suffering from reform fatigue.

It is hoped that through this inquiry Commissioners will appreciate the role of the irrigated agriculture sector in the life of Australia's rural communities, and the contribution it makes to the fortunes of those communities and the Australian population more broadly, in food and fibre production.

Irrigated agriculture stakeholders believe that they and their communities have borne the brunt of many years of change and reform, while their contribution to Australia's economy and their participation, in good faith, as part of the reform process, has often gone unrecognised by decision makers and the wider population. These issues are compounded by remaining concerns regarding the lack of evidence in relation to the benefits of environmental flows and evidence that floodplain ecosystem health is impacted by more factors than water flow and volumes.[1].

Much of the reform has been inside the Murray Darling Basin. It is a concern however, that reforms that have been undertaken have not been properly evaluated. While the 2004 National Water Initiative (NWI) and the Water Act 2007 were designed to provide for improved alignment of policy frameworks between the Commonwealth and states and territories, this is not occurring in practice.

The examination of the reforms that have occurred in Australia's water resources sector should not be considered in isolation from Australia's capacity to remain competitive. The recent Productivity Commission inquiry report into the Regulation of Australian Agriculture observed that *'frequent changes to water regulations also created uncertainty for farmers and can undermine the confidence of farm businesses to innovate and invest'.*

The report details the experience of one farmer dealing with the myriad of regulatory agencies and local councils to achieve environmental outcomes on his property. With each agency focused on their respective responsibilities and apparent inability of agencies to work together, *it took six weeks for the farmer to negotiate (with multiple agencies) at considerable cost before permission was granted to supply water for this ecological application.* As timing was critical, the result was that the lengthy delays reduced the effectiveness of the water flow and prevented the farmer from achieving in full the desired outcome.

It is hoped the Commission will recognise the negative social and economic impacts of further removal of water from productive use for entire communities and for the nation overall. Outcomes of water reform must be balanced; they must consider the needs of people, communities and food and fibre production in parallel with the environment.

The total gross value of irrigated agricultural production in Australia in 2014-15 was over $15 billion, rising by 3%, or $509 million on the previous year. Irrigated agriculture plays a vital role in producing the food and fibre consumed by all Australians, as well as providing jobs and export income for the

[1] Ecology Management (2003) The Science behind the Living Murray Initiative.

nation. It contributes to the living standards of every Australian, regardless of where they live, and supports the social and economic wellbeing of irrigated agriculture dependent communities, with flow on effects in jobs and downstream processing industries, with goods such as milk, fruit, vegetables, rice, grains, sugar, nuts, meat and other commodities like cotton and wine.

Water is the lifeblood of many rural communities. Water provides direct employment on farms in irrigated agriculture and horticulture industries and brings prosperity to communities. It enables communities to be self-sustaining, with flourishing processing industries, bringing significant benefit to local businesses, education and health services.

It is worth noting that water entitlements are often one of the most valuable assets an irrigator owns and often the foundation of their superannuation arrangements.

Australian irrigators have undertaken substantial efficiency improvements, both government and self-funded. They have embraced research and development and taken advantage of technological change and broadened their knowledge to improve their bottom line, while at the same time increasing their water use efficiency. It could be argued that the sector is now viewed as a 'world's best practice' model producing more food and fibre, more efficiently.

Australian farmers continue to be innovators; they have looked for solutions when faced with tough climatic conditions.

Irrigators are no exception and over recent decades have overcome sometimes inefficient historical designs of irrigation districts to become more efficient. It could also be argued that initiatives associated with water reform have underpinned the sector's capacity to undertake water use efficiency measures and to work smarter.

Government investment in infrastructure projects can enable system improvements and on-farm schemes can be positive when water savings are retained on farm and contribute directly to employment in the sector. Water left in production also enhances opportunities for the development and expansion of local industries, providing the social and economic underpinnings of irrigated agriculture communities.

NIC advocates a 'triple bottom line' approach to the reform undertaken in the Murray Darling, and we argue that success is reflected in outcomes, not simply achieving gigalitre (GL) targets embedded in a model. At the inception of the Basin Plan, NIC argued that the strategy in the Murray Darling Basin of just adding water was flawed, and that it would have major impacts on producers and communities and fail to produce desired environmental outcomes.

It would similarly be a flawed approach to continue to allocate funds to purchase water as opposed to a genuine examination of the value of complementary measures. NIC has advocated for greater effort to be directed to this task, to consider the development of a suite of non-flow, or complementary, measures. This approach was also proposed by the Northern Basin Advisory Committee (NBAC) as part of the Northern Basin Review. At their recent meeting in March, Basin Ministers reiterated their earlier request for officials to consider opportunities for a wider range of complementary projects to provide 'triple bottom line' benefits under the Basin Plan. These include:

- carp control through the release of the Carp Herpes virus
- appropriate management of cold water pollution
- improvement of fish migration through fish-ways
- restoration of native fish habitat

- feral animal and weed control in wetlands and riparian areas
- increased ability for Commonwealth Environmental Water Holder (CEWH) to trade water.

The opportunity exists to continue to progress a range of efficiency gains, for example, within the Sustainable Diversion Limit (SDL) adjustment mechanism in the Murray Darling Basin, and in other areas consistent with the National Water Initiative (NWI) policy framework.

In keeping with the promise of 'localism' and 'adaptive management', local knowledge and input must be reflected and incorporated into Government decisions. Irrigators have long supported healthy working rivers and river systems; it is in their interests to do so and the interests of the irrigation dependent communities in which they reside. However, NIC challenges the theory of 'just add water' as the solution to a complex structure of environmental challenges in the Basin.

It is in Australia's national interest to ensure a policy focus that underpins our capacity to produce more food and fibre through irrigated agriculture. That means within the Murray Darling Basin with its existing highly efficient and environmentally sustainable irrigation schemes and in other parts of Australia through expansion and new development.

This inquiry has the opportunity to reinforce the importance of the irrigation industry to the nation and to highlight the very significant reform that has been occurring under the umbrella of the National Water Initiative and the Murray Darling Basin Plan – but it also needs to highlight that there is a limit to how much reform any industry/sector/community can cope with and the irrigation industry and basin communities now need some space in which to take 'stock'.

In doing so it can support Australia to fulfil its potential as the 'food bowl' for the region.

The Australian Government has recognised the importance of food and fibre production for Australia's future with its strong focus on bilateral and multilateral trade agreements, with each placing export of food and fibre at the forefront.

The 2012 Australia in the Asian Century white paper noted the real value of global food demand is expected to rise by around 35 per cent by 2025 from 2007 levels, with most demand coming from Asia. China and India alone could account for almost 60 per cent of the global increase. [2] The white paper related studies and the subsequent work by the Government highlight that key among the potential areas for growth are exports of fruit and vegetables and dairy, two key irrigated products.

Food and agribusiness has been consistently touted by Government as one of the key super growth areas for Australia's future. That is reflected in the fact that it is one of the few industries to have its own Industry Growth centre program. This is not simply about growing food and fibre, the industry (particularly the irrigated industry) is also about manufacturing, with the strong potential to be a growth driver for manufacturing jobs.

As Australia's population continues to grow, so will the demand for Australian irrigated agricultural product. The Australian Food and Agribusiness Growth Centre quotes figures for the food and agribusiness sector overall showing that:

- Total sales and services income of $164 billion (equivalent to 5.9 per cent of all Australian industries in 2013-14)
- Industry gross value added in 2014-15 (or 3.5 per cent of the total of all industries)

[2] *http://pandora.nla.gov.au/pan/133850/20130914-0122/asiancentury.dpmc.gov.au/sites/default/files/white-paper/case-study.pdf P.214).*

- Exports of $40.8 billion representing 16.3 per cent of all Australian exports in 2014-15 [3]

ABS statistics indicate that irrigated agriculture is already worth $15 billion to the Australian economy. As Australia drives toward producing more to meet that massive growth in Asian demand for fresh 'clean green' food, it will need to produce more per hectare and that will often mean irrigating crops.

Without a healthy, efficient and, importantly, growing irrigated agricultural sector, Australia will not reach its potential to meet that increased demand and thereby, generate jobs and higher living standards for Australians.

The irrigation sector recognises, and indeed has been a driver of, the importance of achieving greater productivity using far less water.

[3] https://fial.com.au/system/files/knowledge_repository/FIAL-AnnualReport-2016-Public.pdf

Background

Recognition of the need to improve the coordination of water management and water use efficiency in Australia is broadly embedded in many of the significant policy frameworks over recent decades.

Historically, the collaboration between the Australian Government and the states and territories under the National Water Initiative (NWI), signed in 2004, recognised the need to support healthy working rivers and groundwater systems. It also recognised the need for investment to maximise the economic, social and environmental value of Australia's water resources. The agreement achieved under the NWI was considered to be a significant step in the progress towards Commonwealth, state and territories coming together under water reform.

The NWI agreement, which followed the 1994 Council of Australian Governments (COAG) framework for water reform, was recognised to be a more specific and comprehensive step than previous attempts at establishing a national water framework. It involved reforms such as improved water planning, water trading and water accounting. Jurisdictions have progressed reforms, including management of environmental water.

NWI principles have resulted in an entitlements framework that supports entitlements holder's property rights; it has also supported the development of both an annual and permanent water market. NWI principles were to give confidence to irrigation dependent communities, to economic development and to the environment. The objective was to '*achieve a national compatible market, regulatory and planning based system of managing surface and groundwater resources for rural and urban use that* ***optimises economic, social and environmental outcomes'.***

It is questionable however whether these principles have been embedded into the Water Act 2007, where social and economic considerations have been largely overridden by the demands of meeting environmental expectations. NIC views this as a downside to the credibility to the NWI and at the time, raised the question of the efficacy of the NWI when it was clear that a further legislated framework in the Water Act 2007, appeared to ignore the NWI's central premise.

Through various water reform processes, the Commonwealth now holds vast quantities of water for environmental use and has the associated responsibility to deliver and monitor that water, and the outcomes over time.

Since the commencement of the Basin Plan, NIC has argued for a balance between social, environmental and economic outcomes to ensure the Plan is fair and workable. Without this objective, communities will continue to face the consequences of an unsatisfactory Plan. Our commitment remains to genuine reform, but not at the expense of a viable, productive irrigated agriculture sector in Australia.

The trajectory of reform under the Basin Plan has traditionally been heavily biased towards water as the only environmental management solution to address environmental decline in our river systems. The Basin Plan was designed to deliver long-term sustainability of agriculture and the environment, yet delivering just volume of water is taking precedence over the welfare of people, communities, food and fibre production, and often overall actual environmental outcomes.

Key benefits of water sector reform to date

Data and information sources that might be useful for assessing progress

The Aither report for the NSW Department of Primary Industries on Water Markets in NSW provides useful retrospective information on water markets in NSW. [4]

The various ACCC water monitoring reports.

Areas where NWI reforms are stalled or delayed and consequences of that (for example, have there been costs incurred due to these delays?)
Other unfinished business of the NWI

Generally, the objectives of the NWI remain relevant and can be completed in a streamlined way if more recent reforms under the Basin Plan implementation are better aligned so as not to impose additional regulatory and cost burdens on the irrigated agriculture sector.

NIC does believe further work is needed to achieve fair accounting for Community Service Obligations (CSO) as a part of the NWI objective of "improve pricing for water storage and delivery". User pays and cost recovery objectives of pricing policies are generally understood and acknowledged however NIC's members would contend that they are being asked to pay costs for delivery of CSOs which should more properly borne by the relevant Government.

This is particularly relevant for the current NSW Independent Pricing and Regulatory Tribunal determination for WaterNSW bulk water charges.

The principle behind NWIs pricing was that the beneficiary paid. NIC does not believe there is full and transparent accounting of costs passed on for storage and delivery of environmental water or water for other purposes and these costs are being subsidised by irrigators. In NSW, the regulator has adopted an impactor pays approach, consequently in NSW there are examples of beneficiaries (recreation, tourism) of the regulated river system which do not contribute to the cost of its operation.

This is a key issue for pricing. Over the past decade, a number of infrastructure projects have been undertaken to make the system more efficient, to save water or to improve the environment. It is likely that in the MDB the SDL offset measures will result in a range of additional new pieces of infrastructure.

Each of these new assets comes with a long-term cost for maintenance and these costs must be properly allocated. It is not appropriate to ascribe the full ongoing cost for infrastructure designed to produce an environmental benefit (ie a benefit for the whole Australian community) solely to irrigators in the particular valley it is located in. Currently this is already the case in NSW where irrigators in the Murray and Murrumbidgee valley are contributing to the Living Murray Program works and measures. [5]

This will be an issue that is particularly important for Murray water users. Infrastructure costs in the Murray are already very high and there is likely to be more infrastructure put in place as the implementation of the Basin Plan continues. An example is the proposed pipeline to Broken Hill,

[4] Aither 2017 Water Markets in NSW, Improving understanding of market fundamental, development and current status.
[5] Aither (2016) MDBA expenditure review, A review of MDBA expenditure and cost sharing in NSW.

possibly a project with huge benefits to the environment, and the ability to meet the Basin Plan goals, however also an asset with a significant maintenance cost.

There must in the long term be much more transparent information about the allocation of costs of maintenance and who is expected to bear that cost. Irrigators should not be expected to pay costs for infrastructure operation and maintenance that actually benefit the Australian community as a whole.

Water resource management

What further actions are needed to achieve clear and secure property rights?

The property right established is inclusive of the water entitlement and the water sharing arrangements established by the planning framework, for example, Water Resource Plans and Water Sharing Plans. It is essential irrigators' property rights are not adjusted through this planning process without compensation. Changing planning assumptions or introducing new risks are ways property rights could be affected by these processes.

What steps have been taken – or should be taken – to:

- *Unbundle entitlements in unregulated surface water and groundwater systems?*
- *Incorporate all water uses (for example, the mining industry) within the one planning framework?*

Some groundwater licences that are connected to unregulated streams are designated as unregulated groundwater licences. There should be no steps taken to unbundle entitlements in unregulated surface water and groundwater systems. They are a connected resource and it is difficult without monitoring systems in place to decouple these licences. In the past along the major river systems there were conjunctive licences of groundwater/river water and these were unbundled but this is because the monitoring network was in place.

Water planning

What are the key areas of water planning where further progress is required to achieve the objectives and outcomes of the NWI?

- *Is there scope to streamline water planning processes to reduce unnecessary costs on planners and participants?*
- *Are processes for reviewing water plans sufficiently robust, transparent, open, and timely?*
- *Is there scope to improve how water plans deal with long-term shifts in climate affecting resource availability? Are there recent examples of leading practice?*

The principle applying to administration of water planning should be to avoid duplication and make it as simple and streamlined as possible. State Governments have responsibility for water planning and that should not be duplicated Federally. If possible, in each state, only one agency should be involved. NIC acknowledges that water planning is inherently complex. The experience of Water Sharing Planning and now Water Resource planning shows that, and we accept the need for comprehensive consultation as a part of the difficult task of meeting all objectives, however it should not involve multiple state departments and the work should not be repeated at a Federal level.

Reporting is another area where there has been duplication and excessive administrative burden placed on Irrigation Infrastructure Operators (IIOs) in particular.

There needs to be a genuine effort to reduce the overlapping and frequency of reporting to agencies like the BoM, the ACCC, the Australian Bureau of Statistics (ABS) and state agencies that occurs within existing arrangements. With intimate working knowledge of water reporting requirements, our members have called for practical changes to enable a reduction in these requirements and reduced related costs for irrigation businesses.

We have advocated a more streamlined process between relevant agencies, to avoid overlap and unnecessary duplication, in an attempt to facilitate water agencies sharing information provided by irrigation infrastructure operators

Compliance by NIC members in the provision of a large amount of data had previously resulted in little or no reciprocal benefit for them. As small businesses, our members operate on fine margins with small staff teams to undertake these reporting obligations. In some circumstances IIOs have been required to employ additional staff specifically dedicated to meet reporting obligations. It was concerning that the agencies to whom our members report, were not themselves aware of the array of reporting requirements, for example, who reports what information to which agency, how data is collected and for what purpose.

NIC welcomed the recommendation of the Expert Panel as part of the 2014 review of the Water Act 2007, to establish an Interagency Working Group led by the Bureau of Meteorology to report to the Government on:

(a) current water information reporting requirements under the Act and associated regulatory burdens for data providers, including an estimate of current costs
(b) the benefits of the suite of information products with reference to associated costs borne by data providers
(c) options to reduce the regulatory burden imposed on data providers in the order of 20 per cent or more compared to current regulatory burdens.

NIC's IIO sub-committee spent time with the Working Group and provided a significant amount of information regarding where duplication of reporting was occurring, particularly to more than one Commonwealth agency, and examples of unreasonable reporting requirements. Through this process, it was difficult to secure from the Working Group a comprehensive list of reporting requirements, the legislative instruments under which data is collected and detailing clearly for what purpose.

In 2016, the Government accepted the recommendations and actions of the Working Group, embedded in a report titled *Providing Water Information to the Commonwealth,* which broadly reflected objectives to:

- remove duplication in requests
- sharing of information between agencies on water access entitlements, and
- better alignment of requirements between the ABS and the BoM to prevent overlapping between surveys and the BoM National Water Account, the latter involving adjustment to definitions or aggregations of information.

NIC will continue to monitor progress on actions and recommendations from the interagency report.

In response to the question on climate change NIC would point out that while the impact of climate change is reasonably well understood at global and national level, at a local or catchment level the impacts are too poorly defined or understood to incorporate into specific local planning. That is

certainly not to suggest that irrigators are not willing to recognise that climate change will result in impacts, however the local impact is not clear.

It must be clear that the risk of climate change is shared by all those impacted and not borne only by the agricultural sector. Irrigators, in many systems already bear this risk through the annual allocation process.

In this context, we reiterate NIC's key principles that water property rights must be protected, characteristics of water entitlements should not be altered by ownership and there should be no negative third party impacts on reliability or availability through the water planning process.

The irrigated agriculture sector would argue that any imposition of policy and/or regulation in response to climate change which affects resource availability, should be shared by the whole community and not borne by the sector alone.

Investment in infrastructure has underpinned growth in the irrigated agriculture sector, and has also enabled mitigation measures both during times of major flooding, and during prolonged dry times.

Irrigators along with most farmers understand the dangers of less reliable rainfall and more storm events – perhaps more than many other sectors. These climate change impacts will affect agricultural productivity and it is important to keep in mind that one way of partially mitigating the impact on agricultural production is through efficient water storage and irrigation.

Are current water entitlement and planning frameworks conducive to investor confidence, facilitating investment in major new infrastructure (such as in northern Australia), while managing risks to the supply security of existing water users?

The Entitlement framework forms the basis for water products across Australia and defines the security and reliability of those products through the management and operation of the various river systems and the allocation processes used by the various jurisdictions.

The MDBA definition for the Entitlement Framework can be applied regardless of whether entitlements are held within the Murray-Darling Basin or in other areas of Australia.

> '*The way storages and rivers are operated and managed, and the rights entitlement holders have to order water from storage when they want it, affect the utility of the entitlements.'*

NIC members agreed to a set of principles in 2014 in relation to any proposed changes to entitlement framework, and focused on:

- The need to engage the irrigated agriculture sector, at the earliest opportunity, to discuss any proposed changes to the entitlement framework and assist to identify the real impact on consumptive water users – not only the modelled impacts.
- Recognition that changes to the entitlement framework may be mutually beneficial, provided rules are applied consistently across all owners.
- Any proposed changes to the entitlement framework will be assessed against NIC principles.
- It will be unacceptable for the MDBA to propose changing characteristics of certain entitlements without first undertaking a full analysis of how entitlements can best be used under all current operational conditions, including carryover and spill rules.
- The Commonwealth and related agencies must not assume State authorities have undertaken consultation:

NIC will act as a conduit to ensure the relevant irrigation stakeholders are consulted and provided every opportunity to be engaged in changes that may have a local impact.

- The benefits cited for proposed changes must be derived by robust examination of all relevant factors/evidence.
- Before any change is proposed to improve the delivery of environmental water, there must be proper examination of whether current arrangements are being fully utilised.
- Any changes must be agreed by all affected parties before implementation.

Beyond these issues, NIC sees an ongoing role for Government to continue to be involved with industry in investment. We acknowledge current programs in this area including the work under public/private investment, as part of the effort to grow Tasmania's irrigation areas along with investment in Northern Australia. Future programs should consider capital funding for new infrastructure along with investment in existing irrigation districts on and off farm.

Investor confidence in agriculture is underpinned by many factors, including stability in Government and industry policy frameworks, providing capacity for an industry to be competitive as well as issues of trade access. We note here one of the paradoxes of the drive to more efficient water use has often resulted in greater use of power. The unsustainable cost of electricity against the backdrop of a dysfunctional energy market, is undermining the sustainability and viability of many irrigation operations.

It could be argued that NWI reforms particularly water market reforms, have enabled a level of stability, certainty and opportunity for investment in the agriculture sector. NIC would however suggest that continued change, lack of effort to remove duplication, and additional levels of bureaucratic red tape, undermine investor confidence.

It is hoped that the lessons from NWI and the Basin Plan will inform progress on development in Northern Australia and other potentially suitable regions to grow irrigated agriculture. Increasing agricultural production (and productivity) will enable Australia to meet the very real potential for massive growth in export income from Australian food and fibre. Irrigated agriculture has the capacity to meet that potential with product grown in existing irrigation areas and in new areas.

Much of the public and Government focus on efficiency has been dominated by the Murray Darling Basin over the last decade. It is important, however, to recognise that outside the Basin, and within following implementation of the Basin Plan, there will continue to be a long-term benefit for productivity and communities of investment in infrastructure which would in turn assist the irrigation sector to stay as a world's best practice industry.

There is a legitimate and ongoing role for Government in investing in irrigation infrastructure, in partnership with irrigators. Well directed investment in irrigation programs will produce a broader social benefit in the areas of: increasing food production, export income and flow on jobs for the community; and helping to drive regional development.

How can the interests and needs of Indigenous people be better accommodated and represented in water planning processes?

NIC supports the use, access and management of both planned and held environmental water entitlements by Indigenous groups in a way that is consistent with, and complementary to, environmental needs.

Any move to create special purpose water entitlement for Indigenous groups must not violate the existing principles, which include:

- The protection or enhancement of water property rights, and no change in the characteristics of water entitlements
- No negative third party impacts on reliability or availability.

Indigenous aspiration around water for economic purposes should be separated from the Basin Plan and considered as part of any wider measures for the purpose of Indigenous economic growth via market mechanisms.

What steps have been taken — or should be taken — to integrate water quality objectives into water planning arrangements?

Water planning must be about quality as well as quantity. Irrigators want healthy river systems and healthy ecosystems and one of our key complaints about the approach taken in much of the debate up until now is that it is been focused only on quantity of water and not environmental or quality outcomes.

Our submission elaborates on this later, however in brief this is exactly why the NIC so strongly advocates so called 'complementary measures'. For example, eliminating cold water pollution, or managing flows to avoid black water events etc. The point being, water quality objectives are a lot more than just flow and they must be considered in water planning.

Water trading

To what extent has the NWI goal of open water trading markets been achieved?

It is probably fair to say that the goal of creating an open water market in those areas where water trading can occur has been reasonably successful. It was designed to create a nationally compatible water market, through planning and entitlements, regulation, pricing and market regulatory reforms.

Naturally with any significant change there will be divergent views and within the irrigation sector there have obviously been winners and losers. It is certainly undeniable though that creating a market for water has been a key part of driving efficiency in water use, it has enabled quite rapid change in water use (i.e. what it is used on) and there is evidence from some reports that it has saved some producers in dry periods.

On the flip side, it has seen entitlement sold in some areas with previously irrigated properties returning to dry land farming and may have contributed to the reduced viability of irrigation systems overall.

On the whole though it would be reasonable to say that the market is achieving its goals. There is room to improve on the market information because while there is a plethora of Government and private providers offering water market information, the quality of that information is variable.

The ACCC Water Monitoring Report 2012-13 released in May 2014 noted: *'Australian water markets are considered to be the most advanced in the world. Twenty years of reform have established clear water rights and reduced barriers to water trading'.*

While NIC would not disagree with the ACCC's findings, recent changes have increased reporting obligations yet it could be argued, they have not always delivered improved outcomes for the market. Opportunities exist to further develop water markets, supported by the use of technology.

Additional layers of reform can have the effect of imposing increased reporting burdens, particularly on IIOs. The Water Trade Rules imposed by Chapter 12 of the Basin Plan, which came into effect on 1 July 2014, have increased the obligations on IIOs beyond the requirements of the Water Act where much of the information sought is not being utilised and the value of its collection is therefore questioned.

Are there worthwhile opportunities to expand trade to new regions and water resources?
NIC notes that expansion of water trading is not without costs, in some cases aspirations for water trading expansion so for example in unregulated systems are not practical because of the absence of metering, variable nature of flows and small volumes of water.

Are there restrictions on trading water that are unwarranted and should be removed or revised?
There appears to be an issue with the ML water usage fee charged by WaterNSW on trades onto a water access licence (WAL) without a works approval. The fee of $7.5 can potentially be charged on the same ML of water twice. This can have a significant impact, for example, on the carryover rental market. A fairer and more efficient approach would be if the usage charge was only raised on ordering or transfer interstate.

Are there actions that governments should take to reduce costs and delays of trading water, including for inter-region and interstate trade?
The continued development and adoption of improved technology and electronic processing and on-price disclosure will improve both annual water markets but also entitlement trading.

While water brokers add considerable cost to transactions and are able to take advantage of the current translucent nature of water markets, they are however necessary under the current structure for a number of reasons:

- Brokers are the gatekeepers to other market participants. That is, there is no centralised point to transact.
- It is impossible to get trade data which clearly reveals historical market prices because:
    - There is a considerable lag between contract date (which is not captured) and registration date. To make matters worse the lag is not uniform in any way (two trades next to each other on a register could have been contracted months apart). Therefore, brokers can use their trade flow to be more informed than other market participants.
    - The length of the process is also a barrier to trade. Most market participants do not have the time to shepherd through a Water Entitlement trade and defer to brokers. Despite Water Entitlements currently being held on state registers, trade could potentially be effected by a system like Clearing House Electronic Sub-register System (CHESS) which is used by the Australian Stock Exchange. The development and management of such a system within a clearinghouse function would serve to remove brokers' gatekeeper status, while opening a new role for brokers to act as advisors/agents on behalf of clients at a fraction of the cost. In many ways brokers already perform this role in the Water Allocation market through the broker API (application programming interface) portal acting on behalf of clients.
- It is impossible to see the bid offer spread for specific assets.

In summary, the current drawn out Water Entitlement trading process creates the need for expensive brokers with better information than market participants and potentially perverse incentives. Centralised trading with a more reasonable lag (and or contract date captured) would transform the quality of information available to market participants. More transparent markets would create competition among brokers and force brokerage costs down. Additionally, such a system would enable the removal or restructuring of water authority transaction costs. As this would make much of the Water Authorities workforce redundant, there is a natural barrier to progress without external intervention.

How can water market information be made more timely, reliable and accessible in a cost-effective way?

As part of the 2014 review of the Water Act 2007, the Expert Panel recommended that Part 5 of the Act, *'Murray-Darling Basin Water Rights Information Service'* be repealed. The Government agreed with the recommendation, noting that the service had not been established and there appeared to be little call for such a service. NIC agreed with the Expert Panel's decision, notwithstanding the push by some in the industry for greater transparency within water markets and access to real time information. It should be noted that the Government spent $56 million to develop the proposed Water Information Service; the project ran over time and over budget, and was scrapped as part of the 2014 federal budget.

Other Commonwealth funded initiatives are providing information to support effective and efficient markets, including:

- The MDBA Water Markets Product Information website, which sets out information about different types of water access rights across the Basin; and
- The Bureau of Meteorology's (BoM) weekly water market reports, which report on volumes and prices for trades of water allocations and entitlements on issue across Australia.

Prime responsibility for water access rights information, including responsibility for maintaining up to date information, continues to lie with Basin States. If Basin states invested in improvements, processes and transparency would improve automatically.

Each Basin State maintains registers under relevant state water management legislation. Other registers are operated by infrastructure operators. Initiatives by the Commonwealth are also contributing to the availability of water rights information, including:

- The Basin Plan water trading rules – these require certain information to be made publicly available in a central location (via the Authority) to facilitate the operation of efficient water markets and opportunities for trading;
- Water market information collected by the BoM – which is made publicly available through regular web-based water market reports. It is also presented in the Australian water markets report (previously prepared by the former National Water Commission, but to be prepared in future by ABARE).

Environmental management

What are the guiding principles for 'best practice' management of environmental water? Are the institutional and governance arrangements for held environmental water working well?

In the Murray Darling Basin various programs to date, including those associated with the Basin Plan, the Living Murray and Water for Rivers, have seen a significant quantity of water returned to the environment through a combination of efficiency works and water purchases. That includes 2400 GL

currently held by the Commonwealth Environmental Water Holder (CEWH) and 212 GL returned to the Snowy River.

It is estimated that contracted water recovery in the Murray–Darling Basin for the Basin Plan, as at 31 December 2016, is 2,038.5 gigalitres (GL), or 74.1% of the way toward meeting the 2750 GL surface water recovery target outlined in the Basin Plan.

State Governments also hold environmental water and this means there is a significant number of Government players in the management of environmental water, particularly in the Murray Darling Basin.

NIC has previously advocated the streamlining of environmental water delivery governance arrangements. The Water Act 2007 has not satisfactorily addressed the issue identified by former Prime Minister, John Howard who observed in 2007 in *'A National Plan for Water Security':*

> *'Widely distributed responsibilities for the management of the Basin have led to inefficiency, blame-shifting and under-resourcing by state and territory governments'.*

Governance arrangements remain cumbersome, and are often inconsistent with regulatory requirements across and within jurisdictions making it difficult for the sector to understand obligations to each agency. This represents additional complication for communities and industries, and also goes to the planning and management of environmental water. For example, institutional arrangements for the management of water in New South Wales across the federal and state governments, involve nine different government agencies. These include:

- Department of Environment and Energy (Commonwealth)
- Commonwealth Environmental Water Office (Commonwealth)
- Murray Darling Basin Authority (Commonwealth)
- Department of Agriculture and Water Resources (Commonwealth)
- Office of Environment and Heritage (State)
- Water NSW (State)
- Department of Primary Industry – Agriculture (State)
- Local Land Services (State)
- Department of Primary Industry – Fisheries (State)

This model is flawed, it is cumbersome, creates confusion and adds additional levels of red tape.

National Irrigators' Council has previously released a position statement on monitoring the use of environmental flows that provides more detail on our policy.

Communities must be afforded access to the evidence around how the water recovered for the environment will be used, where it will be directed and for what purpose. The Australian public must also be satisfied that there is value in their investment in water purchase.

This includes complete transparency about the use of environmental water, currently that transparency is inconsistent across jurisdictions. NIC Members have raised in particular a lack of openness from the NSW OEH about its environmental water use, including trade of unused allocations.

A fundamental point from NIC is that the results of environmental watering must be measured in outcomes not simply achieving a particular number of GL of water released. Flow targets are only a part of a picture and as detailed in other parts of this submission a range of complementary and non-

flow measures are essential if the health of the river is to be improved. Core to this is the understanding that there are a number of circumstances where just releasing water can actually be detrimental to the health of the environment and ecosystem.

As mentioned further on that means all environmental water holders should be managing their holdings in a flexible and responsive way and they must be able to sell water when appropriate to fund non-flow measures.

In terms of general principles around environmental water it is fundamental that held environmental water must have the same characteristics as water owned by anyone else. Ie it must have the same level of security and guarantee of transmission.

NIC notes that the Productivity Commission will be looking at implementation of the Murray Darling Basin plan next year and thus we have tried to limit specific comments on the Plan at this stage.

However, as a general point we would say that water recovery should not focus solely on privately held water entitlement; it must also examine operational efficiency of the 74% of water flows in the Murray Darling Basin already allocated to the environment (inclusive of planned environmental water, environmental holdings and base river operation flows which have environmental implications). Priorities should continue to focus on works and measures and efficiency projects identified under the localism model.

In terms of any changes that could be implemented regarding management of environmental water we would emphasise that all future change needs to engage irrigated agriculture stakeholders on their views during discussion of change.

What is the role for governments in promoting trade in environmental water, and acquiring environmental water at least cost to the community?

Measures embedded in Recommendations 15, 16 and 17 emerging from the 2014 review of the Water Act 2007, and agreed by Government, will enable greater flexibility in the management of environmental water. Allocation trade revenue from Commonwealth environmental water holdings can be used to invest in a wider range of measures than currently permitted, to maximise environmental outcomes from Commonwealth environmental water use.

For example, this greater flexibility would allow allocation trade revenue to be used by the Commonwealth Environmental Water Holder (CEWH) to invest in the series of complementary (or non-flow) measures advocated by NIC, to provide triple bottom line benefits under the Basin Plan.

NIC has long advocated for greater effort be directed to the development of a suite of non-flow measures, and as also proposed by the Northern Basin Advisory Committee (NBAC) as part of the 2016 review of the Northern Basin. These measures include:

- carp control through the release of the Carp Herpes virus
- appropriate management of cold water pollution
- improvement of fish migration through fish-ways
- restoration of native fish habitat o feral animal and weed control in wetlands and riparian areas
- increased ability for Commonwealth Environmental Water Holder (CEWH) to trade water.

The implementation of non-flow approaches to achieve environmental outcomes (rather than the recovery of more water entitlement) and proper measurement of long term environmental outcomes, is critical to the sustainability of communities throughout the Murray Darling Basin. This will optimise every opportunity to deliver real environmental outcomes.

It was pleasing to note that at the March 2017 Basin Water Ministers meeting, Commonwealth and state Ministers again *'agreed that complementary environmental projects can provide real environmental benefits and agreed to seek options to better embed complementary measures as a key element of achieving Basin Plan outcomes……..and that work will continue to develop a method for assessing these benefits.*

Acquisition of Environmental water at 'least cost to the community' - NIC recently made a comprehensive submission to the House of Representatives Committee Inquiring into agricultural water use efficiency. That submission deal in detail with questions about "acquiring water at least cost to the community".

The Murray Darling Basin Plan experience shows us that Government investment in water can take a number of forms, including infrastructure investment in improving the operation of rivers, irrigation systems, on farm investment in efficiency and purchase of water. It is now clear that the choice, and design of, which option to use can make a significant difference to the long-term viability of an irrigation region and to the irrigation dependent community.

The implementation of the Basin Plan has not been easy. It is however, possible to see areas where well targeted funding for infrastructure improvement has resulted in substantial gains in environmental water along with increased productivity from local schemes. It is also possible to see areas where poorly targeted buy backs and badly designed on-farm schemes have made the viability of entire irrigation districts questionable and put many producers close to a tipping point.

When looking at value for money from these various investments, it is important to look at more than just a simplistic litre for dollar return. Government has a responsibility to assess socio economic and long term impacts of its programs and this is one key area.

If you consider the simplistic litre for dollar equation, then Government would just go ahead and purchase water on the water market, thereby removing it from the productive pool. To do that on the basis of 'value for money' however, would be to completely ignore the responsibility of Government to the people it serves.

Investment in infrastructure is in the short term more expensive, but if well targeted and designed, it will avoid the massive negative impacts on communities and can produce long term gains for a region's productive capacity and product.

NIC supports achieving environmental gains, while minimising socio-economic impacts. As argued here, the adoption and implementation of complementary measures provides the pathway for genuine environmental gains while minimising social and economic pain. The recent review of the Northern Basin estimated that the recovery of 278 GL to date, has come at a cost to the northern basin of $139 million annually in lost farm-gate production. And based on a conservative 3:1 multiplier effect, this accounts for over $400 million lost to Northern Basin communities annually. The projection is that the 278 GL already recovered has resulted in the loss of 450 jobs for those communities.

The negative consequences of purchasing water for the environment must be acknowledged. Direct purchase is advocated by some environmentalists as being the most cost effective way of meeting GL targets. However, in recognition of the negative impacts of purchasing water, the Australian Parliament in 2015 legislated a 1500 GL cap on water buybacks, a measure advocated by NIC.

Some negative impacts of water purchase include:

- A smaller remaining pool of water in the market resulting in much higher prices for water, particularly in dry years.
    - Higher water prices push up the cost of production and have a direct impact on the viability of some producers
    - Producers growing high value crops will be able to afford to buy water in these circumstances while other lower value crops cannot; this would mean shifts in the volume and crops produced; the impact of this has been assessed in the Victorian Government's economic impact assessment.
    - Dairy producers and often rice growers, are likely to be priced out of the market in dry years and Australian production of these commodities is likely to significantly fall, driving up prices for consumers, and driving down Australia's international competitiveness.
    - Production of some horticultural products will become unviable, resulting in some permanent production ceasing.
- Untargeted purchases can result in previously irrigated properties in otherwise viable irrigation districts reverting to dryland production. The impact of this for those districts, is the so called 'swiss cheese' effect, where remaining irrigators are left to carry a larger proportion of the cost of operating the water delivery infrastructure.
- A reduction in the number of irrigated properties reduces overall productivity in an area leading to flow on loss of jobs throughout a community. The MDBA Northern Basin review showed that convincingly, in the socio-economic impact analysis which indicated the impact of the recovery of 278 GL in the north to date, as detailed above.

The socio-economic impact assessment undertaken by the MDBA in the Northern Basin should be seen as a game changer for the design of future schemes, representing as it does, an independent assessment by a body with a strong interest in making the Plan work.

A range of other socio- economic assessments, in particular those carried out in Victoria's Goulburn-Murray district, point to at least the same impacts, if not greater, resulting from removal of water.

These socio-economic studies present one very consistent message. Removal of further productive water will result in a real loss of capacity for Australia to produce the fresh food and natural fibre we use domestically and that generates export income, and that it will produce loss of jobs, loss of income and flow on impacts right through Basin communities.

For those reasons NIC strongly opposes any further direct removal of water through buy backs and rejects on farm programs which fail to take into account the broader community impact.

How can institutional arrangements be used to ensure agencies with natural resource management responsibilities (including environmental water managers) pursue least-cost approaches to achieving environmental and other public benefit objectives?

The Basin Plan places a number of obligations on monitoring, evaluation and reporting on the use of Commonwealth environmental water. The Water Act requires an annual report on the management of

environmental water be provided to the relevant Commonwealth and Basin State Water Ministers. The report must include information on achievements against the objectives of the Basin Plan's Environmental Watering Plan. We contend however, that the Environmental Watering Plan is not a plan, but rather a loose framework that provides little information for communities to understand the long term and seasonal objectives.

To be managed well, water must be properly monitored. Specifically, NIC seeks to better understand the key objectives to be achieved through environmental watering, for example:

- Against what baselines will objectives be measured?
- How will objectives be reported?
- How will they guide future decision making?
- How will local stakeholders be engaged?

Environmental water holders (State and Commonwealth) must work with local stakeholders to outline the specific objectives they seek to achieve out of their environmental water portfolio for each valley in which water is held, with a focus on the 'localism' approach. Objectives must be based on clearly defined ecological and hydrological baselines. Baselines must be evidence based and publicly available.

It is important that jurisdictions work together to achieve Basin-wide outcomes. This is particularly so during the development of the Basin States' Long Term Environmental Water Strategies under the Basin Plan. Through this process, it should be made clear to stakeholders how the state strategies feed into the wider strategy.

Monitoring and evaluation objectives must:

- be fit for purpose and recognise that a flow based solution has some limitations in achieving good environmental outcomes
- be specific enough to be measurable; and
- include indicators that demonstrate improvements over time rather than reporting conditions only at specific points in time.
    - For example, The 'River Murray and fringing wetlands' is too broad to effectively monitor outcomes. The MDBA identified 18 hydrologic indicator sites that would provide a more localised but representative monitoring area.
- Environmental watering must be measurable:
    - Site specific watering at locations such as Hattah Lakes or through the Koondrook Perricoota cutting must be metered in the same way as consumptive diversions are metered.
    - Assumptions for water use in over-bank flows must be explained
- Environmental water holders must report publicly against the objectives including:
    - Where objectives have been met and where they are not met and why;
    - Where watering occurred in isolation or in association with natural events or where outcomes were achieved only through natural events.
- All monitoring programs under the different jurisdictions must be cooperative and consistent.
    - Outcomes from one program must inform other programs
    - State and federal agencies must share knowledge and avoid duplication
- All reporting of environmental water should be viewed in the context of social, economic and environmental outcomes.
- Legacy costs must be properly determined o Environmental programs for the 'public good', including monitoring programs, should be funded by the 'public purse'.

NIC seeks Commonwealth and State environmental water holders to outline the specific objectives and desired achievements from their environmental water portfolio for each valley in which water is held and how they intend to work together to achieve objectives and avoid duplication. To ensure the 'localism' model is implemented, local stakeholders must be involved in the identification of these objectives.

It is a concern, particularly in New South Wales, that environmental water appears not to be subject to the same expectations and scrutiny as water held by irrigators, where there is a lack of transparency around the sale of environmental water, in relation to the amount sold and the processes involved. This is against the background of the respective roles of the Office of Environment and Heritage, the Office of Water and the Commonwealth.

Are the policies that affect the health of water systems sufficiently integrated?

As noted in previous responses, NIC would contend that currently there is far too much reliance on flow only as the method and measure of improving the health of water systems. Achieving targets in GL is not the same as achieving environmental outcomes; future planning for the health of systems including particularly those subject to the Basin Plan, must include complementary measures outlined above.

From an administrative and reporting point of view the irrigated agriculture sector has frequently raised the need to remove red tape in line with the Government's commitment to gaining efficiencies and lifting agricultural competitiveness. It is a concern that with each additional layer of reform and bureaucracy, usually comes an additional level of red tape. As detailed here, the sector must be enabled a clear pathway to be competitive against the backdrop of the ever-increasing global demand for food and fibre.

Water services

Has the NWI been successful in achieving its objectives with respect to rural water services? If not, what actions are required to achieve these objectives?

The NWI has been broadly successful in achieving its objectives and NIC sees no further action required in relation to rural water.

Are there any instances where similar rural water service providers should be subject to different regulatory treatments based on the nature of their ownership and/or jurisdiction of operation? If so, when and why are such different approaches warranted?

NIC argues member owned providers should be more lightly regulated than government owned operators. Member owned operators are directly accountable to their customers for their services and costs, their governance arrangements provide robust incentives for operators to be efficient and response to customers.

What role should independent economic regulators play in the regulation of rural water services?

Independent economic regulators are important to regulate government owned operators but have no role in the regulation of member owned infrastructure networks.

How are the needs of rural water service providers (both bulk water and irrigation delivery) and preferences of users balanced in the setting of infrastructure charges? In what ways could these processes be improved?

In the case of member owned operators via consultation and discussion with members which informs the Board's decision making, or in the case of one operator in South Australia by agreement of its members. In the case of WaterNSW the regulator IPART makes the final determination, however, this process has involved discussion between WaterNSW, water users and IPART. It must be acknowledged that water users are not 'homogeneous' and changes in fee structures from current arrangements will inevitably result in some customers having lower charges and others having high charges.

How effectively do infrastructure network owners engage with users (both current and prospective) to ensure infrastructure programs address current and future needs?

Member owned infrastructure networks engage very effectively with users through various mechanisms including local meetings, annual general meetings, and due to the very nature of the relationship between owners and users.

Is infrastructure charging sufficiently flexible to cope with changes to the number and composition of customers within networks? If not, how could infrastructure charges be improved?

Less regulation is necessary. NIC broadly opposes the majority of proposed changes reflected in the ACCC Final Advice, following their review of Water Charge Rules. *(see below)*

Have termination fees been effective in enabling infrastructure network owners to adjust their networks in response to declining usage?

As part of the 2015 review of Water Charge Rules, the Australian Competition and Consumer Commission (ACCC) Final Advice recommends at Rule Advice 6-A that: *The rules should be amended to regulate termination fees levied by all infrastructure operators, not only irrigation infrastructure operators.*

The Water Charge (termination) Fee Rules 2009 are an inflexible option for IIOs. In reality, IIOs have limited flexibility to adjust their networks in response to reduced irrigation demand, particularly if reductions in water use are randomly spread across an irrigation network.

Termination fees are fees payable to an infrastructure operator by an irrigator who terminates or surrenders the whole or part of a right of access to the operator's water service infrastructure. The Water Charge (Termination Fees) Rules 2009 (WCTFR) regulate the circumstances in which irrigation infrastructure operators (IIOs) can charge termination fees and cap the maximum termination fee payable. The WCTFR do not *require* the imposition of a termination fee, and currently only apply to termination fees imposed by IIOs.

During consultations with the ACCC on the Draft Advice, NIC submitted the view that many of the proposed amendments relating to termination fees '*seem calculated to reduce termination fees',* which would affect remaining customers through higher charges to recover the fixed, ongoing costs left behind by terminating irrigators. We also noted that the Draft Advice stated that submissions to the Issues Paper were generally supportive of the current WCTFR requirements, and argued that the Draft Advice did not provide evidence of stakeholder support for "increased regulation" in relation to the WCTFR.

With the significant water reform still occurring in the Basin and the massive movement of water from private hands to public hands, stranded assets continue to be a real risk. IIOs therefore need time to

adjust so that the remaining irrigators are not called upon to carry any undue financial or other burden. The imposition of additional red tape and reporting has also served to undermine flexibility in the operations of IIO businesses.

Included in the ACCC's Final Advice as part of the Water Charge Rules review, NIC welcomed the proposal to remove Network Service Plans (NSPs) of Part 5 of the Water Charge Rules. Part 5 was excised from the Final Advice and comes into effect on 1 July 2017.

In terms of the remainder ACCC Final Advice, NIC's concerns remain, where many of the proposed changes represent an unnecessary and costly bureaucratic impost on IIOs. Specifically, our concerns are:

- In attempting to deal with what it considers to be discriminatory pricing, the ACCC has 'overreached', in the same way when it introduced the requirement for NSPs - the arrangements it proposes will impinge on pricing arrangements that have been in place for extended periods and are widely accepted amongst irrigators customer groups (as evidenced by the extent to which the ACCC has had to go to find a limited number of customers who wanted to complain about pricing).

- Uniform pricing can impede innovation. Different regulation based on ownership is acceptable, for example, Goulburn-Murray Water contrasted with Central Irrigation Trust (SA).

- There is a lack of detail in the proposed rules which the ACCC itself acknowledges and the assurance that gaps will be dealt with by guidance (yet to be developed) leaves IIOs without any certainty as to where they will stand once the ACCC's guidance is issued.

- The proposed arrangements in respect of the distribution of profits and/or water savings represent a gross intrusion into a company's right to make returns to its owners; they would also appear to be at odds with the Co-operatives National Law or State Law (NIC can provide related examples).

- The proposed rules will only apply to IIOs in the Murray-Darling Basin and as such are, in themselves, discriminatory. The rules will also introduce new levels of proscription, with the ACCC seemingly having little concept as to how challenging it will be for smaller operators to comply with the new requirements. It is likely that many small IIOs will not have heard of the ACCC's Final Advice, let alone contemplated how they will be affected by the proposed changes.

- NIC rejects the proposition that the proposed arrangements will be less costly. We contend that a desk-top exercise, based on a government-approved formula, to determine the savings that will accrue from the proposed changes bears little resemblance to the extent that IIOs will have to go to adjust their business models, pricing arrangements and in some cases 'undo' work that was done to comply with the Water Charge Rules in the first place.

- The proposed requirements are very proscriptive and will constrain IIOs from becoming more innovative in terms of their business models and/or from generating new business.

What, if any, government oversight should there be of privately owned providers of irrigation services?
There should be no government oversight of privately owned providers of irrigation services.

How robust are the cost-benefit analyses applied to irrigation infrastructure projects? Where could they be improved?

Cost-benefit analyses applied to irrigation infrastructure projects are very robust, demonstrated by the number of applications and the success of infrastructure projects through government investment. Many of these companies have now been in operation for over twenty years with a proven track record.

Are there sufficient checks and balances to prevent unviable or unsustainable infrastructure projects from proceeding? If not, what are the areas needing improvement?

There are sufficient checks and balances currently for projects involving IIOs. Non-Government IIOs are generally owned by members often in a cooperative structure. Members have the final say on investment in infrastructure projects and they do that on the basis of the value of the project to the future of their businesses.

On farm investment by a property owner is generally a decision made by the property owner based entirely on commercial return.

Where on farm investment is funded via a Government grant, there is obviously greater need for assessment of viability. This leads into a much more detailed discussion on why a program is there, its objectives and its measures for success. In particular, it is important to note that there is a significant variation in these types of programs and that it is vital that in designing these programs the flow on impacts to communities are appropriately considered. This is an area NIC has addressed in more detail in its submission to the current House of Representatives Standing Committee Inquiry into water use efficiency in Australian agriculture.

Achieving reform

Should further water reform be pursued through an improved NWI?

There should be no further water reform pursued through an improved NWI.

The irrigated agriculture sector is suffering from substantial reform fatigue, where the sector has been exposed to numerous changes since inception of the NWI in 2004. A period of consolidation is necessary to enable the sector a level of stability.

The recent review of the Northern Basin, conducted by the MDBA, clearly demonstrated the socio-economic impacts on communities in the north, where towns like Collarenebri, Dirranbandi and Warren (in particular) have paid a high price in jobs and economic activity for water recovery. Assurances were given during the development of the Basin Plan that a 'whole of government' approach would be taken to respond, where there was a need for structural adjustment because of the Basin Plan. The expectation is that the Government will honour this commitment and extend to communities beyond those noted in the Northern Basin review.

While the sector has been able to take advantage of the opportunities presented in investment in irrigation infrastructure and to undertake efficiency measures, further reform is not deemed to be necessary, unless such activity represented a decreased level of duplication across jurisdictions and a reduction in regulatory burden.

Other considerations

Removing barriers to agricultural industry competitiveness: While this inquiry is not designed to examine the impediments to a productive irrigated agriculture sector, we note that Commissioners are also asked to consider the interaction of water policy with other policy areas such as energy, agriculture, planning, urban supply.

It is important to understand that productivity gains have been largely overshadowed by the high cost of electricity faced by the sector, putting upward pressure on prices and downward pressure on Australia's international competitiveness. This is undermining Australia's capacity to be a competitive global food producer and to put fresh food on the tables of Australians households.

Rural industries impacted by the high cost of electricity play a key role as economic drivers in local economies and nationally. They include the cotton, rice, sugar, wine, almond, horticultural and dairy industries, all major producers of Australian agricultural product much of which is exported. These industries provide employment and flow on benefits for regional communities and the nation. Across these commodities, energy is used in a variety of ways such as pumping irrigation water, pasteurisation, cool rooms, processing plants and moving products.

It is also important to appreciate the link between the efforts of the irrigated agriculture sector to improve productive output with less water while at the same time being undermined by the high cost of electricity. Reform of Australia's water resources sector in recent years has resulted in greater competition for those resources. While water savings have been achieved on-farm through investment in infrastructure, the resulting higher use of energy has coincided with a dramatic increase in the cost of electricity.

Analyses show that irrigators and growers' electricity bills have increased in excess of 100% in most cases, and up to 300% for some over the period 2009-2014, largely due to the rising cost of network charges imposed by the network companies.

Typically, government regulated network charges and other costs represent around 50% to 56% of farmers' electricity bills; the actual electricity charges account for around 26%, although this is also changing rapidly. Network charges imposed by the electricity networks continue to have a highly distorting effect on the electricity market. Australian consumers are paying around twice as much for network charges as those in the United Kingdom and around 2.5 times as much as those in the United States.

Irrigated agriculture users of electricity are forced to operate in a market environment which lacks genuine competition and appears dominated by maximising returns to generators and infrastructure owners. It is unacceptable that consumers are forced onto the spot market due to an inability to secure quotes from retailers for fixed term contracts. The absence of competition results in gaming on the spot market which is struggling to cope with the transition to renewables. The recently announced ACCC review of retail electricity prices is welcomed.

As noted, the sector is amongst the most efficient in the world, providing tangible benefits to all Australians. Research and development supports innovation in the agriculture sector and has the capacity to leverage investment made in irrigated agriculture industries.

NIC has long advocated for reform of Australia's National Electricity Market (NEM). Australia's weak energy policy framework and unsustainable energy costs are undermining the viability of businesses

and industries which produce food and fibre for domestic and export markets. The recommendation below is consistent with our recommendation to the current Finkel Review and we refer the Committee to our submission. NIC will also provide a submission to the House of Representatives inquiry into modernising Australia's electricity grid.

A cultural shift is needed away from the entrenched relationship between the regulators and the networks, with greater opportunity for businesses and consumers to fully participate in appeals and review processes in relation to the Australian Energy Regulator (AER) five-yearly pricing determinations processes. A comprehensive assessment of the economy-wide costs and benefits of revising the regulated asset bases (RABs) of electricity network and transmission businesses regulated to efficient levels is also long overdue.

The closure of coal fired power is causing significant impacts on the energy market, with gas increasingly on the agenda as a transition fuel to a lower carbon economy. Yet at the same time moratoriums in Victoria, New South Wales and the Northern Territory on unconventional gas exploration and ongoing expansion of LNG export are further undermining Australia's energy security.

Improved planning and coordination between the Commonwealth and the states in this space is critical to ensure energy affordability and reliability as the generation mix continues to change into the future.

Foreign investment review framework: The Australian Government's changes to the foreign investment review framework in 2015 included a proposal to establish a national register of foreign ownership of agricultural land to provide more public information on foreign investment in Australian agricultural land.

As part of this framework, the Government also proposes to introduce a water register (*National Register of Foreign Ownership of Water Access Entitlements*) designed to enhance transparency about the level of foreign ownership of water entitlements in Australia and to assist the Government and the community to understand emerging investment trends, including future policy development.

NIC has made representations to the Government highlighting the red tape impacts and associate cost burdens in retrieving the required information from irrigation businesses in relation to the level of foreign ownership within those businesses. These costs should not be passed on to the sector. Every effort should be made to reduce the reporting burden on irrigation companies.

If the intended purpose of a national register is to assist decision makers and the broader Australian community to understand the level of foreign ownership of water, then the Government must ensure that any regulatory burden involved in complying with a proposed register, must sit with the foreign person and the cost of ensuring compliance with the register, with the Commonwealth.

We also highlighted the level of reporting requirements to which irrigation companies are currently subject, for a number of purposes, through a range of mechanisms. These include multiple state and federal requirements, many of which are duplicative and involve a complex process of data collection, collation, analysis and presentation, requiring the employment of multiple, full time dedicated staff to meet these requirements. These cost burdens are ultimately passed on to irrigators who frequently bear the cost of Government decisions and regulation 'for the greater good'. Further regulatory requirements in this context, would be a perverse outcome.

NIC is working with the Department of Agriculture and Water Resources, the Australian Taxation Office and The Treasury to ensure that the requirements in relation to the register, when implemented, do not imposed further red tape for IIOs in terms of the work that will be required in this effort.

We note the Productivity Commission's view that the Australian Government should return the screening thresholds for agricultural land and agribusiness to $252 million – and not the $55 million proposed by the Government for agribusiness and the $15 million proposed, based on cumulative land holdings for private non-government investors from most countries.

About the National Irrigators' Council

The National Irrigators' Council (NIC) is the national peak body representing irrigators in Australia. The Council supports twenty-nine (29) member organisations covering the Murray Darling Basin states, irrigation regions and the major agricultural commodity groups. Council members collectively hold approximately 7,000,000 mega litres of water entitlements.

The national body is the policy and political voice of those who use water for commercial agricultural purposes, producing food and fibre for local consumption as well as making a significant contribution to Australia's export income.

NIC is funded by irrigators, for the benefit of irrigated agriculture which provides jobs in rural and regional communities. Members are not individual irrigators but members of their respective representative organisations. An irrigator is defined as *'a person or body with irrigation entitlement for commercial agricultural production'.*

Member organisations are located in irrigation regions across Australia within the Murray-Darling Basin and beyond. They represent a diversity of organisations from irrigation infrastructure operators, individual irrigators, processors through to agricultural commodity groups who produce and value add food and fibre for domestic consumption and significant export income.

NIC advocates on behalf of irrigated agriculture and aims to develop projects and policies to ensure the efficiency, viability and sustainability of Australian irrigated agriculture and the security and reliability of water entitlements. The NIC advocates to governments, statutory authorities and other relevant organisations for their adoption.

NIC aims to develop policy and projects to ensure the efficiency, viability and sustainability of Australian irrigated agriculture and the security and reliability of water entitlements.

NIC Guiding Principles

The National Irrigators' Council (NIC) objectives are to:

> *To protect or enhance water as a property right and to champion a vibrant sustainable irrigation industry.*

NIC is the voice of irrigators and believes in the following principles to guide future policy decisions:

- A healthy environment is paramount
  - Sustainable communities and industries depend on it
- Protect or enhance water property rights.
  - Characteristics of water entitlements should not be altered by ownership
- No negative third party impacts on reliability or availability
  - Potential negative impacts must be compensated or mitigated through negotiation with affected parties.
- Irrigators must be fully and effectively engaged in the development of relevant policy.
- Irrigators expect an efficient, open, fair and transparent water market.
- Irrigators require a consistent national approach to water management subject to relevant geographical and hydrological characteristics.
- Irrigators expect Government policy to deliver triple bottom line outcomes.
- Regulatory and cost burdens of reform must be minimised and apportioned equitably.