AUSTRALIAN FOREST PRODUCTS ASSOCIATION

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1 June 2017

National Water Reform Inquiry
Productivity Commission
GPO Box 1428
CANBERRA ACT 2601

AFPA submission to the Productivity Commission's 'National Water Reform' Issues Paper.

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide a submission to the Productivity Commission's 'National Water Reform' Issues Paper.

The forest industries are absolutely commitment to ensuring the sustainable use of all natural resources especially water resources.

AFPA recommends that to be equitable, efficient and effective, any proposed water policy reform should meet the following industry developed water policy principles:

1. Plantation forestry is a dryland (non-irrigated) agricultural land use and any policy contemplated in relation to interception of water by plantations should be considered only as part of a full debate on water interception by all dryland agricultural land uses;
2. All policy on water interception must be underpinned by sound, repeatable and reliable science;
3. All policy on water interception should take into account issues of water quality as well as water quantity;
4. Clauses 55-57 of the National Water Initiative should only be implemented as written, that is, constrained to consideration of land use change (for example new plantations) not existing land uses.
5. Any inclusion of land use change to plantation forestry in a water entitlement system must take into account the differences between the physical extraction of water from the water supply system by humans and the natural interception of water by plants.

AFPA notes that the Victorian Association of Forest Industries (VAFI) has also made a submission for this issues paper. This submission compliments the VAFI submission.

The Policy Manager dealing with this matter in AFPA is Ms Sara Bray.

Yours sincerely

Ross Hampton

Chief Executive Officer

WOOD NATURALLY BETTER

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AFPA SUBMISSION TO THE PRODUCTIVITY COMMISSIONS 'NATIONAL WATER REFORM ISSUES PAPER'.

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide a submission to the Productivity Commission's 'National Water Reform – Productivity Commission Issues Paper'.

AFPA is the peak national industry body representing the Australian forest, wood and paper products industry's interests to governments, the general public and other stakeholders on matters relating to the sustainable development and use of Australia's forests and associated manufacturing and marketing of wood and paper products in Australia.

The forest, wood and paper products industry is Australia's 6th largest manufacturing industry with an annual turnover of $22 billion.

The five water policy principles developed by industry are:

1. Plantation forestry is a dryland (non-irrigated) agricultural land use and any policy contemplated in relation to interception of water by plantations should be considered only as part of a full debate on water interception by all dryland agricultural land uses;
2. All policy on water interception must be underpinned by sound, repeatable and reliable science;
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4. Clauses 55-57 of the National Water Initiative should only be implemented as written, that is, constrained to consideration of land use change (for example new plantations) not existing land uses.
5. Any inclusion of land use change to plantation forestry in a water entitlement system must take into account the differences between the physical extraction of water from the water supply system by humans and the natural interception of water by plants.

Assessing Progress

There is currently deinvestment in South Australian based forest plantations as overallocated water management areas are brought back into balance under the existing SA water allocation plan (WAP). Half the existing forest plantation cover will not be able to be replanted in the hundreds of Short and Coles located in SA resulting in a significant deforestation event. This reduction does not reflect the will of the forest owners who wish to replant existing forests. However, to purchase a water licence for the land is prohibitively expensive. This land which will be reverted back to other agricultural uses will result in a carbon deficit to Australia's carbon accounts. The underlying assumptions upon which the SA WAP and this determination were made were questionable.

NWI based water assessments will be relied upon for projects under the *Carbon Credits (Carbon Farming initiative – Plantation Forestry) Methodology Determination 2016* (Commonwealth) if/when released by the Federal Government.

Table 1 - Preliminary framework — national water reform priorities

Property rights for water are clear and secure

Clear and secure property rights are important to provide entitlement holders with certainty to encourage long term investment. They are crucial to the establishment and functioning of water markets and an important component of sustainable environmental management. Property rights should:

- include all available water sources (as far as practicable) – in the case of water interception
- be legally recognised
- be explicit — outlining the maximum extraction volume allowed to be taken and the relationship between allowable extraction and water availability in any season
- be separate from land title and tradeable.
- The regulations around property rights should be appropriate to the industry being licenced so as not to inadvertently penalise that industry relative to other licensees.
- It is essential that good science underpin the regulations around crop or other licenced water use so that the water resources are not inadvertently overused or that industries are not inadvertently penalised relative to other licensees.

Processes for determining allocation and sharing of water are transparent, inclusive, and cost-effective

Water planning processes are important, including because they identify the share of water for consumptive and environmental purposes. Water planning processes should:

- be timely, transparent and open
- be based on best available information and science
- involve communities and stakeholders
- be adaptive
- manage uncertainty.

Water is able to be traded to its highest value use

Water trading enables water to move to its highest value use within a water system, providing the driver for greater productivity. For individual entitlements holders, it provides a business tool to enable them to respond to changing climatic conditions/circumstances. In order to achieve this:

- trade should be enabled for all water systems where this offers net benefits
- any restrictions on trade need to be appropriate and efficient
- costs and delays of trading should be minimised
- water market participants should have access to timely and accurate information
- trade should be underpinned by adequate measurement, monitoring and water accounting systems.
- Licencing applied to long rotation crops such as plantation forestry will not facilitate water trading through excess water. Forest water licensees will have to hold water licences long term to cover tree water use and there will be few opportunities to trade or lease licences, as trees are assumed to use up to their allocation each year.

Environmental management is efficient and effective

Sustainable management of water environments is a critical component of water resource management, underpinning the integrity of property rights and the functioning of water markets. Sustainable management of water environments may entail:

- providing a share of water for the environment and dealing with over-allocated systems where agreed
- ensuring there are appropriate institutional and regulatory arrangements for efficient environmental water use
- integrating catchment management and other complementary resource management activities.

Water services

Rural and urban water services are provided efficiently

Efficient delivery of infrastructure services has a direct effect on the availability and cost of water. It is important that appropriate incentives are in place to ensure that those entities delivering water provide a reliable service, meet relevant standards and plan for the future. Among other things, it is important that:

- the security, quality and cost of water services are balanced in accordance with consumer preferences
- institutional and regulatory arrangements are adaptive and create clear roles and responsibilities for policy makers, regulators and services providers
- prices are cost reflective and there are limited cross subsidies in pricing regimes
- public health and environmental impacts are managed efficiently and in accordance with community expectations and standards
- water service providers consider integrated water cycle management in their planning.

Preliminary Framework

Please see **additions** in **track change** to the Preliminary Framework in table 1 above.

We agree with the preliminary framework particularly that water planning processes should be based on the best available information, but this should also include science. Consideration should also be given to how the NWI interacts with current policy settings of increasing carbon sequestration. Baselines created on a foundation of an artificially deforested landscape will lead to undue barriers to achieving long term decarbonization.

Water Interception policies must be underpinned by sound, repeatable and reliable science. There must be transparent, predictable and equitable rules for assessing the water interception associated with land use change. Assessment of the significance of water interception by plantations must take into account the scale and intensity of the impact as well as geography, site characteristics, timing and management. All land-uses should be treated fairly and all forms of land-use considered equal. Timber plantations should be treated the same as other agricultural land uses and considered a crop.

Poorly informed and designed policy can result in unintended policy outcomes that favour unsustainable activity due to increased uncertainty and/or costs of potentially inequitable water policy development.

AFPA also believes that such processes should enable review based on best available information and science to ensure adaption is possible.

The framework should not just 'involve community and stakeholders', consideration should also be given to the overall benefits to the community. The impacts of water interception from land use change must be considered in conjunction with the overall benefits of the activity to the community. This requires the policy to take into account the co-benefits of the land use change ie the additional social, economic and environmental benefits and ecosystem services provided by the use. For instance, plantation forestry provides many services including: carbon sequestration, salinity control, water quality, evapo-transpiration. Similarly, plantations expansion and associated industry development has a large direct and indirect socio-economic impact on rural regional communities. Policy should aim to maximize the total benefit to the community and not focus narrowly on water use to the detriment of other important economic, social and environmental benefits derived from a given land-use.

Water Licensing

Water licencing systems and regulations are generally designed to operate with short term agricultural crops where water use can be operationally measured and regulated by engineering solutions. Water use by trees is complex and expensive. Management regulation of tree water use is by cutting the plantation down; or by reducing the stocking of trees per unit area which temporarily reduces water use.

There is a risk of inequity between the management options for irrigated short rotation crops versus non-irrigated long rotation crops. With irrigated crops, increased water use efficiency can be readily achieved and demonstrated with engineering improvements and easily implemented annual crop alternatives. These include more efficient water use through adopting variable rate technology; soil moisture sensors; less wasteful delivery systems; switching the crop planted to minimise use and maximise productivity. Managers of non-irrigated, long rotation crops such as trees have few of these options available. Trees are in place for up to 30 years and naturally adapt to the water and growing conditions available to them, unless they have ongoing access to groundwater. Any improvements in water use efficiency are likely limited to tree breeding to select for more efficient water using trees. This is a long term process to achieve and implement if successful.

Further Improvement?

An improved NWI should be much clearer as to the type of water use it refers to. For instance, the terminology in the current NWI is relevant to irrigation uses rather than non-irrigated e.g. plantations.