Comments to the Productivity Commission's Discussion Draft Report

Rural Water Use and the Environment: The Role of Market Mechanisms

From

Tree Plantations Australia

Introduction

The forest industry has a number of major concerns with some of the proposals made in the Productivity Commission's Draft Report on *Rural Water Use and the Environment: The Role of Market Mechanisms*. While the report highlights a number of options and alternatives currently and potentially available for extractive water users (i.e. irrigators), in relation to rural water use, inadequate consideration is given to plantation forestry as a dryland land use activity.

Tree Plantations Australia (TPA) requests that, prior to the report being finalised, further consideration is given by the Productivity Commission to the issues facing the plantation forestry industry, as contained in our submission and outlined in the following comments on the draft report.

Options for irrigators

There are many options and alternatives available to irrigators, in relation to water use, as outlined in the draft report, including:- separating water entitlements from land titles, unbundling water entitlements from water use approvals, separating delivery entitlements (shares) from existing water entitlements (water shares), the provision of seasonal water allocations, and the provision of markets for derivatives of water entitlements to manage risks and provide flexibility (various options are contained in these provisions).

A framework that accounts for all water uses, externalities of water use and changing efficiencies of water use, is an essential requirement to support markets for improving water use outcomes. The current focus of the draft report is on water use by irrigators, meaning improvements in water use efficiency through dryland land use activities, such as plantation forestry, are not adequately accounted for.

While this framework may provide flexibility for irrigators, similar consideration is not suggested for plantation forestry. The capacity for irrigators to trade in water allocations and entitlements is not shared by the tree plantation sector. Therefore, competitive neutrality is lacking when comparing the water trading rights of irrigators with those for plantation forestry.

In addition, there is currently no recognition of changes in silvicultural regimes in plantations which have the potential to improve water use efficiency. In years of high rainfall, irrigators may be able to 'carry forward' any unused water allocations, whereas plantation forestry managers are not able to receive the same benefit as they are only allocated a set figure for water use, which provides limited flexibility.

The inequitable treatment between plantations and other land uses could create considerable market distortions, resulting in inefficiency effects through sub-optimal allocations of water resources.

Recognition of environmental benefits

The draft report states, that 'afforestation' is among 'the most significant factors that may erode longer-term availability of water for environmental and other purposes' (pgs xxxii and xxxiii). This is a particularly concerning statement, considering the lack of supporting evidence and given that Australia-wide, plantation forests occupy no more than 6% of the total land area in catchments where they most commonly occur[1]. The statement is even more concerning given the positive environmental benefits tree plantations can provide in addressing salinity, soil erosion, water pollution, and inundation in low-lying areas.

In should be remembered, that many of the benefits are not captured by existing market mechanisms, resulting in significant market failures in environmental services. The proposed water regulatory framework, could exacerbate these market failures.

In the other few instances where plantation forestry is mentioned in the draft report, it appears to be portrayed in a negative light as a 'new development that impacts on return flows and water availability' (pgs 26 and 27), and no mention is given of the potential environmental benefits.

The definition of 'environmental flow' in the report as 'a water regime provided within a river, wetland or estuary to improve or maintain ecosystems and their benefits where there are competing water uses and where flows are regulated' (pg xii), is too narrow and limiting. A much broader definition is required, which includes additional forms of environmental flows or water allocations.

A broader definition should take into account historical water flows and include the provision of water entitlements to plantations that are strategically located within catchments to prevent environmental degradation such as ground water discharge, dryland salinity, water pollution or soil erosion.

As mentioned in TPA's submission, multi-purpose plantations have been successful in providing solutions in the Goulburn-Broken catchment, as identified through work undertaken by the CSIRO as part of their Commercial Environmental Forestry (CEF) project. The promotion of environmental solutions such as these, must be encouraged through the appropriate allocation of a proportion of the environmental water flows to multi-purpose plantations.

Inefficient allocation

The proposals in the draft report are unlikely to ensure the efficient allocation of rural water use over time, as they do not appropriately consider all the relevant social, economic and environmental values associated with land uses. Therefore, there can be no guarantee given with regards to achieving the desired benefits for each of these values.

For the water efficiency and environmental markets to operate effectively, they require a more equitable consideration of conditions for water trading for plantations versus other land uses. There is also a requirement for a broader definition of 'environmental flows', which takes into account historical water flows and includes water use by commercial plantations, where those trees can provide the environmental benefits as mentioned above.

With the growing regulation of water use and the specific regulation of all land use change activities, it is difficult to envisage that markets alone will effectively provide impetus for delivering water efficiency improvements and addressing environmental externalities.

[1] BRS (2004). *Plantations and Water Use: A Review*. A review prepared for the FWPRDC.

Alternatively, a combination of payments to catchment managers for achieving performance outcomes and some trading of credits and debits associated with water use efficiency and environmental outcomes may be required to deliver the most effective use of water resources, and a desirable level of social, environmental and economic benefits.

Conclusion and Recommendations

TPA recommends that the Productivity Commission provide appropriate recognition of the differences in water use requirements between irrigators and dryland land use activities, such as plantation forestry. The current 'blanketed' market-based approach, directed towards irrigators, is likely to create distortions and is in need of refinement to incorporate the requirements of plantation forestry.

It is difficult to determine where forestry plantations 'fit into' the proposals made in the Commission's draft report. The Commission appears to have overlooked the fundamental need to have a framework in place, which assists catchment managers during their development of water allocation and management plans. This is essential before any consideration is given to the establishment of a workable market mechanism and additional water trading regimes for water efficiency and environmental externalities.

TPA would like the opportunity to meet with the Commissioner of this review, prior to the Productivity Commission's finalisation of the report, in order to insure that due consideration is given to our concerns.