



National Irrigators' Council

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The Hon Fred Nile MLC
Chair
Portfolio Committee Number 1
NSW Parliament House
Macquarie St
Sydney NSW 2000

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Re. National and NSW Irrigators' Council Submission to Fresh Food Pricing Inquiry

Dear Reverend Nile & Members

The National Irrigators Council and NSW Irrigators Council would like to make a brief submission to the inquiry into fresh food prices.

Irrigation is critical to the supply of fresh fruit and vegetables in New South Wales, without irrigated agricultural production the state would be importing the vast majority of the food that appears in its markets and supermarkets. For many products there would be no fresh food available.

By value 80% of NSW's vegetables come from irrigated production, 76% of fruit and nuts, 90% of grapes, 55% of dairy production, 100% of rice, along with a significant proportion of many other grains ([ABS, Gross Value of Irrigated Production 2015-16](#)).

It would be fair to say that without NSW Irrigators most of the fruit and vegetables Sydney residents buy would be much more expensive, probably many days older (having been imported) or in a tin.

Overall Australian Irrigated Agriculture produces 27% of our total agricultural production using 0.6% of the land available for agriculture.

NSW's irrigators are among the most efficient in the world. Through ongoing research and development and the use of smart irrigation technology, irrigators across NSW have achieved significant productivity gains with the result that we are now using less water per hectare to produce more food. Efficiency has had positive environmental benefits including reducing salinity and returning water to the environment in the Murray Darling Basin.

NSW Irrigators operate both in the Murray Darling Basin and in the coastal valleys. While the challenges are different, both type of irrigators are under severe stress of rising costs which impact on their viability to produce, supply and – to the extent producers are able to pass costs on – receive an equitable return.

The two key pressures we will cover in this submission are water and electricity.

Water

Obviously, water availability is a key for any agricultural product and it goes without saying that any reduction in the availability of water for production has an impact on capacity to produce. As an example, in 2016-17 rice growers (mostly in NSW) used 935GL of water, with it, they produced enough rice to feed 30 million people a bowl of rice a day for a full year. Any change to water availability brings with it a change in their capacity to produce and that brings a change to the availability and cost of food.

We would all be well aware that water availability depends on climatic conditions, however it should not be underestimated that policy decisions can have a significant impact on water availability as well and therefore on the capacity to produce fresh food and fibre at a reasonable cost in the state.

Availability however, is not the core point of this submission. The water focus in this case is about the costs that are put on production in New South Wales and which therefore contribute to the price consumers pay for their fresh food.

The cost of water have increased significantly over the last two decades, that is in part due to the water market, but it is also partly due to charges placed on users by the New South Wales government.

Irrigators accept that charging policies include recovering the costs of infrastructure and infrastructure operation and water resource management. In the context of this committee's consideration, however, we would like to point out that it is important that these charges are kept at reasonable levels and are properly apportioned between irrigators and taxpayers. The NSW Irrigators' Council has made detailed submissions on this to IPART with their current submission at http://www.nswic.org.au/wordpress/wp-content/uploads/2018/06/NSWIC-Submission_Review-of-Rural-Cost-Shares-2018.pdf

The New South Wales government has significant influence into the costs that are passed on to irrigators (via the dividends and the cost share arrangements) and these in turn have impacts on the costs passed on to consumers.

Examples of costs passed on to irrigators include:

- operation of infrastructure including dams, regulators, environmental works on rivers;
- Cost of River Murray operations;

Irrigators accept that they should pay their efficient and fair share of those costs. Our concern is that sharing of those costs between irrigators and the NSW Government is not fair.

For example, large parts of the infrastructure on rivers now exist to provide environmental or social benefit however irrigators pay for 50% of their operating and capital costs. Also, the benefit of measures which promote recreational activity should not be passed onto irrigators but paid for by government or the specific recreational user under the 'impactor pays approach'

If the committee is to make conclusions and recommendations about fresh food supply and affordability it should recognise, as a part of that, that these are inputs to the cost structure of

providing fresh food to the people of New South Wales. On that basis, there should be a strong conclusion that costs imposed by Government should be fair and kept as low as possible.

Electricity

Soaring electricity prices are jeopardising our capacity to produce affordable food in Australia, they also directly impact our competitiveness in international markets.

Energy costs are a significant direct component of the cost of production of fresh fruit and vegetables. The hard-working people that produce our dairy products, fruit and vegetables, sugar, nuts, grapes etc all use large quantities of power. It runs the pumps to water the crops, it powers the packing sheds and dairies and it keeps the product cool so it arrives fresh.

In the irrigation sector, one perverse outcome of greater water efficiency has been higher power use. When water is pressurised, piped or delivered through drip or spray systems, it has to be pumped and that uses energy.

National irrigators Council as a part of the agricultural industry's energy task force has made a number of submissions to inquiries into electricity prices and as part of that we've engaged independent research which has concluded in part:

'The causes of excess costs and prices include failures of:

- *economic regulation to constrain costs and prices in the regulated parts of the supply chain – transmission and distribution; and*
- *regulatory monitoring of competitive markets to limit costs and prices in the competitive parts of the supply chain – wholesale and retail.*

Excessive costs, profits and prices across the NEM are not consistent with the NEO and are suggest a major failure in the governance arrangements established under the Australian Energy Market Agreement, 30th June 2004.' (Sapere Research 2017)

Over the last decade, electricity prices in Australia have increased at more than twice the rate of inflation. New South Wales is one of the states where we are seeing excessive returns at every level (generation, transmission and retail), with a structure and regulation which allows owners to impose excessive costs on consumers.

A number of elements of these costs are in the direct control of the New South Wales government. In particular, the returns demanded by the government from Essential Energy. Irrigators have provided evidence to a number of federal enquiries exposing flaws the calculation of the Regulated Asset Base, demonstrating that returns for infrastructure owners are well above reasonable efficient returns for the assets.

Recently, we've had independent work undertaken which proves that irrigation electricity demand does not follow the same peaks as demand driven by air-conditioning. It shows that tariff structures which build in substantial charges for non-existent congestion or unfairly charge for peak use are fundamentally unfair.

New South Wales has abundant sources of energy and it should be offering its industry and its agricultural sector affordable power prices. Instead one recent comparison placed New South Wales's electricity costs at the fifth highest in the world.

Retail electricity prices of NEM states, including taxes, compared to selected countries (¢ per kWh)



SOURCE: MARKINTELL, US ENERGY INFORMATION ADMINISTRATION

Electric Shock! MarkIntell / US Energy Information Administration

This has a serious and direct impact on the ability of New South Wales farmers to produce food that New South Wales people enjoy at reasonable costs.

For some the cost of production becomes too much and if they are unable to pass on, via the major retailers, they will stop producing or change product. Those who can afford to are often seeking to install their own generation capacity and go off grid.

While there are some positives in going off-grid for the individual business there can also be broader negatives. Firstly, investment in off grid generation must be affordable for the business and a number of cases that has seen producers installing diesel generation, probably not the response most Australians would want to see. Secondly, investing in off grid generation also needs to be considered in the context of rural communities – if it is unaffordable for irrigators to remain on the

grid, their defection from it has a direct and dire consequence for regional communities who are shouldered with ever increasing costs.

It is desirable for producers to install their own generation capacity where that is renewable and sustainable. Ideally it would be good for those people to stay on the grid feeding power into the grid and sharing the costs. However, the cost of connection to the grid and restrictions on the ability to feed power in or create local grids, means that often those who can afford to are going off grid and leaving others to bear higher cost.

All this contributes to rising cost of food production and potential limits to the availability fresh cheap food for the New South Wales residents. It is critical that in any food policy, energy cost is considered.

For too long State government's energy policies have been driven by maximising returns for government and overinvestment to achieve gold-plated reliability standards.

The national irrigators Council seeks commitments from governments to achieving a reasonable cost for electricity. We define that a reasonable cost as one that is no higher than 8 cents per kilowatt for the electrons and 8 cents for the network.

We appreciate the opportunity to provide this brief submission and would be happy to elaborate on any element.

Yours sincerely



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