



National Irrigators' Council

**Submission to
Department of Agriculture and
Water Resources
Efficiency measures additional
criteria for on-farm projects**

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The National Irrigators' Council is the peak body representing irrigators in Australia, supporting 32 member organisations covering the Murray Darling Basin states, irrigation regions and the major agricultural commodity groups. Council members collectively hold approximately 7,000,000 megalitres of water entitlement.

The Council represents the voice of irrigators who produce food and fibre for Australia and significant export income. The total gross value of irrigated agricultural production (GVIAP) in Australia in 2015-16 was \$15.0. {ABS} The total GVIAP represented 27% of Australia's total gross value of agricultural production (GVAP) of \$56.0 billion in 2015-16. Irrigated agriculture 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 policy and projects to ensure the efficiency, viability and sustainability of Australian irrigated agriculture and the security and reliability of water entitlements.

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Introduction

The National Irrigators Council (NIC) welcomes the opportunity to provide input into the Department of Agriculture and Water Resources consultation on the proposed additional program criteria for on-farm projects.

NIC also participated in an earlier consultation in Canberra in October and many of our members have attended the series of regional consultations across the Basin.

Throughout this process, all Governments need to acknowledge that irrigation dependent communities continue to see significant change and adjustment pressure. The Basin Plan is a significant part of that pressure, but is certainly not the only component. The current drought makes that pressure even harder to deal with. The decades of water reform, combined with economic change in regional communities, climatic conditions and in some areas poor terms of trade mean that even areas that have been less impacted to date by the Basin Plan are expressing concerns.

They are concerned about impacts on businesses and communities in established irrigation regions of further reductions in the size of the productive pool of water. The message from this is that any future programs must be well designed and they must address the risks inherent in further recovery of water. NIC recognises that the Basin Plan timeframes are tight but if this process is to be successful then it must take the time it needs to design programs properly not rush to meet deadlines.

General Points

As a general observation, we would have preferred to have been able to provide comment on a single package including the work that Victoria and NSW governments submitted on socio economic criteria. It is critical that the so called social impact test, currently included in the legislation, is expanded to include genuine socio economic criteria along the lines of that proposed by NSW and Victoria.

While this consultation seeks input about criteria for on-farm efficiency schemes, it is also important to make some broader points about the 450GL efficiency component of the Basin Plan.

If irrigators were able to pick and chose which parts of the Basin Plan we wanted then there is no doubt we would prefer the 450GL component was not there. We don't particularly like the 450GL but we accept that it is a part of the Plan.

We have previously made it clear that we are committed to working with Government to implement the Basin Plan. Earlier in the year that meant ensuring that the 605GL Sustainable Diversion Limit Adjustment Measures were approved along with the Northern Basin amendment. We recognise that as those components were a part of the Plan, so is the capacity to move the recovery target up via the 450GL efficiency component – as long as that can be done with positive or at least neutral community impact.

NIC has made it clear on many occasions that we support a Basin Plan outcome that produces healthy rivers, healthy communities and a continued capacity to produce food and fibre for Australia. An objective consistent with the goals outlined by then Prime Minister Howard when he started the process in 2007 and by the then Labor Government who introduced the Plan in 2012.

On that basis NIC's membership has taken the view that, even though we would rather the 450GL component was not there, we should engage positively with the process with a view to ensuring that

whatever action Government takes to recover the 450GL happens with the least negative impact. We do want to be clear though that it is the view of most irrigators that further removal of productive water is negative for food and fibre production and removal of productive water must be avoided if possible.

The legislation is clear about the 450GL target and the environmental objectives it is seeking to achieve. What is not so clear is what measures can be used to count towards the target. It is to be hoped that the process the Government and Ministers are now going through might help to clarify this. In brief we support efforts to obtain system wide efficiencies in river management or operation, from urban and industrial water users. We are also supportive of any proposals from Infrastructure Operators for scheme improvements.

NIC notes the provision in the Water for the Environment Special Account Act for the objectives to be met *'in any other way that is consistent with the Authority's modelling of the effect of increasing the volume of the Basin water resources that is available for environmental use by 3200 gigalitres'*. Given most of the environmental indicators relate to the lower Murray and lower lakes, this provision should allow Governments to explore options for infrastructure improvements on the lower lakes and Coorong that might achieve environmental outcomes without requiring water to be taken from productive use.

The Productivity Commission's draft review of the Basin Plan is also directly relevant, in particular, its call to review some of the objectives included in the Act to see if they are actually needed. These include the salt export objectives via the Murray mouth.

NIC also notes the Productivity Commission's strong recommendation on the timing of the recovery of the 450GL and the need to align it with actual capacity to deliver environmental water.

NIC would like to see a serious effort made to explore all these avenues prior to programs involving removal of productive water.

Pursuing all off-farm projects

NIC has consistently argued that every effort be made to secure off-farm projects first. We support the position of Ministers taken at the June 2018 Basin Water Ministers meeting that the expression of interest should include urban, industrial, off-farm and water metering infrastructure.

NIC strongly supports the immediate priority of Basin Governments to recover additional water through off farm efficiency measures, with the short-term priority being to recover the first 62 GL by 30 June 2019. As at 10 July 2018, 1.2 GL had been contracted through a three-year pilot program in South Australia — the Commonwealth On-Farm Further Irrigation Efficiency program (COFFIE). The Ministerial Council outlined a number of projects proposed by Basin States towards achieving the 62GL on schedule. The projects identify up to 29GL that could be recovered, leaving a gap of about 32GL to meet the targeted 62GL.

There have been a number of projects talked about by Governments already, but it would be fair to say that there is a very real lack of information around these off-farm projects. As NIC understands it some of the projects suggested to be submitted by Basin state and territory governments, included:

- A range of off-farm and urban projects to be developed by NSW in consultation with industry, community and the Commonwealth
- Opportunities for efficiency measures in Queensland that benefit the northern Basin

- Investigating urban and industrial efficiency measure opportunities and building on the existing on-farm irrigation efficiency pilot to recover between 2 and 5GL in South Australia
- Channel upgrading, improved system viability, and pipelining for stock and domestic supplies in Victoria that are estimated to yield up to 9GL, and
- A proposed urban water initiative integrating water security and waterway improvement activities in the ACT with potential for a 15GL efficiency contribution.

The lack of visibility regarding examination of these projects does not build confidence across the productive agriculture sector when the view is the sector and communities will ultimately wear the majority of risk of failure to achieve targets

There is however, a big gap between the off-farm projects we are hearing about and the target 450GL. We need to see a strong focus from all Governments in finding off-farm projects. We would be concerned if the process for these remained one of requests for tenders. Our view is that a far more proactive approach is required with funding allocated to assist Government or even community and industry to explore options and plan projects before final decisions and funding are provided.

To be clear what we are advocating is a much more on the ground process of identifying projects in conjunction with communities. It is acknowledged that the discussion paper has a brief reference to the potential to do this but we would like to see that actioned and resourced immediately.

NIC would also like to see serious discussion on where water is recovered. While noting that the Plan is not specific about the location of recovery it is very clear about the location of the bulk of the environmental objectives it is designed to achieve.

It appears to NIC that the most effective way of achieving the environmental objects outlined is to recover water or undertake measures in the lower parts of the system. For that reason we continue to advocate serious consideration of proposals to modify the management of the lower lakes and Coorong including (but not restricted to) automation of barrages, potential for interconnector and potential for Adelaide to reduce its use of the Murray. We have also advocated savings from river operation which must continue to be examined.

It should also be legitimate to look at the operation of the lower lakes themselves and whether evaporation losses could be reduced without negative environmental impacts. Taking the location point further the capacity to deliver savings to the areas targeted for these further environmental measures must be considered. Savings in poorly connected or constrained parts of the system would need some substantial justification.

On-farm efficiency

Irrigators are the biggest advocates and adopters of on-farm efficiency. Australia's irrigators are among the most efficient in the world and they continue to invest their own funds in maximising 'crop per drop' outcomes.

Promoting water use efficiency and productiveness on farm is a legitimate national objective for a range of reasons: maximising Australia's national income; capacity to produce food and fibre; supporting rural and regional communities; and environmental objectives such as supporting the health of our river systems and reducing salinity. It is a legitimate area for Government investment.

On-farm efficiency programs with a primary objective of returning water to the environment have also been a key part of the implementation of the Basin Plan to date. In a number of areas we know that these programs have enabled increased production with real environmental gains.

However, there are genuine concerns with continued one-size fits all on-farm efficiency schemes requiring the recovery of water for the environment. These concerns are not consistent in all areas, and NIC acknowledges there are some areas where farmers might seek to access on-farm schemes. NIC shares the concern that poorly designed on-farm schemes can have negative flow on impacts on Irrigation schemes, districts and communities. These particularly relate to the removal of additional productive water from a region where the negative impacts include reduced viability of irrigation schemes and the risk of increased charges being unaffordable for those remaining on the scheme. Other obvious impacts include a reduced level of production of food and fibre, which result in flow on effects for processing and transport industries and job losses, as well as broader impacts on a region's capacity to attract educational and health services.

We would also be concerned about uneven impacts in areas where a large number of producers have sold their permanent entitlement and are unable to participate in the programs because they rely on temporary water.

NIC supports the water market and artificial barriers to trade are not in the interests of our members. However, we do recognise that there can be flow on impacts to other areas of on-farm schemes, particularly if an area with greater capacity to take advantage of efficiency programs sees producers buying water out of areas that are not participating.

This is difficult to address but there needs to be consideration of how to 'level the playing field' prior to introduction of on-farm programs in NSW and Victoria.

NIC broadly agrees with the socio-economic criteria the NSW and Victorian Governments are proposing but careful consideration must be given to how the criteria would be implemented and applied effectively. This is not a process that can be rushed, if it is not clear how protection of community interests is being effectively dealt with then a program will fail to gain support and will breed grounds for undermining the Basin Plan.

Addressing competitiveness

The socio-economic work and analysis of Basin Plan impacts by the MDBA have made it very clear that some areas have been affected more than others by the uneven implementation of the Basin Plan. In particular, the far greater use of buy back in some areas than others. On the MDBA figures the Wakool area had the highest proportion of productive water removed (38%), it and other areas where the bulk of existing e-water has been recovered via buyback rather than efficiency have seen significant loss of production and community income.

In some of these areas, it must be acknowledged that the terms of trade for the commodities produced have also not been favourable over the last few years.

Understanding that we do have (subject to physical constraints) an open and competitive water market, it is not hard to see a situation where areas that have lost a large proportion of productive water without capacity for significant on-farm improvement, might face a more difficult situation being competitive in the water market in the medium to long term.

[This was highlighted by Ernst and Young's analysis which said](#) "infrastructure upgrades result in enhanced water efficiency and on-farm productivity for participants. As a result there is a potential for distributional impacts to arise if participants achieve a competitive advantage through participation in the program".

It should be a concern for federal, state and local governments that this might in the longer term see market forces continuing to reduce the viability of some existing irrigation districts.

The current additional criteria proposed do not deal with this issue.

This is not an argument for a blunt lever of a 'one size fits all' on-farm efficiency program requiring water to be returned to the environment. It is an argument for Government to consider how it can work with those areas most negatively affected, to design programs that can assist these regions into a more competitive position. Perhaps this needs to include a recognition that structural adjustment funding is required and that this might be directed at assisting some efficiency work or restructuring that is not attached to recovery of water.

We note the Productivity Commission's draft report on the 5-year assessment of the Murray-Darling Basin Plan, at [draft recommendation 3.3](#):

If provided, the Australian Government should target any further assistance to communities where substantial adverse impacts from water recovery have been identified. This should:

- have clear objectives and selection criteria
- be subject to monitoring and evaluation. Any support for regional development should align with the Productivity Commission's strategies for transition and development, set out in its report on Transitioning Regional Economies.

And further Productivity Commission [draft recommendation 3.4](#) which states:

The size and speed of water purchases has had negative impacts on some regional communities. Recovering water through infrastructure modernisation has partially offset pressure for structural adjustment in some communities, but at a significant cost to taxpayers. However, higher water prices, water trade, and other ongoing pressures for change in the agriculture sector mean that some structural change is inevitable.

Building region specific proposals

NIC has consistently urged the Department to acknowledge the need to allocate resources to design proposals from a 'bottom up approach', to engage irrigators, other regional industries, local government and communities in developing projects that might assist with achieving the targets.

This is consistent with the commitment to 'localism' that we also advocate in the planning and management of water. The discussion paper includes some broad points that touch on this, however we would like to see much firmer proposals from Government about the kinds of mechanisms that could be established to facilitate this approach, including allocation of resources for community based consultation and engagement from state and federal governments in identifying what type of programs might be suitable.

It is critical to consider in these programs that they might need to combine what have traditionally been seen as structural adjustment type approaches with efficiency programs. NIC would be happy to elaborate on our thoughts in this area.

Existing criteria

NIC would not argue with the aims of the existing criteria, which are broadly in keeping with those attached to other government funded programs. One measure under the criteria ***Bring benefits to industry and communities*** however, may prove to be more challenging. Specifically, measuring the short and long term negative or positive impacts for a community, region or state, from our experience can be difficult when over time other factors can come in to play. This has been shown by the evaluation of the Basin Plan conducted by the MDBA - when impacts can be masked by other factors.

Additional program criteria

We note that the need for the additional criteria was established due to the restricted eligibility for on-farm projects following research indicating that further water recovery through on-farm projects *'may not always achieve the neutral or positive outcomes required by the Basin Plan and expected by communities'*. This followed the work completed by Ernst & Young, which found that on-farm projects could have negative impacts if the funding program was poorly designed or implemented. We also note other reports identifying potential negative impacts, particularly on non-participating irrigators.

NIC wishes to make the following comments in response to the additional criteria and the additional actions proposed. We note that until additional program criteria are agreed, on-farm water recovery projects will not proceed in New South Wales and Victoria.

It is disappointing that the additional criteria have been developed without agreement from the states – particularly NSW and Victoria who in October 2018 also suggested their own agreed additional criteria.

The final criteria must include a comprehensive socio economic neutrality test along the lines proposed by NSW and Victoria.

Comments in response to the proposed additional program criteria and actions for on-farm projects

Additional criteria 1: Where a proposed project is located within an irrigation infrastructure operator's network, the proponent must provide evidence that the proposal is consistent with the operator's business or infrastructure/network plans. This evidence may be provided in the form of a letter from the operator indicating that the operator has no objections to the proposed project:

NIC comment: While we appreciate the intent of this criteria we are concerned that it might place the IIO in a difficult position. For example if the IIO indicated they had an objection to the proposed project, what would be the process going forward? Who would act as an adjudicator in this situation? Would the IIO be responsible for determining which project/s get the green light? Who would conduct the assessment that demonstrated the project is not consistent with the IIO's business or infrastructure/network plans? Who would be responsible for any costs incurred? Would there be opportunity for the project proponents to submit a revised proposal?

NIC has also heard concerns about whether this power of veto would be consistent with requirements placed on IIOs by the ACCC.

We would certainly welcome however IIO involvement in the design of any program impacting on their area. This highlights again the need for programs to be designed with specific local factors built in and in consultation with industry and the community of a region.

Additional criteria 2: Project proponents must provide evidence that the project is aligned with local government or regional development plans or strategies. This evidence may be provided in the form of a letter from local government/other organisation indicating that the organisation has no objections to the project.

NIC comment: Who would act as an adjudicator in this situation? What is the framework within which this approach will operate? A project may be aligned with local government and/or regional development plans or strategies, but may not meet socio economic criteria.

Again, we would welcome Local Government involvement in appropriately resourced program design and ground up consultation.

We note the issues raised by Ernst & Young in their report (Jan 2018) *titled Analysis of efficiency measures in the Murray Darling Basin*, that the suggested measures to address potential adverse impacts should be considered within program design and include:

- To address potential distributive impacts between communities and industry areas it is recommended that the on-farm program is allocated across communities and across industry areas (horticulture, cropping, dairy) so that individual communities or industries are not specifically advantaged over others.
- Distributive impacts on more marginal farms should be managed as part of whole of government resilience and regional development programs to support structural change that is impacting the industry as a whole.
- An agile program design approach will facilitate early adaptation of the program to avoid, address or mitigate impacts.
- Integrated implementation of on-farm and off-farm efficiency measures to allow implementation of infrastructure that maximises net benefits including the efficiency of the network and of on-farm enterprises. These measures will require a whole of government and cross jurisdictional approach drawing on existing programs and additional data, and will need to be supported by a robust monitoring and evaluation framework.

Finally, NIC would note that neither of these proposed additional criteria has the capacity to deal with flow on impacts of programs outside local areas. As discussed above it is clear that on-farm projects can have those impacts and these need to be considered in program design. Nor does either of the criteria actually deal directly with a test for socio-economic neutrality, without an agreed test these are bound to fail.