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Submission

Department of the Prime Minister and Cabinet
Agricultural Competitiveness Taskforce

Agricultural Competitiveness Issues Paper

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Contents

Introduction	2
General Comments.....	3
Specific Comments.....	4
1. Climate	4
2. Input costs.....	5
3. Resource Competition.....	6
4. Regulatory Framework.....	7
5. Foreign Ownership.....	7
6. Water Trading	7
Conclusion	8

Introduction

NSW Irrigators' Council (NSWIC) represents more than 12,000 water access licence holders across NSW. These water licence holders access regulated, unregulated and groundwater systems. Our Members include valley water user associations, food and fibre groups, irrigation corporations and commodity groups from the rice, cotton, dairy and horticultural industries.

NSWIC engages in advocacy, policy development and media relation. As an apolitical entity, we are available for the provision of advice to all stakeholders and decision makers.

This submission represents the view of the Members of NSWIC in respect to the Department of Prime Minister and Cabinet's *'Agricultural Competitiveness Issues Paper'*. However, each Member reserves the right to independent policy on issues that directly relate to their areas of operation, or expertise, or any other issue that they may deem relevant.

General Comments

NSWIC welcomes the opportunity to make a submission to the *Agricultural Competitiveness Issues Paper* (Issues Paper). We are aware that this Issues Paper is being developed alongside other key government initiatives, including the *Energy White Paper* and the recently initiated Federal *dam taskforce*. In this context, NSWIC's submission will only address those issues pertinent to irrigation and water resource management. While this will narrow the focus of our submission, we do however stress that it will be critical for future policy developments to be aligned to ensure that agriculture's competitiveness and profitability is not constrained by conflicting regulation. For that reason, NSWIC seeks a whole of government approach in respect to future policy development.

NSWIC is delighted that the Federal government recognises the importance of agriculture for the Australian economy and looks for opportunities to position agriculture to drive further economic activities, employment, social cohesion and prosperity for many parts of rural and regional Australia. As Australia has for many years relied on resource extractive industries to drive Australia's economic growth, we welcome the broadened perspective and focus on other industries that will drive Australia's future economy.

While the Issues Paper discusses a range of options to grow agriculture's competitiveness and farm gate profitability, NSWIC stresses that irrigated agriculture is faced with many challenges and obstacles. These challenges include (among other things) natural climate conditions, input cost pressures, competitive resource demand and the existing regulatory framework. These challenges have both a direct and indirect impact on the competitiveness and profitability of irrigated agriculture and must be carefully considered as part of the *Agricultural Competitiveness White Paper* development.

Specific Comments

1. Climate

Agricultural producers are challenged by significant climate variability. Changes in temperature and rainfall impact planting decisions and also directly influences irrigated agricultural output and overall profitability. As the recent large scale flood events have shown, water inflow into the Murray Darling Basin varies significantly between years. While inflows in 1956 were as high as 117,907 GL, they were only 6,740 GL in 2006. The resulting water availability for irrigated agricultural production restricted overall food and fibre production.

While NSWIC acknowledges that it is impossible to avoid climate variability, we have for many years stressed the need to provide irrigators with tools and mechanisms to manage climate variability effectively.

One option to better manage climate variability in irrigation is through the adoption of water saving irrigation equipment that lowers overall water requirements on farm. Many irrigators have installed such equipment to decrease their water dependency but found that it has now increased their energy usage. The trade-off between water efficiency and energy intensity has been crucially important in irrigated agriculture and resulted in overall input costs to often rise in irrigated agriculture. A study undertaken by NSWIC and Cotton Australia (CA) has shown that electricity costs in irrigation have increased by up to 300 per cent over the last five years. Such large input cost increases are unsustainable and have caused significant financial hardship for a range of irrigators. As such, input cost constraints have prevented irrigators from utilising an important risk management tool that could mitigate climate variability.

NSWIC submits that the Federal Government must provide adequate and cost effective risk mitigation tools/mechanisms that allow irrigators to mitigate climate variability. These risk mitigation tools/mechanism must be cost effective.

A second option to manage climate variability in agriculture is through securing additional supply of water. Such augmented supply could be achieved through additional storage capacity in NSW and elsewhere in the country. Whilst this is a possibility, NSWIC stresses that significant work would need to be done to ensure that the associated costs do not exceed the additional benefits.

Our current water storages reflect a finite resource. With predicted domestic growth and potential international export opportunities, we need to determine whether the current capacity is adequate to position Australia favourably over the next 25 to 50 years. Without a reliable supply of fresh water to underwrite Australia's food and fibre production, remaining competitive will become increasingly more difficult.

NSWIC would support the construction of new dams if there are clear net benefits and if the cost of building, operating and maintaining these additional storage capacity is shared by all beneficiaries, and not disproportionately borne by irrigators.

2. Input costs

As the Issues Paper has discussed on multiple occasions, productivity gains will be important to maintain agriculture's competitiveness and profitability. Productivity improvements are however only one aspect that needs to be addressed, while increasing input cost pressure must also be closely looked at.

NSWIC acknowledges that costs for most agricultural inputs have increased over recent years, but we have identified that the increases in energy and bulk water charges have particularly constrained irrigators over recent years.

Energy

Many irrigators have adopted water saving irrigation equipment on farm to decrease their water dependency. Whilst great success has been achieved with respect to water savings, many of the new installations have shown to be highly energy intensive. By trading off 'water intensity' for 'energy intensity', many irrigators have seen their input cost rise significantly. As outlined above, a study conducted by NSWIC and Cotton Australia has identified that cost increases in electricity were around 300 per cent for some irrigators over the last five years. For irrigators who are often price takers in domestic and international markets, such large input cost increases have narrowed overall profit margins and caused many to explore alternative options to increase revenue (or reduce costs) in order to remain financially viable. Should future electricity prices increase at similar rates, many irrigators will consider it unviable to utilise their energy intensive irrigation equipment.

If the Federal government intends to increase the competitiveness and profitability of agriculture, close attention needs to be paid to current input cost drivers. In electricity, cost drivers have mainly been network charges and State and Federal 'green' scheme costs (i.e. carbon charges). These 'green' scheme costs have severely impacted irrigators due to the increase in numbers and rates associated with these schemes.

NSWIC submits that the Federal government must urgently review the driver of current electricity costs and initiate changes to mitigate future cost pressures.

NSWIC has been working extensively on electricity costs in irrigated agriculture and published a range of papers that outline the impact of rising electricity costs on irrigated agriculture¹. We would be delighted to discuss this issue further.

Finally, it must be remembered that electricity costs will remain a significant input factor in irrigated agriculture, as the structural adjustments on farm have meant electricity is now a fixed input into production.

Bulk Water Charges

In addition to energy costs, charges for bulk water have also continuously risen over recent years. NSW is currently in the midst of its next determination of regulated bulk water charges and NSW's unregulated charges will be reviewed from mid 2014 onwards.

¹ www.nswic.org.au

As water remains the most important input into food and fibre production, future cost development in this regard are of significant importance to irrigators.

NSWIC has identified that there are very few signs that would indicate a decrease in future bulk water charges (both regulated and unregulated), hence the costs of utilising water for food and fibre production will remain a constraining factor for agriculture's future output, profitability and competitiveness.

Whilst NSWIC understands that bulk water charges are a state wide issue, we would like to highlight that a significant proportion of bulk water costs come from MDBA charges. These charges are passed on to irrigators without a detailed assessment of the efficiency of the Murray Darling Basin Authority (MDBA). We consider this a fundamental flaw and call on the Federal Government to initiate a thorough review of the MDBA's efficiency to ensure that food and fibre producers in NSW and elsewhere pay only the efficient cost of the MDBA's operations.

3. Resource Competition

Australia's agricultural producers have increasingly found themselves competing for vital input factors - first and foremost - water resources. The exponential expansion of mining and coal seam gas (CSG) operations has meant that large proportion of water licences have been transferred away from agriculture resulting in less inputs being available for food and fibre production.

Additional to a reduction in available inputs, agricultural producers are also concerned about the impact mining and CSG has had (and will have) on the water resources. NSWIC believes that insufficient knowledge is yet available to assess the impact of mining and CSG activities. With this lack of knowledge, we are concerned that the adequate protection of water resources is not ensured.

NSWIC submits that further work needs to be conducted to assess the impact of mining and CSG activities on water resources.

In addition, it is NSWIC's view that current legislation applicable to mining and CSG activities is inadequate and incomplete. Significantly more work needs to be done to strengthen the current regulatory framework to ensure that the protection of water resources remain absolute and unconditional.

NSWIC submits that the regulatory framework applicable to mining and CSG activities needs to be strengthened to ensure the adequate protection of water resources.

Without adequate protection of Australia's water resources, agriculture and the wider community will remain at risk from mining and CSG activities.

Finally, the Murray-Darling Basin Plan has also removed a large proportion of productive water from food and fibre production. The impacts have been felt right across the basin despite agriculture's productivity gains over recent years. Whilst we do not deny that productivity improvements are necessary to maintain or increase agriculture's competitiveness, there is a limit to the amount of resource reduction sustainable without constraining future output growth.

4. Regulatory Framework

Agriculture is subject to significant amounts of red and green tape. Given the scope and complexity of existing regulation, NSWIC is unable to provide a comprehensive list of all legislation and policy relevant to irrigators in NSW, but it is NSWIC's understanding that the amount of direct regulation imposed on agriculture is continuously growing. In addition, agriculture is also subject to a range of 'indirect' regulatory constraints. For example, these 'indirect' regulatory constraints are legislation that is primarily designed for the mining and CSG operations but impacts on food and fibre production through resource use patterns.

Furthermore, the current regulatory framework applicable to irrigated agriculture is often conflicting as federal policy objectives are not aligned. One example was the previous government's policy priority to obtain more water for the environment, while at the same time aiming reducing carbon emissions. These two policies are very difficult to align in irrigated agriculture.

NSWIC reiterates that it will be crucial for future policy development to be aligned and a review is undertaken on whether the amount of current regulation applicable to agriculture is useful and efficient. In addition, it is important that regulation is appropriately targeted, clearly communicated, and that its restrictions are minimised as far as possible to avoid perverse outcomes.

5. Foreign Ownership

NSWIC welcomes the recognition by the Federal government that communities are concerned about the sale of agricultural land and agribusinesses to foreign investors and that steps are being considered to increase the scrutiny and transparency around foreign ownership. In this context, NSWIC would like to add that foreign ownership of water entitlements must also be taken into consideration since the restrictions are significantly less stringent. As water entitlements and the allocations associated with these entitlements are an integral part of food and fibre production, the foreign ownership arrangements must also be considered when developing future agricultural policy.

NSWIC submits that foreign ownership of water entitlements be considered alongside agricultural land and agribusinesses.

6. Water Trading

Whilst the Issues Paper also makes reference to water trading as a possible risk management tool, NSWIC would like to stress that water markets can be highly volatile and do not always allow irrigators to manage risk effectively. As such, water trading should be considered a limited risk management tool. As the last few years have shown, water markets prices have been highly volatile. Such market volatility has had the opposite effect to risk mitigation as it increased the uncertainty of food and fibre producers. In addition, an effective market only exist when trade is possible and a sufficient number of buyers and sellers participate in the market. As such, we believe care must be taken not to overstate the benefits of water trading as the Issues Paper does on several occasions;

"Increased trading of water is contributing to a more economically efficient allocation of the resource between competing users. Such trade was particularly useful in

ensuring that scarce water was available to higher value users in droughts in the 2000s."

Whilst water trading has assisted irrigators to manage their businesses, it has also in some instances caused significant financial hardship if markets behave irrationally.

Conclusion

Food and fibre producers have not only shown that they are flexible and adaptable but also that they are willing and able to utilise their resources as effectively as possible. The complexity and uncertainty inherent in food and fibre production does make it however difficult to plan for all possible contingencies.

As such, NSWIC stresses that productivity improvements are one possibility to maintain Australian agriculture's competitiveness, however it will be equally if not more important to ensure access to reliable sources of water over the long term, that state and federal policies be aligned and cost pressures be mitigated. Without these additional considerations, continuous productivity improvements will not enable Australian agricultural producers to remain profitable and competitive over the long term.