

31st August 2009

Inquiry into Water Resource Management and Planning Charges
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

Dear Sir/Madam

The Western Australian Farmers Federation (Inc) (WAFarmers) thanks you for the opportunity to make a submission to the Inquiry into Water Resource Management and Planning Charges' Discussion Paper (the Discussion Paper).

As background, WAFarmers completed a submission to the Inquiry into Water Resource Management and Planning Charges' Issues Paper (June 2009) and representatives attended the Economic Regulation Authority's round table on 10th August 2009. Given this previous involvement, in this submission WAFarmers will not repeat the information that we presented in those phases of the Inquiry however we expect that the Economic Regulation Authority will consider them in their overall assessment of responses to the Discussion Paper.

In this submission, WAFarmers analysis on the broader economic theory is demonstrated through highlighting three issues of concern to a significant group of the water users in Western Australia.

Applicability of Water Resource Management and Planning Charges

WAFarmers has previously commented that *'ongoing and clearly defined access to the water resource will be required to allow Western Australian agricultural businesses to invest in their production capacity.'* WAFarmers believes that this process will be assisted through the development of the Water Resources Management Bill. WAFarmers believes that it is premature to be engaged in consideration of the implementation of Water Resource Management and Planning Charges without consideration of their broader placement in the Water Resources Management Bill. Western Australia's water reform process involves a suite of changes, and the delivery of these needs to be in context, not simply the introduction of charges without the required legislative, strategic and efficiency elements which will be a function of the Water Resources Management Bill.

WAFarmers notes the Discussion Paper's comments on water being a resource which meets the characteristics of a common property good and as such questions the validity of passing a charge, such as a Water Resource Management and Planning Charge, to only one sector of the resource's user group. The Discussion Paper identifies that '264 GL/yr of licensed water allocations are drawn from the Gnangara groundwater system' with a further '58 GL per year from the system' drawn from 'around 155,000 garden bores'. The Discussion Paper does not explain how access to, and use of, 58 GL of water can occur, under an efficient user-pays resource management system, essentially at no cost to the user, and is at odds with one of the key relevant principles of the Inquiry, being *'if someone causes costs to be incurred that they alone benefit from, then they should pay for those costs.'*

Whilst this is a regional specific example, there are others which WAFarmers can provide where the proposed Water Resource Management and Planning Charges are applicable to only a sub-set of the total user group. Simply holding a water license should not attract inequitable costs, under the guise of these charges being a true reflection of the management costs of the resource.

Willingness to participate in Water Resource Management and Planning Charges

Representatives of agricultural and horticultural water users again made the point at the Economic Regulation Authority's round table that these licensees had no capacity to pass on the proposed Water Resource Management and Planning Charges. Unlike other water users, this group would bear the full cost of the charges, representing a significant cost to their business. This point of view has not been

accepted by the Department of Water previously, and as such WAFarmers will comment on 'willingness', rather than 'capacity', to pay.

Clearly, a large number of commercial water users did not accept the financial analysis of the previous government in their failed attempt to introduce Water Licence Administration Fees. This position was supported in the Final Report of the Economics and Industry Standing Committee: Water Licensing and Services Inquiry. Report 9 to the 37th Parliament (February 2008), which identified issues with the lack of independent assessment of the Department of Water's assessments, finding;

- While the Department of Water's approach to the calculation of water licence administration fees appears logical it has not been subjected to rigorous independent analysis nor adequately communicated to those most affected.

That inquiry identified water user's concerns with the structure of the proposed fees, the efficiency of the Department of Water in service delivery, their application of fees to a sub-set of water users, possible cross-subsidisation of services, uncertainty with the full or part cost recovery nature of the proposed fees and the Department of Water's reporting and consultation process.

The State's 2009/10 budget identifies that the total cost of 'water use and optimisation' for 2009/10 as \$47 480 000, and that 13 300 water licences require, on average an investment of \$1829 to manage, totalling \$24 325 700. There remains considerable uncertainty over how much of the 'water use and optimisation' costs that licensed water users will be expected to meet under a Water Resource Management and Planning Charge. WAFarmers believes that this investigation is critical, and given their likely implications for current and future water users they should be fully investigated, understood, and detailed, prior to any further discussion with on Water Resource Management and Planning Charges.

Highest value use of water

The Discussion Paper comments *"In allocating the costs of providing private goods and services amongst licence holders, a key principle is that the costs of licences should reflect their costs to society (including potential externalities to the environment and other users). In some cases, incorporating the costs of water resource management services provided to licence holders into the costs of licences could discourage new applications for water or cause existing licence holders to relinquish their licences. This reduces the pressure on water resources, and would limit water allocations to those who place the highest value on water. The ability to trade water allocations would help to ensure that water is allocated to its highest value use."*

WAFarmers seeks clarification on these comments in terms of the highest value use of water. There are any number of studies which measure the value of 'irrigated production' on a gross output/water unit basis however WAFarmers believes that a more realistic measurement to this Inquiry should factor in the State and Federal Government's commitment to provide security of food supply. Clearly, this focus provides a value of water use by agriculture far higher than certain amenity or lifestyle uses. WAFarmers believes that the Economic Regulation Authority must demonstrate consideration of food supply in any future reference to the 'highest value of water'.

I thank you for consideration of this submission. Should you wish to discuss this matter please do not hesitate to contact me or WAFarmers Director of Policy, Alan Hill on 9486 2100.

Yours sincerely

Mike Norton
President