Fruit Growers Victoria

State of Victoria Department of Environment, Land, Water and Planning delivery share review

FGVL submission – August 2018

About FGVL

Fruit Growers Victoria Ltd (FGVL) is a member-based organisation representing the interests of Victorian fruit growers, which includes 300 fruit growing, packing and exporting businesses across the state. Production from our members encompasses 40% of Australia's apples, 30% of Australia's stone fruit industries and 90% of Australia's pears. Our industry has a gross value of production more than $1 billion and is a cornerstone for business and employment in regional Victoria.

Most of our membership is reliant on irrigation water supplied by Goulburn Murray Water (GMW).

In advocating for the interests of Victorian fruit growers, including those in the Goulburn Valley, we seek to work constructively with policy makers, government agencies, industry organisations and other stakeholders to achieve fair outcomes for growers.

FGVL policy position

FGVL supports the Victorian Government's efforts to assist Victorian irrigators and network operators find suitable policy settings to equitably funding the cost of running irrigation network infrastructure.

We acknowledge that some landholders in the Goulburn Murray irrigation District (GMID) are disgruntled with having to pay annual fixed charges associated with their delivery share, which they cannot dispose of easily due to their negative value.

However, FGVL doesn't support imposing a higher cost burden on active irrigators within the district, to reduce the cost of holding delivery shares for infrequent water users in the network. Both active and infrequent water users within GMW's footprint need to contribute to funding the fixed costs of running the system. Landholders who don't regularly irrigate using network infrastructure remain owners of a farm asset whose value is in some part underpinned by the future right to access the irrigation network connected to their property. A delivery share is an investment in the upkeep of the farm asset, and the fixed charges attached to it were intended to ensure an equitable distribution of the fixed cost of maintaining the network.

The fundamental problem all landholders in GMID face is that policy reform, not of our choosing, has drastically altered the characteristics of the revenue base servicing the costs of the network operator. The shift in water ownership over the past decade, to governmental environment agencies and water owners 'unattached' to a landholding in the network, has generated an imbalance between the water now used for production within GMID, and the historical delivery share system developed for recovering the cost of running the network.

The use of productive water within GMID is now proportionally less than the fixed, remaining quantity of delivery shares in the system, creating an oversupply relative to demand from productive use. FGVL is concerned that if landholders are unwilling or unable to pay 10 times multiple termination fees, then a continuing structural imbalance will undermine the sustainability of GMW's fixed charges revenue in the longer term.

Our suggestions for addressing this problem are included in our comments on the delivery share review discussion paper below. Please note, we have not addressed each option listed in the paper separately, only those of most relevance to GMW irrigators.

Ensuring equitable treatment of different water users

There is an oversupply of delivery shares relative to requirements at the time they were issued, and many of the options in the discussion paper seek to address this issue, or their symptoms. Unfortunately, FGVL considers that most of these potential 'solutions' would lead to a situation worse than the current problem.

FGVL acknowledges the challenges in establishing a viable market in delivery shares that could facilitate an exit for current owners disgruntled with the annual liability they incur. The only way to establish a market in delivery shares is for them to have some value, either by generating scarcity of the asset, or establishing some other value proposition that would entice ownership demand that currently doesn't exist. This is unlikely in the GMID.

Due to policy reform shifting water away from productive use within the district, GMID irrigators do not face channel capacity constraints. Therefore, attaching delivery priority to delivery share owners during peak periods isn't an option to improve the value proposition for ownership. We also note that, unlike other irrigation districts in the southern Basin, delivery share owners are not allocated an allocation efficiency dividend against their share, which would also assist to give it some value.

There are a number of options in the discussion paper that propose an effective 'shuffling of the deck chairs' to shift the cost of sustaining the GMW network between different landholders. In our view, these options are inequitable and unfairly punish active irrigators for a circumstance not of their making.

FGVL does not support the following options:

- Arbitrarily reducing the volume of water available per delivery share to create scarcity, so as to enable infrequent water users to sell them to active irrigators forced to acquire more delivery shares to avoid casual use fees.
- Establishing new charging structures that are based on increasing fees proportional to irrigation scale or use history.
- Reducing the cost of discarding delivery shares for those who no longer want them.

These proposals would create an inequitable outcome for active irrigators with entitlement holdings and provide an incentive for under-use, which would be counterproductive to protecting GMW's revenue base.

Currently, it is hard to envisage a viable market for delivery shares among current landholders in the GMID, without an inequitable burden being imposed on active irrigators on the network. It will only occur if other participants within the water ownership system are required to make a greater contribution to infrastructure running costs.

Limited term contracts

FGVL does not support the option for GMW to offer limited term contracts to irrigators as an alternative to their current delivery share ownership. Such an arrangement would significantly undermine GMW's revenue base in the long run, and create 'holes' in the delivery network, creating inefficiencies and increasing costs for remaining irrigators.

While the discussion paper indicated that limited term contracts could potentially provide signals for strategic reconfiguration of the system, there is a significant risk that uptake of these arrangements would occur randomly and result in a reduced revenue base across the same geographic footprint.

Environmental water use contribution

FGVL strongly supports holders of environmental water being required to make a fair and equitable contribution to underpinning the water storage and delivery system in which they operate. Whether through delivery shares or another mechanism, environmental water holders should be required to meet the costs of running the system, proportional to their entitlement holding.

A fairer contribution from environmental users would provide network operators such as GMW more scope to deal equitably with the oversupply of delivery shares, without an unfair burden being imposed on either active or infrequent irrigators. The genesis of environmentally held entitlement is readily identifiable, and the agencies responsible should be required to make a fair contribution to the operations and maintenance costs of the network from which it came.

We strongly encourage the Victorian Government to remove current barriers to equitable charging arrangements, by addressing inconsistent irrigation pricing frameworks applying to different ownership types.

Charges to water holders without delivery shares

FGVL is aware that a substantial quantity of entitlement is held outside of the landholder/delivery share framework, which originated from within the GMW system prior to unbundling land and water titles. This is often referred to as investor held water, though some of it is actually owned and used by GMW irrigators, having been purchased through trade in water entitlement.

The anomaly is that water entitlement acquired outside a delivery share arrangement is subject to different pricing arrangements than that held from the period in which land and water title was directly correlated, even when used on the same land. This situation is inequitable and should be rectified.

Even where water entitlement originating from the GMW system is traded outside the GMID footprint, there needs to be a mechanism in place to ensure that all entitlement holders incur charges that represent a fair portion of the overall cost of managing the storage and delivery system. We would welcome the opportunity to work with the department on how these policy settings could be developed to provide both equitable treatment and comply with other regulatory arrangements.

Government subsidies

Governments at both state and Commonwealth level need to recognise the unintended consequences of water reform imposed on irrigators and network providers.

With less water now being delivered through the network, GMW's revenue base is not sustainable if the state government wants to avoid increasing charges for active irrigators, and simultaneously reduce the cost burden on those no longer relying on annual access to irrigation delivery through the network. For reasons outlined above, there is no way of addressing the problems of an oversupply of delivery shares without alternative revenue sources to offset the cost to current users of reducing the current delivery share base.

FGVL is of the view that as part of a package of measures to assist with Basin Plan adjustment, funding to offset the cost of addressing the current delivery share imbalance is required. While our preference is for environmental and other water entitlement holders to bear equitable responsibility.

Conclusion

FGVL recognises that there are no simple solutions to a problem caused by a legacy-based delivery and charging mechanism, which has been overrun by policy reform and changing water use patterns.

However, re-arranging the cost burden among current landholders in the GMID isn't an approach acceptable to our members. In our view, proposed changes in this vein will have one or both of the following effects:

1. making the revenue base of GMW unsustainable

2. putting an unfair burden on active users, who do most to provide fixed revenue to meet ongoing network costs.

FGVL is of the view that a broader, more sustainable revenue base from which to meet irrigation network costs is required. This will need to involve fair and reasonable contributions other participants in the broader irrigation system, who derive benefit from the financial contributions made by GMID landholders to the management of the entire system.

Agencies holding entitlement for environmental use, and water entitlement owners unencumbered by delivery share obligations, need to play their part in meeting the cost of running the system. This includes irrigation networks that support delivery, production, and the tradability of the asset.

We note that both Melbourne Water and the Environmental Water Holder (and others) are free to trade water, and do trade water, into the channel system which they make no contribution to the maintenance of. The only viable and equitable long-term solution is for all holders of Water Shares to shoulder a proportionate of the whole system maintenance costs.

The issue is to find an equitable transition arrangement.

FGVL appreciates the opportunity to make a submission to this review. We would welcome the opportunity to provide further comment, via Michael Crisera at growerservices@fgv.com.au

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