

3 April 2002



Mr. Ed Willett
Executive Director
National Competition Council
GPO Box 250B
MELBOURNE VIC 3001

Dear Mr. Willett,

I write in general terms to convey the frustration felt by the Victorian Farmers Federation in relation to the CoAG strategic framework for reforming Australia's rural water sector.

Victoria's rural water sector has undertaken significant reform over the last 10 years. As a result Victoria has received financial benefits in the form of federal government tranche payments.

However, little, if any, of this money has been passed directly onto the rural water industry or its customers to assist them to adjust to the reform process. Tranche payments that have been made to the state government have generally been 'lost' in the Victorian Treasury.

The Federation believes there must be greater transparency and accountability in relation to where state governments can spend the monies received as NCP tranche payments. Ultimately, the Federation would like to see a proportion of these funds earmarked to offset the adjustment costs incurred by the sectors and communities who, at times, have experienced considerable pain in complying with the CoAG reform agenda.

The Federation is also very frustrated with the lack of consistency and transparency in the process used for assessing whether or not states are complying with the CoAG rural water reform agenda.

Victoria appears well ahead of the other states in several water reform areas including pricing. Victoria has also shown strong leadership in relation to difficult environmental management issues. The recent Farms Dams legislation is a case in point.

This legislation was politically controversial and the 'compensation' package associated with it committed the Government to considerable future expenditure. It is disappointing to see the other states dragging the chain on similar reforms. There is no consistent approach across Murray Darling Basin States to the regulation of private farm dams.

We note that as part of the 2002 Rural Assessment Framework Issues for Victoria the NCC will be looking at the Victorian Farm Dams legislation in relation to principle 3 (provision of water for ecosystems) and principle 6 (sustaining natural ecological processes and biodiversity).

Given the comparatively lax approach to regulation **and enforcement** of farm dams regulation in other states it is hypocritical of the NCC to be looking at Victorian legislation in these terms at this time.

Will the NCC identify the lack of progress in this area in future reviews of other states? We have not seen any comment from the NCC in relation to NSW or Queensland farm dams legislation.

Similarly the VFF is very concerned to see rural water pricing issues in Victoria identified in the NCC's 2002 assessment issues. Victoria has made far greater progress towards achieving 'full cost' recovery in the rural water sector than other states.

Would the NCC seriously recommend withholding tranche payments from Victoria on the basis that rural water prices do not meet full cost recovery when prices in this state are in general much higher than comparable irrigation districts in NSW or SA.

Relatively higher water prices in Victoria are directly attributable to the so-called full cost recovery pricing policies of Victorian Rural Water Authorities and the subsidies provided to NSW and SA irrigation systems to enable them to upgrade infrastructure. Irrigation systems in both of these states benefited from substantial Commonwealth and state government investments in infrastructure refurbishment prior to corporatisation or privatisation. Victorian farmers assumed financial responsibility for irrigation systems on an 'as is where is' basis in early 1990s. The condition of much of the infrastructure 'inherited' was relatively poor.

Perhaps it might be more appropriate for the NCC 2002 assessment to consider whether or not the Victorian Government should be required to allocate funds from NCP tranche payments to upgrade Victorian irrigation infrastructure. It could be reasonably argued that the NCP 'competitive neutrality' principles would demand that if Victorian irrigators are to operate on a full cost recovery basis and compete against their colleagues in other states they should also have the benefit of taxpayer funded upgrades of irrigation infrastructure.

While water resource management is primarily the responsibility of the individual states, the National Competition Council's approach to CoAG compliancy needs to be more consistent, so that states that show leadership are not unfairly disadvantaged.

In our view the NCC's current approach to water reform lacks accountability, transparency and consistency.

Yours sincerely



Clay Manners
General Manager, Policy