

14.11.18

Response to *Discussion Paper on cost recovery for the Department of Water and Environmental Regulation*

vegetablesWA, in association with WA Farmers Federation, WA Citrus, Pome West, Wines of Western Australia and WA Potatoes, has developed a joint response to the proposals outlined in the Discussion Paper. This response reflects the WA horticultural industry's position as a whole.

THE INDUSTRY'S POSITION

The horticultural industry is **absolutely opposed** to the introduction of any cost recovery for self-supply water licenses and native vegetation clearing.

The proposed fees are unfair and will have a severe impact on the hundreds of Mum and Dad business owners who underpin the industry.

The introduction of licensing fees does not consider:

- a) the economic value of the horticultural industry to WA;
- b) the capacity for growers to pay, given financial margins in horticulture are low and there is no capacity to pass the cost onto the consumer;
- c) the inequity resulting from the fact that no charges are being considered for unlicensed bores for hobby farms and suburban households;
- d) the poor status of the current level of service provided by the Department of Water and Environmental Regulation (DWER);
- e) growers' current contributions towards commercial hydrological surveys and meter monitoring;
- f) fee level calculation is not transparent;
- g) how to more efficiently and effectively manage water resources.

We note in the Economic Regulation Authority's *Inquiry into reform of business licensing in Western Australia*, it is stated that:

"Licensing to manage the State's water resources provides another example. Discussions on reforming water regulation in Western Australia have been happening since 1994; however, the Government is yet to draft new water resource management legislation. The delay means the State is administering an outdated water licensing scheme. Processing times for water licence renewals and amendments are about 30 per cent longer than necessary."

Administering regulations and licensing is a key role of Government in order to provide transparency and impartiality in the effective and efficient management of the state's natural resources, with the environment as the key beneficiary. This function is a core part of business and must continue to be funded by Government.

As a major land and water developer, the horticulture industry expects a transparent and informed resources management system to support the significant upfront investment required to establish, develop and sustain intensive annual and perennial horticultural production.

The current Western Australian Government was elected on the platform of supporting economic development, jobs and growth. The introduction of these charges is a complete contradiction of this policy and directly impacts the industries and businesses creating growth. The impact on horticulture will be extremely significant, and undermines our industry's efforts to develop land, grow and expand to remain competitive.

If the Government is serious about supporting Western Australian growers, the horticultural industry and the wider State economy, they need to abandon these proposed cost recovery charges and focus instead on passing modern water management legislation.

INTRODUCTION AND BACKGROUND

In 2015/2016, the Western Australian horticultural industry was valued at \$909 million with \$119 million generated from exports. This value is likely to be much higher when value-adding and multiplier effects are considered. Our industry provides fresh, quality, safe, locally produced and reasonably priced fruit and vegetables to Western Australian consumers.

The State produces a diverse range of horticultural crops that includes tropical and temperate fruits, nuts, vegetables and table wines. Our industry is made up of smaller family operators, medium enterprises and large, corporate-scale, highly-efficient intensive production businesses operating from the Ord River Irrigation Area in the north, to the Gascoyne River at Carnarvon, the coastal sands near Perth and throughout the cooler south-west region.

The horticultural industry directly and indirectly employ tens of thousands of Western Australians in urban, regional and remote communities, and contributes to underpinning the State's economy.

Western Australian horticulture production is geographically isolated from other nationally populated cities (markets) and input suppliers, and as a consequence, the costs of production and freight are higher. **Imposing additional costs on the industry will make it more difficult for our growers to compete with national and overseas producers.**

An increase in production costs has the potential to:

- a) increase imports of fresh fruits and vegetables; and
- b) the introduction of imported produce will increase the risk and likelihood of exotic pests and disease, putting at risk our natural flora and fauna and its diversity.

Amongst the OECD countries of the world, Australia is recognised as receiving one of the lowest levels of any forms of subsidy from Government. The introduction of these proposed fees for service by DWER would severely disadvantage Western Australian producers when competing with other countries in export markets.

The introduction of charges also fails to consider all the local, state and federal taxes, rates, levies and charges already paid by our horticulture businesses. The industry contributes substantially to the taxation system through the payment of company and personal taxes, GST and state payroll tax to provide services to the public.

There is little recognition of the economic development and opportunities created by horticultural businesses, particularly in the regions. This proposal to charge is merely cost shifting and creating a bureaucratic process with expensive transaction costs for taxpayers.

In the case of clearing permits, the majority of licenses are for Government entities where the tax or rate payer is paying for transactions between Departments. This appears highly inefficient and expensive.

These charges will result in job losses, businesses closing, reduced expansion and a barrier to new entrants.

The horticultural industry is a substantial employer in regional and metropolitan communities with flow on effects through the supply chain from input suppliers to processed food production and tourism. Any financial impact on businesses creates a ripple effect along this supply chain and employment opportunities - especially in regional areas.

The introduction of cost recovery for service creates uncertainty for the current horticultural industry to expand and increases the risk for future investors to confidently progress developments in Western Australia. Attracting new proponents to Western Australia is difficult enough due to the isolation and lack of proven resource use, adding new charges creates yet another barrier.

The State Government, through the introduction of these charges, is putting an additional barrier to development and making it less attractive to operate here in Western Australia. In its recent report, the Economic Regulatory Authority found 27 per cent of State Government business licensing schemes are for the agricultural, forestry and fisheries sector, making it the most regulated sector.

CAPACITY TO PAY

The horticultural industry is characterised as being made up of many low margin businesses that lack the capacity to pay additional fees and charges, as well as cope with all the other spiralling input costs. For example, the ABARES data shows that the price of fuel paid by farmers has risen more than 18 per cent between 2000 and 2017 and the annual increase in rural wages - our largest single cost - has averaged 3.25 per cent over the same period.

Growers do not have the capacity to pay because in the market place they are price takers, not price makers. They are unable to transfer higher input costs onto their produce because sales agents and major supermarket chains control the price and capture the majority of profit.

Recent benchmarking undertaken by vegetablesWA revealed that many horticulture businesses are marginally profitable. **The average return on capital of the bottom 25% of participating growers was negative 6%.** If the proposed charges being contemplated for the mining and public water sectors were

implemented for self-supply water users, it would further impact growers' bottom line, forcing many to leave the industry. **It should be noted that many growers hold multiple licenses and so the combined imposition is likely to be an extremely large cost to business.** The costs of water borne by growers for pumping, and in some cases double pumping, and infrastructure are already high.

EQUITY

It is unacceptable to commercial horticulture that these proposals will only affect license holders when there are large numbers of those who also use the resource but do not require a license. These include dams and bores for hobby farms and suburban households. It is unfair that horticulture would have to pay for decisions about licensing levels and these other beneficiaries do not.

Additionally, the proposed fee structure is not balanced. It is not equitable to charge the same fee for an allocation of 51,000kL as 499,000kL.

POOR CURRENT SERVICE

Applicants and licensees have a right to expect value for service. The service currently received by growers is inconsistent and not up to standard. Should a fee be introduced for service, there is no guarantee or incentive for efficiency – and the current variable standards are likely to slip even further.

In addition, the proposed charges introduce an excessive fee for a service where the proponent undertakes a large share of the work in the licensing process. Water licensees and applicants expend substantial resources in the form of money, time and expertise to undertake the investigations of water resources and land suitability with the prospect of obtaining a license. This often requires the employment of consultants to undertake detailed studies and interpret data. This information and service is NOT provided by DWER. However, the new knowledge created by the applicant and licensee adds to the State's understanding of the resource. The department provides very limited value-add to the applicant in this process. **The provision of sound hydrogeological work by the applicant offsets the cost of the Department in managing the resource and should be rewarded.**

In New South Wales, applicants pay a simple license fee to access resources and are not subjected to this level of effort and expense.

In Western Australia, licensees undertake monitoring and metering, and report in accordance to the conditions of licensing, which are then used to re-issue a license. The level of engagement with the Department during the application process and term of the license is limited. This is further complicated by the lack of knowledge in the Department of industry practices or poor scientific understanding by Department staff, which can result in impractical requests or lead to increased costs of compliance without any improved understanding or reduction in environmental harm.

Growers also report variability on assessment quality, scope creep and additional opportunity costs for their businesses that these issues arise. It is unclear what value to the clients the Department provides.

With the recent reduction in public service staff, Departments have been gutted of capability; thus the chances of providing services in a timely and effective manner are further reduced.

It is also relevant that when DWER moves to Joondalup it is likely to lose many skilled and experienced staff, which will have the effect of further reducing the current service standards.

TRANSPARENCY

The WA horticulture industry has absolutely no confidence in the calculations DWER has recommended for processing these applications. How can it possibly cost between \$4,000 to \$7,000 for an amendment to change the name or address on the license? This lack of transparency is absolutely unacceptable to the industry.

Whilst industry does not necessarily endorse the National Water Initiative (NWI), this proposal violates its Pricing Principle 3, which states:

Having identified water planning and management costs to be recovered from water users, in whole or in part, activities should be 'tested' for cost effectiveness by an independent party and the findings of the cost effectiveness review are to be made public.

Clearly this has not occurred and should the Government proceed with introducing licensing charges, then industry demands this step be undertaken and activity costs benchmarked against other State peers.

Paragraph 68 of the NWI also requires States and Territories to report publicly on cost recovery for water planning and management as part of annual reporting requirements, including the proportion of the total cost of water planning and management attributed to water access entitlement holders, and the basis upon which this proportion is determined. **In making the case for introducing charges, the Government has not demonstrated the basis upon which water users' fees are determined.**

Based on our past experience, the horticulture industry believes DWER is still unable to deliver a streamlined improved service, and as a result, is opposed to any cost recovery charge for service being introduced. We require much greater transparency about how these proposed fee levels were determined.

ADDITIONAL CONCERNS REGARDING LACK OF CONSULTATION

DWER and the State Government has failed to consult effectively with its clients on a proposal that will have a severe impact on the whole industry. For example, we have sought to contact licensees in the vegetable industry which has resulted in much enhanced engagement at various consultation meetings. However, water users outside of peak industry bodies may have been unaware of this proposal. The Department should have written to each of its license holders to make them aware of the consultation process and how best to engage.

The government should be aware that those growers who are currently aware of these proposals are extremely unhappy about them. Given the complete absence of the Department engaging directly with

license holders, should the government seek to progress these unfair fees beyond the existing consultation process then government and industry would be negligent if they didn't inform license holders about their potential impact before they were enacted through the further consultation mechanism of the Western Australian Parliament.

To this end, government should now **write to all individual licence holders and explain the proposal and that the departmental consultation process has not engaged them directly but they should now address their remarks directly to The Honourable Dave Kelly MLA, Minister for Water; Fisheries; Forestry; Innovation and ICT; Science, and provide his ministerial contact details. The correspondence should also provide the name and contact details of the relevant Member of the Legislative Assembly and names and contact details of each Member of the Legislative Council for each licence holder.**

CONCLUSION

The introduction of charges will have a hugely significant impact on current horticultural businesses, supply chains, the availability of locally produced fruit and vegetables in Western Australia, and further investment in the industry and state.

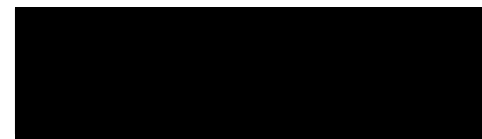
The focus for DWER should be about transparent and impartial regulation; the benefit to the community is effective resource management, rather than employing more public servants or cost shifting.

To support WA growers and the horticultural industry, the Government needs to abandon these proposed cost recovery charges.

Should the Government ignore industry concerns and go ahead with implementing any fees and charges then industry demands much more consultation. We are putting Government on notice – there will be a strong media and community campaign against these fees, which will be supported on a national stage through our partners across Australia.

CONTACT

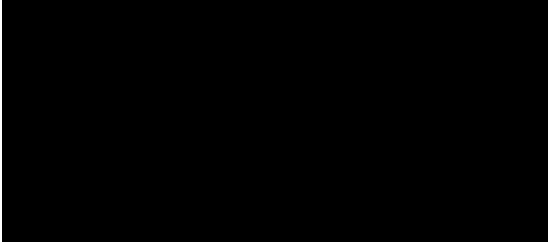
For clarification on any of the above issues, or further discussion, please contact vegetablesWA CEO John Shannon on [REDACTED] or at [REDACTED]



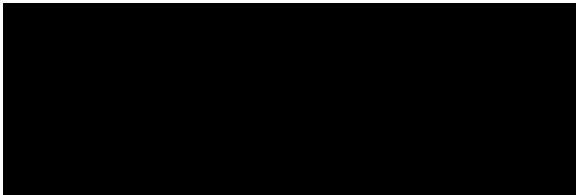
John Shannon, vegetablesWA



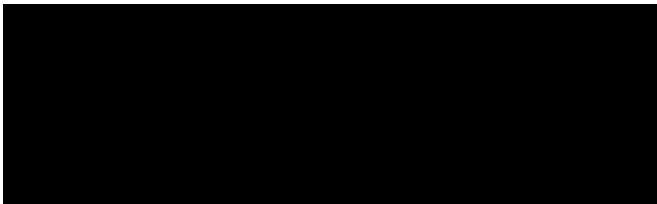
Richard Eckersley, WA Citrus



Nardia Stacy, Pomewest



Larry Jorgensen, Wines of WA



Simon Moltoni, WA Potatoes

