

FARMERS are paying too much for irrigation water, a leading economist has found.

The report has been funded by the Dairy Re-

Water costs to farmers slammed by economist

search and Development Corporation, the Victorian Farmers Federation and United Dairy

Farmers of Victoria.

Leading rural economist, Dr Alistair Watson, has criticised the economic rationale behind present water pricing policy and has called for a restructured pricing system in his report — *Conceptual Issues in the pricing of water for irrigation*.

He has called for policy makers to move away from the "user pays" and "full cost recovery" philosophy which is the present thinking for pricing irrigation water.

"The overriding motivation in water pricing should be to obtain the highest national benefit

from Australia's irrigation water," he said.

"Numerous official reports used as the basis for current irrigation pricing policy are based on dubious economic reasoning and unsubstantiated assumptions.

"Unfortunately many major policy changes in irrigation water pricing cannot be justified on economic grounds and appear to be little more than a way of raising revenue."

VFF Water Resources Committee chairman Max Fehring said the impetus behind the report was irrigator concern that many of the

changes being imposed on the water industry in the name of micro-economic reform were based on a very superficial analysis of the economic principles involved.

He said farmers were particularly troubled by proposals to recover the past capital investment in dams via water prices.

Dr Watson strongly objected to incorporating the original capital or "sunk" cost of an irrigation scheme in water-pricing formula.

"Given that the vast majority of irrigation schemes were built years ago, it is irrelevant to

consider the 'cost' of existing assets in the prices paid for irrigation water today," he said.

"Irrigators should only pay for the full annual cost associated with operating and maintaining the supply system as well as a separate depreciation charge to finance the maintenance of essential assets with a life of less than five years."

Rather than setting prices for "cost recovery", Dr Watson said water prices should be used for "rationing" water because it was a scarce resource.

But he was critical of the way authorities were attempting to change water pricing policy under the guise of addressing environmental problems such as salinity and algal blooms.

"This approach assumes higher water prices will cut overall consumption but overlooks the fact that environmental problems are often site-specific, with the damage occurring away from the farm which uses the water and are dependent on soil types and water tables," he said.

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