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Senate Standing Committee on Rural Affairs and Transport

Inquiry into the management of the Murray-Darling Basin Plan

Submission by Western Murray Irrigation Limited (WMI)

WMI as a member of the National Irrigators Council (NIC) also supports the NIC Submission

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Background

Western Murray Irrigation Limited (WMI) is a not for profit unlisted public company limited by shares. The company was privatised from the NSW Government in 1995. WMI customers hold a high security water entitlement of 57,552ML. WMI manages three irrigation areas in the NSW side of Sunraysia, Buronga, Coomealla and Curlwaa. The irrigated area represents 4,400 hectares and is predominantly permanent plantings (grapes and citrus). The value of product at the farm gate for the WMI irrigation districts is $45 million.

The water is pumped directly from the River Murray via three separate pumping stations and delivered through fully pipelined delivery infrastructure. Each pumping station has an independently calibrated meter, owned and operated by WMI, and is supplied water under a bulk water licence arrangement. All supply points within WMI on farm are metered. The replacement value of WMI water infrastructure is estimated at $145 million.

WMI also undertakes extensive drainage water management, monitoring and reporting. Drainage schemes in each area ensure removal of hundreds of tonnes of salt each year and prevent drainage water from entering flood plains.

Permanent water transfers have been occurring from WMI since 2008 and it is expected this trend will continue. At present 20% of the irrigated areas have been dried off and there has been a reluctance to invest given the uncertainly surrounding both commodity prices and water reform policy,

WMI is at full cost recovery and has a combination of fixed and variable pricing which has allowed the company to be self sustaining during the last four years where periods of drought and an extreme wet start to the 2010 season has reduced allocation and usage. WMI prides itself on the company's strong financial performance since privatisation. The company has a Board of Directors with six shareholders and two independent directors as its members.

The Board of Directors of WMI believe the proposed Basin Plan outlined in the Guide has the ability to threaten the future viability of the company.

The Board has been concerned from the start of the process the Murray Darling Basin Authority (MDBA) does not have the skills or resources to complete the impossible task set in unrealistic timeframes. The scope of the plan is too narrow to provide an all encompassing solution needed. The guide has been released with major bodies of work still being commissioned and extensive resources are being committed from the irrigation industry without all information to hand. It is difficult to interrogate the science without the expertise.

The process to date has been damaging to regional communities with little recognition for the progress achieved on the ground in terms of water reform, water use efficiency and catchment management or the hardship experienced during the drought.

High hopes are being held for the Senate inquiry into the management of the Murray Darling Basin Plan and the WMI board is available to the inquiry to respond to any queries or to ground truth any proposals.

Introduction

The most telling and relevant comment from the resignation statement of Mike Taylor was:

> "While the Authority has an important part to play, it is neither empowered nor equipped to undertake the entire complex task."
>
> - Mike Taylor, outgoing chair of the MDBA[1]

Real solutions are needed that provide confidence in the future of irrigated agriculture and investment into the regions. This cannot be done in six months and it is time to slow the process down to ensure the data, models and science is comprehensive and sound, the plan is credible and that community consultation and engagement with the States and stakeholders is undertaken valley by valley, region by region and town by town.

WMI supports the National Irrigators Council view that the current Federal Water Act is biased to the needs of the environment given its reliance on the external affairs powers to achieve a head of power under the Constitution.

The Act must be amended to reduce the risk of legal challenge and restore the trust of regional communities that the triple-bottom-line promise of the National Water Initiative can be achieved.

WMI notes that a significant proportion of the environmental problems in the Basin in recent times have been caused by the worst drought in recorded history. Variable river flows are a natural occurrence in the Australian climate and there is no better proof than right now of how quickly flows from rainfall can restore the system and the environmental assets. The Australian environment is hardy and has adapted to "its land of droughts and flooding rains."

The environment already receives the majority of water in the system as outlined in the MDBA guide and there is a wide misconception about overuse by consumptive users. Evidence is clearly available from the last five years that shows irrigators can only access water when it is available.

WMI fully supports a balanced and realistic outcome where tradeoffs have been considered and judgements made make sense. WMI does not support what has been tabled in the guide to date in terms of the arbitrary reduction range of between 3,000 GL and 4,000 GL with equalising percentage cuts across valleys. The cuts are not supported by solutions that could reduce the sustainable diversion limits as this is outside the scope of the MDBA's task. The size of the cuts recommended without a true appreciation of the consequences has clearly mobilised regional communities to unite and argue for a balanced outcome.

[1] MDBA media release, 7 December 2010

WMI believes the Senate committee in their review should explore:

1. The timeframe for release of the draft basin plan in terms of achieving the best possible outcome for the long term future of the Murray Darling Basin. The release of the draft plan should be pushed back into 2012.

2. The timeframe for implementation of the basin plan. There is inequity between the States at present. 2019 is the preferred date for implementation by all States to provide consistency with Victoria. By extending the timeframe it also allows some of the Government programs to be fully implemented and water savings to be quantified. This includes the major infrastructure projects, the metering projects and on farm projects. Extra time also allows for more accurate development of the Bureau of Meteorology water management databases.

3. Given the Commonwealth Government has already purchased close to 1,000 GL using taxpayers funds they should be given the time to actually test environmental objectives and outcomes with the water they have combined with water held by the States and natural flow events. Clearly at the moment permanent entitlement is being held and the majority of it can't be used due to the natural flooding events occurring. Taxpayers quite reasonably should question the sense of holding large amounts of permanent water entitlement (most of which cannot be accessed in drought years due to the entitlement type) and paying annual fixed and variable State Government water charges. These financial numbers have not been clearly communicated in any reports but will need to form part of the annual budget of Government.

4. The Commonwealth Government has committed to bridging the gap through voluntary buyback of permanent water entitlement. A report released by Waterfind in December shows based on the 3,000-4,000 GL range there is a $1.5 to $5 billion hole in the budget. If this is indeed the case the economic cost benefits of the program need to be clearly defined to convince the taxpayer this is a sound use of funds if there are alternative and cheaper solutions.

5. The use of the temporary water market by Government. During the worst of the drought when the environment was suffering the Government would not enter the temporary water market to provide relief to the environmental assets. Water was available to purchase. The environment must be treated like any business with a value, if it is valuable enough different strategies are used to optimise outcomes in any given year. Right at the moment the environment could easily purchase hundreds of thousands of megalitres on the temporary market at $30 ML without impacting agricultural production.

6. If environmental targets are realistic and acceptable noting that trade offs will possibly be required. The risk of not achieving environmental benefits is high given the lack of scientific data and the risk of unintended inundation is also high. The size of the end of system flows targets should be challenged given the man made

structures installed in regulated systems and the fact the river systems have been permanently changed to support people.

7. What water is already held by the environment by all forms of Government and private environmental trusts and how this water can be used to offset an acceptable cut to consumptive use.

8. The engineering solutions for delivery of water to environmental assets should be detailed and assessed using business case methodology currently being applied to other water efficiency infrastructure works. It may even be possible to divert some of the $5.8 billion to these environmental projects.

9. The importance of licencing all interception activities. Forestry and farm dams must be bought to account as the irrigation community should not have to wear the full brunt of the cuts.

10. The future of irrigation infrastructure operators. The operators within the basin vary from Government owned to privately owned corporations, trusts and co-operatives of varying sizes. There is no denying that the uncertainty generated from Government policy has paralysed the operators ability to set down strategic plans and their willingness to invest (unless Government investment is received). Put simply the operators do not know which of its customers will stay or which will go and while the Commonwealth buyback program remains the "Swiss cheese" impact will continue. Those customers who are left behind will have to cover the higher fixed charges. The Australian Competition and Consumer Commission (ACCC) has developed complex water market rules and water charge "termination fee" rules and are in the process of finalising water charge rules and water trading rules. Industry has attempted to engage the ACCC and come up with workable solutions but have failed miserably.

11. The number, size and effectiveness of bureaucracies established to deal with water reform in the basin.

A narrow technical solution provided from the MDBA under its current charter if adopted by Parliament would permanently damage basin communities.

WMI expects true leadership on the basin plan reforms from both sides of Parliament after consideration of the science, full input from the states, community engagement and credible solutions to enhance the potential future of regional communities while improving environmental outcomes.

Direct responses to Terms of Reference

(a) <u>The implications for agriculture and food production and the environment</u>

The Murray Darling Basin produces over 40% of Australia's food and fibre. At least a third of this comes from irrigated agriculture. The basin produces in large volumes (when the climatic conditions are right) the key staples for human consumption, rice, wheat and other grains. It is reassuring to see general security users in the Murray Valley and the Murrumbidgee Valley receive a 100% water allocation on 15 December 2010. This was last achieved in the Murray Valley in 2001 and the Murrumbidgee Valley in 1996. This allows the annual croppers to produce food and also plan for crop plantings for the following year.

When the water allocation is not available less food is produced and a clear example was in the rice industry during the drought where record low volumes of rice were produced. The Commonwealth Government environmental water holder already owns hundreds of thousands of megalitres of general security entitlement and will continue to buy more as this is where the "valley for money" criteria will be met. Every megalitre of water bought for the environment reduces the ability of Australia to produce food from that megalitre.

In the WMI regions premium citrus, dried fruits, table grapes and wine grapes provide the product to state of the art processing facilities that need volumes to achieve economies of scale. Permanent plantings are supported by high security water entitlement which provides risk insurance for crops. Recommended cuts of 25% to 37% to the consumptive take by irrigators in the Murray Valley results in reduced plantings and less volume of food product. There is a real risk of processors losing critical mass where it is unviable to continue.

It is difficult to quantify lost production from the proposed cuts but irrigators in our region liken the cuts to having a permanent drought imposed on them. Horticultural irrigators generally have smaller holdings of entitlement but are more likely to use all of their allocation in anyone year. The Government has committed to voluntary buyback which is reassuring for permanent plantings irrigators. The work completed by Marsden Jacobs to inform the MDBA on the impact of a 40% reduction in water revealed irrigators in our region would walk away as it would not be financially possible to recover and also have security of water supply that is needed to run a horticultural business.

The bottom line is the Basin Plan has no focus on the importance of agriculture and has not prioritised food production. The Federal Water Act mentions irrigated agriculture once. There is clearly no balance.

The Basin Plan has not recognised that each farm is an environment in its own right and farmers are the custodians of the land and are a vital part of the Nation. WMI is seeing first hand the devastation occurring in our irrigation districts where farmers have turned off the water and walked away. The blocks are now covered in noxious weeds and there is no management of pests (land was not sprayed in the recent locust infestation).

The environment may be the big winner in the plan but the MDBA has been unable to convince regional communities of the merits of the proposed plan as the science and models are subject to challenge and the environmental watering plan and associated benefits are lacking.

The big losers are clearly the farmers and regional communities who will bear the full brunt of the cuts. The flow on effects for the rest of Australia will be reduced levels of Australian produced food and a higher dependence on welfare within regional communities.

(b) <u>The social and economic impacts of changes proposed in the Basin</u>

There are two obvious impacts from the proposed basin plan on our region:

1. Employment loss.
2. Population loss.

From these two indicators everything else flows and all businesses are affected. The difficulty is that water entitlement will be purchased by Government from willing sellers. If there are no willing sellers in an area then the economic impacts will be minimal. It is impossible to predict where the impacts will fall. The committee must drill down into the buyback to date to work out exactly where the water has been bought from and assess what impact this has already had on those communities.

WMI is located in the Wentworth Shire. The Shire is one of the largest in NSW. The Shire has a land area of over 2.6 million hectares. Despite the large extent of dry land agriculture the agricultural economy of Wentworth Shire is driven by irrigation. A recent land use study commissioned by the Wentworth Shire noted while irrigation is confined to just 0.5% of the Shire's area it contributes 80% of the gross value of production. The Shire produces 20-25% of the total NSW output by value of citrus and grapes. The economy of the Wentworth Shire is very highly dependent on irrigated agriculture and the introduction of the proposed sustainable diversion limits would place considerable pressure on farm businesses which would in turn flow through to the rest of the Shire's economy.

The Shire already has a very high uptake of fully pressurised pipelined systems combined with a number of highly efficient direct diverters. On farm irrigators have been at the forefront of embracing drip and spray technology. In WMI over 90% of customers have installed water efficient technology. Low allocations and the increasing value of water has meant irrigators have permanently changed their habits to maximise water use efficiency.

There are minimal water savings to be made in the Shire and none to be made in WMI. The only environmental asset of any significance noted in the MDBA guide is the Lower Darling River system. This system does not need additional management nor will it provide employment opportunities as it is managed by the NSW Government and the MDBA through releases from the Menindee Lakes.

The Wentworth Shire forms part of the Sunraysia region and is connected to Mildura as its closest regional centre. Judith Stubbs and Associates undertook a detailed study in 2010 on the social and economic impacts of reduced irrigation water on Mildura. The key results of the study revealed the impacts of a permanent reduction to irrigation water on Mildura are likely to be significant with at least one third of local employment directly or indirectly related to irrigated agriculture. 70-100 jobs exist for every 1,000 hectares of horticulture as compared to 1 job per 1,000 hectares of dry land farming. If there is a 25% reduction in water entitlement and usage (minimum level as recommended for the Murray valley in the guide) 1,513 jobs will be lost and population loss will exceed 4,000 people. Existing indicators of community resilience in Mildura do not compare favourably with the Murray Darling Basin as a whole and Mildura's relative disadvantage means there would be constraints to flexible adaptation to structural change. Mildura has a high aboriginal population, low average incomes and a heavy reliance on welfare.

Mildura is particularly vulnerable as there is limited opportunity for on farm and system efficiency gains and there is no dry land alternative. The population may fall below the all important 50,000 threshold where services are lost.

Tourism from environmental watering is not a solution to replace irrigated agricultural jobs in Mildura given its isolation.

Mildura has already had a number of hard knocks in recent years losing its centre for scientific research excellence the CSIRO in Merbein, the Qantas engineering service centre, timber mills and wine processing facilities. House and property valuations have fallen.

WMI deals with customers everyday and in terms of community well being there has been a noticeable decline in mental health. The decline has been attributable to a number of factors including commodity prices and the drought but irrigators cannot see an end in sight to ill conceived water reforms and many wish to exit to look for a more stable future.

WMI's office is based in a small town called Dareton that continues to decline. The supermarket is for sale with the owner stating it is no longer profitable, the fuel station has been taken over by the local Coomealla Club and is running at a loss, school enrolments have dropped and agricultural suppliers have closed.

While the regional centres may survive small towns will be at risk under the cuts proposed in the guide.

(c) <u>The impact on sustainable productivity and on the viability of the Basin</u>

Sustainable productivity needs to be more clearly defined to allow appropriate comment. WMI acknowledges water is just one of the requirements of productivity; other input costs such as electricity, fertiliser and labour also need to be managed and farm management skill levels are paramount to achieving productivity. The farming community is an aging one and concerns have been consistently raised about where the next generation of farmers are

coming from. The water reform agenda and the lack of positive messages about irrigated agriculture is certainly making it less attractive to be in the industry. Change has been rampant, regulations continue to increase, and the drought and opportunities in other industries (e.g. mining) have provided the impetus to exit irrigated agriculture. Australian farmers are already highly productive due to their need to compete in a global market.

Viability of the basin could also be defined in many ways but from a regional perspective it must take into account people, future population growth supported by infrastructure, economic prosperity and a healthy river taking into account man made influences. Great steps have been taken by many regional communities towards making the basin more viable and these should be recognised and continued to be built on.

(d) <u>The opportunities for a national reconfiguration of rural and regional Australia and its agricultural resources against the background of the Basin Plan and the science of the future</u>

National reconfiguration would also need to encompass cities as they continue to grow unsustainably and use up prime agricultural land where natural rainfall occurs. Inland regions provide the future for Australia's population growth. Reconfiguration can only be effective if infrastructure such as road, rain and air services are upgraded and cost effective services are provided for business including availability of and comparatively priced electricity, natural gas, health and education. While people can be moved, land cannot be moved and climatic conditions in the future will continue to determine what farmers produce where. Government has a role to play in working with regions to establish future plans that encompass all aspects of their economies.

Larger regional centres have a greater opportunity for growth and diversification than smaller centres. Mildura for example may have some short term opportunities with solar developments and longer term opportunities in tourism, education and arts. There is little opportunity to diversify from horticulture on the blocks. Mineral sand mining has provided some employment opportunities in the region. Mildura has excellent processing and freight facilities but needs to retain the economies of scale of inputs to maintain productivity.

The river is central to the wellbeing and lifestyle of Mildura and projects that enhance the natural advantages the river provides should be promoted.

Rather than agricultural resources being assessed against the background of the basin plan it should be part of the consideration of the basin plan. Like the environmental analysis conducted by the MDBA some agricultural resources will be deemed to be of higher value to the Nation and should be protected.

(e) <u>The extent to which options for more efficient water use can be found</u>

Pricing sends clear signals to use water efficiently. NSW has just gone through its round of IPART determinations for Government charges (State Water and the NSW Office of Water)

and it was noted the state is moving towards 90% cost recovery. In the Murray valley it is already 100%. Cost recovery is not at the same levels in the other states. The ACCC are advocating for consistency but their draft rules are flawed as they don't cover the lack of charges in South Australia and the constant Victorian Government bail outs of the financial position of its infrastructure operators.
Interception users such as forestry and farm dams should also be identified, licenced and charged.

Town users should be encouraged to continue to introduce water saving measures.

All diversion points should be metered. The metering projects within each State should be made a priority. More efficient water use will result from accurate metering.

Infrastructure upgrades and the use of the latest technology for both irrigators and the environment is the other key factor to ensure water is used efficiently. A number of options have already been presented to the Commonwealth Government and State Governments are supporting a number of environmental asset initiatives.

The big unknown is the extent to which water savings can be generated and if generated how they can be validated and where will they be stored. The Basin has finite storage facilities.

(f) <u>The opportunities for producing more food by using less water with smarter farming and plant technology</u>

There has already been a concerted push for many years to improve water efficiency which was further prioritised due to the drought. Our region has been fortunate to run an effective irrigation incentive scheme which was a partnership between the Lower Murray Darling Catchment Management Authority, the Department of Primary Industries in NSW and WMI.

A cash incentive was provided to install works on farm and included conversion from inefficient systems to installing water scheduling and monitoring programs. This program has now ended and is being replaced with the on farm programs being delivered through the Commonwealth Government. There will be little take up from our region as the work has already been done.

There has been a reduced emphasis on funding rural research across a number of sectors and this is ultimately to the detriment of the irrigation industry. Commodity groups have been quite strong in delivering research and promoting new technology and irrigators will tend to focus on maximising their crop and want specific research. Localised approaches by credible individuals and organisations will always have the best results.

Having said that WMI still believes there is an opportunity to combine the currently fragmented irrigation efficiency research into a centre for irrigation excellence in the Murray Darling Basin. This would provide a level of confidence back into the industry that irrigated agriculture retains an important role in the future of the Nation.

(g) **The National Implications of foreign ownership including corporate and sovereign takeover of agricultural land and water and water speculators**

WMI doesn't have any specific concerns with foreign ownership apart from the fact these owners obviously value what Australia has potentially more than Australia does.

Registers should be kept to identify ownership and assess the various risks posed to Australia.

In terms of water speculators this year they would go broke with temporary water trading at $30 ML. Industry elders know the water market cycles like all other markets and know the best way to achieve a return on a megalitre of water is to grow agricultural product.

WMI does have concerns with the Commonwealth Government owning up to 4,000 GL of water. This is a heavy burden for the taxpayer to bear each year. The Commonwealth Government has already been accused of manipulating the market and is effectively the regulator and the largest market participant (with 36% of all entitlement trades representing 659 GL in 2009/10 being registered by the Commonwealth Environmental Water Holder). This raises conflict of interest issues.

(h) **The means to achieve sustainable diversion limits in a way that recognise production efficiency**

WMI is one of the areas in the basin that have already achieved production and water use efficiency as have many areas in South Australia. Adelaide is unlikely to have its water share cut by 25% plus so the full burden of the SDL will fall on that States irrigators.

Government will need to recognise those areas that have led the way by offering alternative adjustment packages that provide real solutions for those regions which do not stand to benefit from any of the infrastructure investment.

(i) Options for water-savings including use of alternative basins

WMI has no ability to generate any further water saving measures through irrigation infrastructure improvements. When the systems were upgraded there was at least 30% water savings achieved. These savings were fully retained by the irrigator customers and excess water has been used in a variety of ways to manage business risk. Some customers sold permanent entitlement to use the funds to invest in new technologies on farm and some customers' trade excess water allocation on an annual basis to supplement their farm income.

WMI is supportive of the Sunraysia Modernisation project due to the regional benefits it will provide. While water savings generated will not be as high as other projects it meets the criteria of strengthening the Mildura economy and providing a stronger future for irrigated horticulture. Some regions will clearly receive much higher economic benefits from

infrastructure projects such as the Goulburn Valley where the Victorian food bowl project is underway and over $2 billion has been committed to the project.

Caution should be undertaken in conducting any analysis of actual usage versus licenced entitlement in a region. Use will first and foremost depend on allocation in any one year.

It is also the case for WMI that a number of water entitlement owners actually farm in South Australia and use the water allocation outside our districts each year. So the water is being used just not at the WMI pump sites.

It must also be remembered existing licence entitlement is a property right. The NSW Government has recently set a precedent of establishing a new general security licence on the Low Darling river system for the Anabranch water savings project (47 GL). If this is to be the case for all environmental transfers of water savings usage will potentially increase as new entitlements are being created. Negative third party impacts will occur.

Options for water savings measures must include engineering solutions for the delivery of water to the environmental assets. The catchment management authorities in many cases have already developed proposals with a local Victorian example being the Lindsay Island works.

The Committee should assess the use of other basins to supply water to the Murray Darling Basin if it is feasible. Many areas outside of the basin draw water from the basin and should be encouraged to become independent of the basin if possible. This includes cities and towns.

There should be no new diversions from the basin to non basin regions without a compelling, nation threatening reason to do so.

(j) <u>Any other related matters - Previous relevant reform and structural adjustment programs and the impact on communities and regions.</u>

Sunraysia has had a number of structural adjustment programs in the last ten years. There has been the kickstart program where funds were provided to prepare a business plan and then infrastructure support could be applied for.

The Commonwealth Government provided a one off $20,000 grant to Murray Darling basin irrigators who could choose how they spent the funds within certain parameters.

A number of irrigators have also had constant access to exceptional circumstances relief including interest subsidies during the past four years.

The small block exit grant was also a program run recently that was designed to provide a package of $150,000 to exit providing the block would not be irrigated for five years and

infrastructure was removed. The full water entitlement from these blocks was sold to the Commonwealth Government.

The Sunraysia Rural Financial Counselling service has provided advice and support to hundreds of customers and is well placed to comment on what does and doesn't work in direct structural adjustment packages.

Impediments need to be removed to allow consolidation of blocks to increase overall farm size and improve farm business viability.

Infrastructure spending is required on roads, rail and air services to reduce the disadvantage of distance. The National Broadband Network (NBN) is a lesser priority.

Export markets remain vitally important to regions and open and fair trade agreements are needed to provide market access.

Shutting down whole irrigation areas is preferred to the current Swiss cheese effect that is taking place. Industry supports Government working with groups to exit and remains concerned that valid approaches from irrigators or irrigation corporations have constantly been rejected.

Water trade remains one part of the adjustment solution and WMI has lobbied for regulation of water market brokers and the market itself for a number of years. The recently published National Water Commission – Australian Water Market Report for 2009-10 shows there is a very active water market with entitlement trades increasing by 8% from the previous year and allocation trades increasing by 16% from the previous year. The overall transparency of the Commonwealth buyback program needs to be improved with real time information provided to the market.

Termination fees are part of the structural adjustment for infrastructure operators and should be retained to ensure an appropriate sharing of risk between those irrigators who choose to stay and those who choose to go. The ACCC developed water charge "termination fee" rules has endorsed the validity of termination fees, however, there remains resistance to the payment of the fees. The fees have not been a barrier to trade with large amounts of water entitlement leaving irrigation corporations and districts in the last two years.

The focus of future adjustment programs must be on keeping the truly viable within the irrigation industry and moving the poor operators out. Constant subsidies in some circumstances just delay the inevitable decision that needs to be made.

Regional growth packages supported by effective Government investment will need to be developed in consultation with local Government and representative leadership groups.

END OF SUBMISSION