



WINEMAKERS' FEDERATION OF AUSTRALIA

Submission to the:

House Standing Committee on regional Australia

**Inquiry into the impact of the Murray-Darling Basin
Plan in Regional Australia**

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Executive Summary

The Winemakers' Federation of Australia (WFA), the peak representative body for the nation's winemakers, welcomes the opportunity to make a submission to the house Standing Committee Inquiry into the Murray Darling Basin Plan in regional Australia. The following response addresses issues relevant to the wine sector.

We support a process of establishing and delivering on the environmental needs of the basin, the treatment of the basin as a single system and the introduction of improved water trading provisions. It is the "how" of achieving these principles against a triple-bottom line that becomes problematic.

Wine is a key agricultural export commodity that requires irrigated perennial horticulture in the Murray-Darling Basin to retain viability and market access. The MDBA's methodology for setting diversion limits and allocating environmental water acquisition from the Government's Water for the Future program unfairly disadvantages perennial horticulturalists by: penalising highly efficient irrigators; undervaluing the community benefits of perennial horticulture; pitting irrigators against town water users and failing to include efficiency forecasts in delivery of environmental and town water.

We believe that a fairer socioeconomic outcome would be delivered by the following three measures:

1. Define Critical Human Water Needs on the basis of projected efficiency opportunities and desalination plants, and then remove this figure from all further calculations of SDL's.
2. Define environmental water priorities on the basis of achieving river functionality goals first, and highly efficient watering of environmental assets second.
3. In accordance with point 2, Government environmental water acquisitions should be counted from irrigation water efficiency gains that are shared across all catchments and water purchases across the whole basin to the greatest extent possible.

Opening Comment on Basin Water Reform

WFA acknowledges the history of over-allocation of water that has led to degradation of the environmental values of the basin and supports an approach which views the basin as a single system, with a consistent approach across all basin states. Additionally the WFA supports the environmental water acquisition projects that the Government is undertaking.

We are very keen to ensure the water reform process leaves grape growers, wineries and the regional businesses and communities they support in a more sustainable and resilient position into the long term.

- **The direct and indirect impact of the Proposed Basin Plan on regional communities, including agricultural industries, local business activity and community wellbeing;**

Irrigation, particularly in the Murray Darling Basin, is essential to the ongoing success of the Australian wine industry, which is a major export earner (ranked third among farm export commodities¹) and the lifeblood of many rural areas. Wine grape production in the basin, or supported with irrigation from the basin, accounts for approximately 60% of Australian wine production, and an even greater proportion of exported wine. The continued viability of certain export markets and price segments is dependent on low cost irrigated production and may be threatened by a significant increase in the cost of water or reduction in supply.

The MDBA makes the assumption, consistent with Economic theory, that water will move to the highest value use where there are no structural or market impediments. However the wine sector is presently trading through the

¹ ABARES (2010) Australian Commodities December Quarter 2010, Commonwealth of Australia http://adl.brs.gov.au/data/warehouse/pe_abares99001766/AC10.4_Dec_REPORT_part1_12a.pdf

worst structural adjustment from oversupply in a generation². Therefore it would be incorrect to assume that with reduced water available lower value irrigated production would switch to the higher value use of wine grapes. Hence economic theory may not reflect reality in these circumstances, and especially not in the short term.

A comprehensive report on the socioeconomic effects of the basin plan by Marsden Jacobs and Associates³ indicates that several important wine grape growing and winery towns and communities are identified as being highly dependent on irrigated horticulture and secondary processing. This report indicates that the critical mass for regional production to sustain processing and community functions would be threatened by a 40% reduction in irrigation. This figure will be exceeded in several areas in accordance with the SDL-setting methodology outlined in the Guide to the Basin Plan, making it likely that many wine grape and winery businesses will close or lose staff.

The main problems with the MDBA's SDL-setting methodology that lead to unreasonable socio-economic repercussions and an alternative approach to mitigate the problem are listed below:

1. Highly efficient irrigators penalised:
 - a. Currently: Areas that have highly efficient irrigation practices now will be unable to achieve significant irrigation efficiency gains through the government's irrigation infrastructure projects that would count towards a regional environmental water target. In effect these areas are penalised for good practices under the current SDL-setting methodology.
 - b. Mitigation: The WFA strongly supports the government's infrastructure efficiency work, however all environmental water

² Winemakers' Federation of Australia et al. (2009) Wine Restructuring Action Agenda, http://www.wfa.org.au/resources/1/Reports/WRAA/WRAA_statement_10-11.pdf

³ Marsden Jacobs and Associates, RMCG, EBC Consultants, DBM Consultants, Australian National University, Geoff McLeod and Tim Cummins, 2010 *Synthesis Report. Economic and social profiles and impact assessments in the Murray-Darling Basin*. A report to the Murray-Darling Basin Authority.

gains derived from irrigation efficiency projects should be counted towards basin-wide environmental water targets rather than specific regional targets.

2. Value and requirements of perennial horticulture ignored:
 - a. Regions in which the majority of irrigation is associated with intensive high-value horticulture have little scope for adjustment between perennial and annual crop irrigators, and these regions relatively conduct more value-adding and drive more employment than other irrigation users. Additionally perennial horticulturalists themselves have little or no scope to change crops to suit changing water allocations and regional processing capacity.
 - b. Mitigation: Include a consideration of the long-term financial return through regional value-adding, employment and export revenues associated with water use as part of the regional SDL-setting process. Acknowledge and account for the fixed-assets and long-term commitment associated with perennial horticulture in considering the socio-economic repercussions of setting SDL's.

3. Town water needs competing with local irrigators:
 - a. Regions that share their regional water allocation with large towns that take a significant proportion of allocated water for Critical Human Water Needs will be disproportionately affected in having a smaller remaining pool of water for irrigation.
 - b. Mitigation: Define the CHWN of the basin and remove this figure from the water equation for the basin as a whole prior to setting regional SDL's.

4. Equal treatment of all water users categories:
 - a. Irrigators are under pressure to be as efficient as possible in order to sustain profitability under new SDL scenarios. However the MDBA uses modelling of overbank flows necessary to water

environmental assets as part of determining the volume of water required to sustain these assets. Overbank flows may be necessary sometimes, but this is potentially a wasteful and destructive mechanism for delivering water. The former chair of the MDBA, Mike Taylor mentioned on several occasions during regional meetings that there may be significant efficiency opportunities within the CHWN allocation. Not defining and including these potential efficiency gains in the SDL-setting process renders the entire burden for adjustment onto irrigators.

- b. Mitigation: All water users in the basin (including critical human needs and environmental water) should be subject to scrutiny of the effectiveness and efficiency of use. Environmental water needs of environmental assets need to be defined and a consideration of meeting these goals efficiently with engineering solutions be applied when determining SDL's.

If wine grape growers and their families are forced to leave the basin as a result of the proposed SDL's there will be significant impacts across a range of areas, from the provision of services to the viability of schools. The WFA supports all efforts to support basin communities and address the socioeconomic impacts of the basin plan.

The WFA supports the ACCC's water trading advice to the MDBA that will provide for a more effective and transparent water trade and the removal of volumetric limits on trading. In addition the WFA is keen to see better and more accessible information provided to irrigators on trades in general, local water market trends and water brokers. This information will support irrigators in crop management planning and in determining their interest in participating in the government water buy back program. In addition the WFA's position is that any transitional water use plans dating from receipt of the ACCC advice incorporate that advice.

Water management across the basin is already complex, given the different roles of the numerous water management and delivery authorities. The

additional roles of the MDBA and the Commonwealth environmental water holder will add to this complexity. WFA submits that greater clarity is needed on how the MDBA and CEWH will relate to and interact with these other bodies to: develop state water plans; in the management of environmental water; and in the implementation of a fairer and more open water trading system consistent with the ACCC advice.

• Options for water-saving measures or water return on a region-by-region basis with consideration given to an analysis of actual usage versus licence entitlement over the preceding fifteen years

WFA would welcome an approach that placed the environmental water needs of the basin on a hierarchy, with basin-wide targets that can be contributed to by water from across the basin as a whole placed above catchment-specific watering targets. Such an approach would allow greater flexibility in cost-effectively sourcing environmental water from sellers across the basin as a whole, and hence make achievement of the government's environmental water holding targets more likely, timely and cheaper. This will mitigate the overall socioeconomic impact of the Government's water entitlement buy-backs by ensuring that water goes to the operations that place the greatest value on water. Hence, also reducing the detrimental effect of the *Water for the Future Program* on regions and sectors that were early adopters of efficient water use practices as presumably these regions will place a greater premium on water because they are already efficient water users.

WFA would support a model whereby all water users in the basin – including critical human needs, irrigation, conveyance and environmental watering categories – are subject to scrutiny on the effectiveness and efficiency of use. We support the position taken in the Guide that the environment is a legitimate user of water, but submit that the better approach to defining watering targets is to be 'outcome-based', rather than 'volume-based'.

Many environmental outcomes may be achieved on the basis of timing of watering and specific local application of water, rather than widespread and inefficient overbank flows that would threaten regional communities and agriculture. In addition the WFA notes that the assessment of river health behind the MDBA process includes factors that may have little relationship to flow, such as the presence or absence of certain species, such as feral fish. Hence the WFA believes that the appropriate starting point for defining SDLs is to consider only those environmental targets that are relevant to flow and the anticipation of efficient water delivery mechanisms for off-stream wetlands.

WFA submits that the Environmental watering targets setting process should ignore state boundaries and be conducted as follows:

1. Define Critical Human Water Needs within the basin and remove this volume from further calculations, this figure should also be adjusted in accordance with new and forecast reductions in demands associated with new infrastructure and desalination capacity. Surplus water within the CHWN component (as may be derived from efficiency improvement) to be sold to irrigators by state water authorities. The inclusion of CHWN within regional targets unfairly disadvantages regions adjacent to large towns.
2. Define river functionality requirements such as flow-related salt flushing and river mouth objectives as priority environmental functions. Allocate a contribution to these purposes to each catchment in proportion to the water that enters the system in that catchment.
3. At the catchment level, (ignoring state boundaries): define water requirements for local environmental assets, based on:
 - a. clearly defined and measurable objectives for the asset
 - b. high efficiency water-delivery practices without over-bank flows
 - c. efficiencies that may be gained by the utilisation of water that is also serving a base flow requirement

- d. efficiencies that may be gained by using the water for irrigation after serving an environmental purpose
- e. the likelihood of the asset being sufficiently watered by occasional flooding events

• The role of governments, the agricultural industry and the research sector in developing and delivering infrastructure and technologies aimed at supporting water efficiency within the Murray-Darling Basin.

WFA has welcomed the Federal Government's commitment that water entitlements will only be sourced from willing sellers. However, we are concerned that a disorganised process of water entitlement buy-backs within an irrigation scheme will lead to a 'Swiss cheese' that renders a high-maintenance cost burden onto irrigators and ineffectiveness of the scheme to deliver small volume water transfers at short notice. WFA submits that these matters be included in the consideration of effectively dealing with socio-economic pressures that result from the water buyback model.

The WFA submits that efficient irrigation practice extends beyond irrigation infrastructure upgrades to include matters such as: the cost of piping and pumping water and associated greenhouse gas emissions; the quality and speed of information available to farm managers on crop water stress; ongoing research on improving crop water utilisation; and the training of farm managers. Additionally, recent drought and flooding events highlight a need for research and appropriate funding for the Bureau of Meteorology to improve our understanding of water in the basin, such as predicting and tracking rain, water flows and the impact of land use on water catchments. In light of the breadth and width of the water efficiency issue there is a role for all of the above groups (government, industry and research).

Conclusion

The Winemakers' Federation of Australia supports the concept of water reform in the basin in principal. We support the ACCC's water trading advice, to the degree that this ensures a more open water market, consistent rules across the basin, and better and more transparent information for the public on trades and water brokers. However we believe that the MDBA's methodology for setting SDL's and the allocating of water savings from the Government environmental water acquisition projects must be reassessed to deliver a fairer socioeconomic outcome for industry and the community. This can be achieved by:

1. defining efficient Critical Human Water Needs based on efficiencies from planned infrastructure and desalination plants, and then removing this figure from the water balance sheet
2. Define environmental water priorities on the basis of achieving river functionality goals first, and highly efficient watering of environmental assets second.
3. In accordance with point 2, Government environmental water acquisitions should be counted from irrigation water efficiency gains that are shared across all catchments and water purchases across the whole basin to the greatest extent possible.

The WFA also submit that we are prepared to appear before Senate and House of Representatives enquiries into MDB water reform.

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