

Submission No:	634
Date Received:	4/4/11
Secretary:	SC

30 Mar 2011

The Secretary, Standing Committee on Regional Australia,  
House of Representatives,  
PO Box 6021, Parliament House,  
Canberra ACT 2600

Dear Secretary,

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

I attach a submission to the Standing Committee on the matter of the mechanism of allocation of irrigation water in the Murray-Darling Basin Plan.

I write because it seems clear that the present Plan not only for water drawn from the Murray, but also for water drawn from its catchment is inequitable, and contains no real incentives for irrigators to reduce water use.

I am aware, for example, of more than one farmer who has been simply pumping his allocated bore water through his meter to waste, rather than using it for irrigation. His rationale is that, if he does not continue to use his allocation, he will lose it. He may well be right.

I know of several other landowners who are successfully negotiating allocations that are greater than their needs, specifically so that they can sell on the excess to less fortunate neighbours. A nice cash gift to them from the Government, indeed.

The latter example raises a serious issue with the current system. Any system in which allocations can be traded or sold will lead to speculation and profiteering. This has already happened with Murray-Darling water, with overseas speculators becoming involved. This cannot be in the interests of agriculture or of the nation generally. I take your point about the need to protect those who have invested heavily in irrigation infrastructure, but there are other, better ways to protect their interests.

I think that it is essential to think of water as a consumable such as electricity or gas, which should be available on an equitable basis to those who wish to purchase it, and not distributed on the basis of past usage. These commodities, which are after all part of the community wealth, should not be given away by the government, but should be sold a fair price.

The attached document suggests a mechanism by which everyone's needs can be achieved, although there are doubtless other models that will achieve the same end. I have in the past sent a slightly modified version of this both the Minister and to the Murray-Darling Board.

I hope that your Committee will consider this proposal.

Yours Faithfully,

Timothy S Miles PhD DSc

## PROPOSAL FOR A FAIR WATER ALLOCATION SYSTEM

TIMOTHY S MILES PHD, DSC

### Summary points

- The present plan is inequitable and indefensible from both environmental and economic perspectives.
- Current usage, past licences, etc. are unsatisfactory grounds for allocating irrigation water.
- The present licensing systems treat water as a capital asset whereas it is clearly a consumable.
- The present licensing systems are being rorted by some users.
- The present licensing systems encourage speculation of water prices, by local and overseas investors. This is completely incompatible with efficient agriculture in Australia.
- To encourage efficient and sustainable use of irrigation water, consumers should be charged a fair price for water used.
- All water licences and allocations should be compulsorily purchased by the Government at a price that is sufficient for existing users to acquire sufficient water for their needs for say 5-7 years. This will also allow many farmers to leave the industry with dignity.

There is only one fair, rational and equitable way to deal with the current shambles for allocating irrigation water. That is, the federal government must compulsorily purchase, at a fair price, all current water allocations and entitlements for both surface (river) water and underground water. This should not be difficult legally, as this water is already owned by the various governments. Water would then be sold back to irrigators and other users at a fair price, by an independent government entity. Naturally, caps on the total amount used must be in place, and this may vary from year to year as now.

It has been argued that compulsory acquisition is unfair to irrigators who have invested heavily in infrastructure, or who have secured loans against the perceived value of their entitlements or licences. However, the sum realised by an irrigator for the sale of a entitlement/allocation might be set at an amount that would be sufficient for that person to purchase water from the Government at a fair price for, say, 7 years, thus justifying and amortising the cost of their expensive infrastructure. Similarly, a fair price paid for the compulsory acquisition of a licence would enable a licensee to repay loans made against that licence.

It is essential that water is sold only to those who use it, as domestic water is. If water can be traded, speculators will purchase it for the sole purpose of trading it at a profit: this has already happened amongst the Murray River irrigators. Such speculative activity is diametrically opposed to the interests of agriculture generally.

The proposed market-based mechanism would give a strong incentive for all irrigators to use water as efficiently as possible. This is most certainly not the case at the moment. Anyone who drives through any irrigation area on a windy, 35-degree day will see water being sprayed into the air in a manner that ensures that most of it is wasted. Even worse, flood irrigation continues to be used widely used in some areas which is scandalous. Members of the public who observe these practices cannot escape the conclusion that we not serious about managing water efficiently.

The mechanism that I propose can be administered without net cost to the taxpayer, as the funds outlaid by the government to purchase allocations could be reimbursed by the sale of the water to users.

Perhaps the clearest way to summarise is to point out that the present system of allocation treats irrigation water as *capital*, i.e., a (free!) allocation which adds to the value of the property to which the allocation is attached but does nothing to encourage efficient water use. There is little or nothing in the present system that encourages irrigators to use water efficiently. Efficient use can only be encouraged by replacing the *capital value* (an allocation) with a *consumption value* (user pays).

The guarantee or expectation of an entitlement in our current system has stifled innovation in efficient water use, and continues to do so. Furthermore, the current restrictions on entitlements/allocations and new irrigation projects are strong deterrents to new users with innovative ideas for efficient and different irrigated crops from entering the industry.

The solution is not difficult. At a stroke, all issues relating to the current grossly unfair practices arising from different water policies in different States and jurisdictions, and the irrational practice of trading water rather than using it, would be eliminated.

It just requires political resolve and leadership.

Timothy S Miles PhD DSc

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