Environment Victoria submission to Senate Inquiry into the Water Amendment (Purchase Limit Repeal) Bill 2019.

Environment Victoria is the state's peak non-government, not-for-profit environment organisation. Our Healthy Rivers Campaign is dedicated to working with government, communities and business for the restoration and protection of our state's great river systems. We have campaigned for increased flows in northern Victoria's rivers for 15 years and have been engaged in the development and implementation of the Murray-Darling Basin Plan since 2007.

We strongly support the Water Amendment (Purchase Limit Repeal) Bill 2019 and recommend that it be passed without delay. The cap on water buybacks has been a serious impediment to the ability of the Murray-Darling Basin Plan to achieve its objectives both for rivers and wildlife and for famers and communities.

The Bill is supported for the following reasons:

1. *Water buybacks are the most cost efficient and effective form of water recovery for the environment*

This has been the view of the Productivity Commission since 2010 when it stated that:

> 'Purchasing water from willing sellers (at appropriate prices) is a cost-effective way of meeting the Government's liability for policy induced changes in water availability. Subsidising infrastructure is rarely cost-effective in obtaining water for the environment, nor is it likely to be the best way of sustaining irrigation communities.'[1]

This advice from the Australian Government's own independent research and advisory body has been roundly ignored by successive governments at both state and federal levels. They have instead chosen infrastructure projects as their preferred method of water recovery and legislated a cap of 1,500 GL on the volume of water that can be acquired through buyback.

In its latest report on Basin Plan implementation, the Productivity Commission exposes the financial consequences of over-reliance on infrastructure projects to recover water:

> 'If Governments have to make good any shortfall through infrastructure modernisation (which is their current preferred approach), this will involve substantial expenditure. Failure to implement the constraints, Hydro-cues and Menindee Lakes projects could increase costs to Governments in the order of $564 million'.[2]
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> 'There is a material risk that recovering an additional 450 GL through efficiency measures could be substantially more expensive than was anticipated in 2012 and will require further

[1] Productivity Commission (2010) *Market Mechanisms for Recovering water ibn the Murray-Darling Basin* Key points pxxii
[2] Productivity Commission (2019) *Murray-Darling Basin Plan Five Year Assessment* Overview p20

> funding. …. Based on current market prices, recovering 450 GL with this premium could exceed the funding available in the Water for the Environment Special Account (WESA) by $660 million.'[3]

Thus the Productivity Commission identifies a potential $1.2 billion shortfall in the $13 billion Basin Plan implementation and water recovery budget. This shortfall is the result of the most recent Labor and Liberal governments choosing to prioritise infrastructure over buybacks and the Abbot government's decision to go a further step and legislate a cap on the volume that can be recovered through buybacks.

2. Water buybacks have positive benefits for irrigation communities

Water buybacks have acquired a very poor reputation in irrigation communities and have been blamed for a multitude of problems from job losses to population decline. These claims have been taken at face value by the Australian, Victorian and NSW governments and have lead to the imposition of the 1,500 GL cap.

In fact, there is little empirical evidence to support these conclusions and water buybacks have more positive benefits than they are given credit for. They are also better supported. Every single buyback tender round in the southern basin was oversubscribed and many irrigators were happy with the process and would have been willing to participate in future tenders had they occurred.[4]

In their submission to the Royal Commission into the Murray-Darling, five of Australia's leading professors of economics stated that:

> 'A large body of creditable economics evidence supports a conclusion that the net economic impacts of water entitlement buyback to date are mostly locally positive on balance once adaptations and compensation re-investment are accounted for. Some recent consulting reports claim large regional costs of water buyback, however absence of accounting for key farm, regional, and local adaptation and compensation re-investment leads to overstated local economy impacts. ….the long-term drivers of rural community change have been ignored, which overestimates the impact of water reductions, and that there are also significant socio-economic negative impacts associated with on-farm irrigation infrastructure that have been ignored'.[5]

The professors provide detailed evidence in their submission, leading Commissioner Bret Walker to comment:

> 'The notion of some proportional relationship between a reduction in water and a reduction in farm production is rejected. It is accepted that such a relationship could be debunked by an economics undergraduate. There are many other more pertinent, contributing factors to decreases in population or jobs or farm revenue — these include technological change and mechanization, amongst a number of other relevant factors'.[6]

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[3] Ibid p22

[4] Marsden Jacobs (2012) *Survey of water entitlement sellers under the Restoring the Balance in the Murray-Darling Basin program*

[5] Professor Sarah Wheeler, Professor Jeff Connor, Professor Quentin Grafton, Professor Lin Crase and Professor John Quiggin (2018) *Submission to the Murray-Darling Basin Royal Commission* p2

[6] Murray-Darling Basin Royal Commission Report, January 2019 p 61

Governments and irrigation lobbyists have failed to produce empirical evidence that water buybacks are bad for communities. The most credible report on the impact of buybacks in the Murrumbidgee Irrigation Area (MIA), where the Australian government purchased 215,295 ML of water entitlements, concludes that 'taken together these insights indicate that buyback *on its own* is likely to have had a minor effect on the local MIA economy'. Overall water recovery has had a positive benefit for the MIA with 'an ongoing net increase in real GDP of between $16-22 million annually.'[7]

3. *Australians expect value for money from their investment in the Murray-Darling Basin Plan*

The Australian government has allocated $13 billion to recover water and implement the Basin Plan. Even at current (high) water prices of around $4,000/ML the budget is adequate to purchase the 3,200GL required to implement the Plan in full.

Infrastructure projects are significantly more expensive than buybacks, even at today's high water prices. In 2014 the Commonwealth Water Recovery Strategy stated:

> 'The 'market multiple' is the cost of water yield to the Australian Government compared with the prevailing market price for the same entitlement at the time of the project approval. On-farm irrigation upgrades generally yield water savings at a market multiple of between 2.0 and 2.5, whereas delivery system modernisation projects are usually more expensive in terms of the relative cost of the water savings'.[8]

The major water recovery project in Victoria, the Goulburn-Murray Connections projects, is stated to have a market multiple of 4.9 and the Sunraysia irrigation Project a multiple of 7.1. Recent projects submitted by the Victorian government for consideration as Efficiency Measures cost more than $10,000/ML.[9] Reliance on these types of projects will rapidly exhaust the available funds and do not represent value for public money. Repealing the cap on buybacks opens the way for far more cost-effective water recovery

4. *Separating structural adjustment from water recovery*

Regional communities are experiencing multiple simultaneous economic disruptions including climate change, liberalisation of the water market, technological change, energy transition, ongoing exposure to global commodity markets and financial markets, as well as Commonwealth water recovery.

In this context, the Productivity Commission estimates that the Commonwealth has spent $6.8 billion on water recovery to date, including water purchase and investment in water-saving infrastructure.[10] This investment has been directed exclusively to irrigation businesses and individual irrigators who have benefited enormously in terms of improved cash flow and improved productivity. However, the benefits have rarely flowed far from the farm gate into the wider regional community.

In contrast to the very large expenditure on water recovery the Productivity Commission estimates that $189 million has been spent on structural adjustment. There seems to be an assumption by government that water recovery is a substitute for structural adjustment and that investment in water infrastructure will automatically assist communities to adjust to changed circumstances. While this may be the case for individual irrigators, it is not necessarily so for communities faced with many

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[7] Marsden Jacobs (2017) *Economic effects of Commonwealth water recovery programs in the Murrumbidgee Irrigation Area*
[8] Department of the Environment (2014) *Water Recovery Strategy for the Murray-Darling Basin* p15
[9] DELWP (2018) *Victoria's Northern Water Infrastructure Prospectus*
[10] Productivity Commission (2019) op cit

different challenges, including the impact of climate change on water resources. We support the recommendation of Professor Wheeler and colleagues:

> 'We recommend that there are much more beneficial ways to support local rural communities through health, education and effective structural adjustment projects than using subsidies for irrigation infrastructure and supply projects'. [11]

Repealing the cap on water buybacks opens the way to separate water recovery from structural adjustment. Restoring buyback as the principal means of water recovery will free up funding for structural adjustment and give communities the opportunity to work out what they really need to adapt to future conditions.

For further information regarding this submission, please contact:

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[11] Wheeler et al op cit