



Submission to the Senate Environment, Communications and
the Arts References Committee-

Inquiry into Water Licences and Rights

By

Victorian Farmers Federation

1 October 2009

Foreword

The Victorian Farmers Federation is Australia's largest state farmer organisation, and the only recognised, consistent voice on issues affecting rural Victoria.

The VFF consists of an elected Board of Directors, a member representative Policy Council to set policy and eight commodity groups representing dairy, grains, livestock, horticulture, chicken meat, pigs, flowers and egg industries.

Farmers are elected by their peers to direct each of the commodity groups and are supported by Melbourne-based staff.

Each VFF member is represented locally by one of the 230 VFF branches across the state and through their commodity representatives at local, district, state and national levels. The VFF also represents farmers' views on hundreds of industry and government forums.

A handwritten signature in black ink that reads "Andrew J Broad". The signature is written in a cursive, slightly slanted style.

Andrew Broad

President

I. Introduction

The VFF welcomes the opportunity to comment on the Senate Environment, Communications and the Arts References Committee's Inquiry into Water Licences and Rights. This inquiry is seeking the views of stakeholders on the ability of the Commonwealth, across state borders, to sustainably manage water resources in the national interest. The following VFF submission is a comment on the progress of the Commonwealth implementation of the "Water Bill 2008" and the "Commonwealth \$12.9 billion Water for the Future Plan", with specific reference to the Murray Darling Basin (MDB) and not a review of all issues associated with Commonwealth water policy.

The VFF has always been supportive of an effective, collaborative, efficient and whole-of-basin water management approach for the MDB's water and other natural resources, which will enable the social, environmental and economic values of the MDB to be protected into the future. The VFF believes that the Memorandum of Understanding (MOU) agreed to in March 2008; the Intergovernmental Agreement on Murray-Darling Basin Reform (IGA) signed on July 2008 by the six MDB Governments; the Amendments to the Commonwealth Water Act 2008; and the Water for the Future plan, provide the legal, institutional and financial mechanisms to fix the problems with the MDB. VFF view is that through these mechanisms, the Commonwealth has already taken the overall planning and management of the MDB's water and natural resources which will mean a new Basin plan with enforced lower limits on water diversions. The VFF can't see any benefit or need for additional takeover or referral of powers from the states to the Commonwealth. All what is needed now is more co-operation among all jurisdictions and rolling over of infrastructure investments to implement such a reform in a way that protects and enhances the social, economical and environmental values of the MDB.

A key reform of the IGA was bringing the Murray-Darling Basin Authority and the Murray-Darling Basin Commission together into a single institution, to be known as the Murray-Darling Basin Authority which is responsible for the development of the new Basin Plan that will approved solely by the Commonwealth Minister with input from the states. The Commonwealth's Plan includes three main components including the new Basin Plan that will set new sustainable limits on water use; \$5.8 billion investment in more efficient irrigation systems; and \$3.1 billion water purchase program from willing sellers to return water to the environment to address the problems of water over-allocation and overuse.

Throughout the process of developing the MDB water reform processes, VFF concerns focussed on ensuring that issues surrounding reliability of water and the property rights of farmers were protected. The drought and other hardships emphasised the need for

sustained and substantial upgrades to ageing irrigation infrastructure across the nation.

The VFF negotiated strongly with all levels of government and worked closely with the National Farmers Federation (NFF) and farm organisations across the Basin to ensure that any implementation of the MDB water reform did not undermine the security or rights of MDB farmers. Demand for food is not negotiable. The MDB is Australia's most important agricultural region, it accounts for nearly half the nation's gross value of agricultural production. The Basin contains 72% of Australia's total area of irrigated crops and pastures. The value of irrigated production from the Basin is worth \$4 billion at the farm gate, with an estimated four fold multiplier in value through processing. Beyond the farm gate the Basin's economic value is in excess of \$16 billion.

The VFF believe the primary goal of the Basin plan is to balance water for consumptive use and water to the environment. The Government must specify how water for the environment will be utilised, how the additional flows will be accounted for, the river health benefits that can be expected and how these benefits will be measured. An assessment must be made of the current environmental status of rivers to provide base data and a procedure put in place to monitor and publicly report environmental benefits arising from additional flows.

Although there have been various developments to implement the MDB water reforms through the Commonwealth Water Act and the Water for the Future Plan, the VFF is primarily concerned with some aspects of the water reform and has made specific comments in regards to certain areas that are of particular significance to the state of Victoria and VFF members.

1. The issuing and sustainability of water licences under any government draft resource plans and water resource plans

The final decision on the new Basin Plan, due in 2011, will rest solely with the Commonwealth Minister. The Basin states will then be responsible to implement the new Basin Plan and new sustainable diversion limits once the current water plans expire between 2015 and 2019. Meanwhile, an adjustment process is being implemented, through the Water for the Future Plan, to bridge the gap to the anticipated lower sustainable diversion limits under the new Basin Plan. This includes investments to upgrade irrigation infrastructure and purchasing water entitlements to address overallocation and overuse.

Use of the term 'overallocation' can confuse the debate about the entitlement processes. The VFF views overallocation as an incapacity to deliver the level of reliability to entitlement holders within a system.

If entitlement holders are comfortable with a low level of reliability, then more water can be allocated on the premise that it will only be exceptional years where full entitlement will be delivered. Entitlement holders who require a higher reliability of water i.e. more years with full entitlement, then less entitlement can be issued.

Therefore overallocation only makes sense as part of a wider debate about the level of reliability required by entitlement holders and the appropriate amount of the resources for which businesses.

The buy-back of entitlement by Governments does not address the overallocation issue. Unless entitlement is retired as it is purchased it does not alter the reliability of the entitlement held; it simply transfers the use from consumptive to environmental flow. All entitlements will retain the same level of reliability.

Overused and overallocated are entirely different concepts. As explained above overallocation is a function of the frequency with which full entitlement can be delivered and is focussed on the measured and managed volumes of water within a catchment and/or surface water system.

The Victorian allocation and market framework provides entitlement holders with capacity to manage and alter the reliability of a given amount of water being available to their entitlement.

Overused is related to the application of legislative rights to water for example stock and domestic use and riparian rights. The third concept in this equation is the expectations that the community has for environmental values and the volumes of water that the science advises as being the flow volumes necessary to obtain these outcomes.

There is little doubt that as the understanding of environments, community environmental expectations and average rainfall have changed that the volume of water intercepted and/or used is now causing the community to view many systems as overused.

The sustainable water strategy process in Victoria has been able to identify these problem areas and will provide input to the development of the Basin Plan.

The seasonal allocation methodology ensures that as inflows vary entitlement holders water supplies also vary. A number of other actions have been implemented with the purpose to examine no entitlement water use. Permissible consumptive volumes are used to limit the level of extractions from unregulated and groundwater systems.

2. The effect of relevant agreements and Commonwealth environmental legislation on the issuing of water licences, trading rights or further extraction of water from river systems

Water allocated to Victorian irrigator entitlements is dependent on the proper allocation of water to Victoria in accordance with the state sharing arrangements in the Murray-Darling Basin Agreement (MDB Agreement). Victoria's Snowy interests are also protected under the Murray-Darling Basin Agreement, which ensures there is no net loss of water to Victoria as a result of New South Wales decisions in relation to its Snowy license.

This means that the arrangements in the Murray-Darling Basin Agreement must continue to exist. The VFF acknowledge the commitment in the MOU and IGA to preserve States' water shares. The VFF supports that the any water reform and/or revision of the current arrangements must provide absolute certainty that Victoria's Water Share and its use as well as the current sharing arrangements under the MDB Agreement will be protected, including its interest in the Snowy River and Snowy Scheme, so that irrigator allocations are also protected. Any alteration to these arrangements including Snowy Scheme arrangements can only be made with a written approval from the States.

Integral to the current State water sharing arrangements are the decisions affecting how much water is actually allocated to them each year. Operational functions and rules, including available water determination for the Murray system, have been performed by River Murray Water, but have to be approved by States. Although this is usually a straight forward process, sometimes grey areas emerge. When this happens, States collectively determine how they will be addressed. These decisions affect how much water will be allocated to Victorian irrigator entitlements. To ensure irrigators' allocations are protected, the VFF supports river operation rules codified into the MDB Authority continue to operate to minimise ambiguities. The VFF strongly supports that any revision to the MDB Agreement and/or alteration on river operations should be only conducted based on the entirety of the Agreement and not on particular aspects, through the new Ministerial Council and the Basin Officials Committee.

Recently, the VFF acknowledged the Commonwealth – Victorian agreement which will retain the 4 percent cap on water trading until at least 2011. Under the agreement, and subject to a review of progress on the modernisation project, Victoria will begin to phase out the four per cent cap on permanent water trades from irrigation districts from July 2011, with a view to removing the cap entirely by 2014. It is recognised that this agreement will introduce a more strategic approach to obtaining water for the environment. The agreement specified

that environmental water, derived through such programs such as Northern Victorian Irrigation Modernisation Program (NVIRP) and the recently announced On-Farm Irrigation Efficacy Program, will be exempt of the 4 percent trading rule. The VFF view the 4% cap on High Reliability Water shares is essential in preventing large scale and significant social and economic dislocation of rural communities.

3. The collection, collation and analysis and dissemination of information about Australia's water resources, and the use of such information in the granting of water rights;

Decision analysis should not only be based on hydrology and groundwater modelling. Social and economic impact assessment must be conducted as part of the Basin Plan process. So far, the single focus has been on CSIRO Sustainability Yield studies which have also been driving long term vision for future water policy.

4. The issuing of water rights by the states in light of Commonwealth purchases of water rights

The VFF has long opposed governments taking the convenient option to buy water from irrigators in the MDB to provide water to the environment. Our opposition has always been based on ensuring food security, social stability and the dependence of rural communities on the economic activity and food production that is generated by irrigation. Governments should firstly explore investment opportunities in irrigation infrastructure. When Governments invest in infrastructure, the community maintains the economic benefits and the environment receives the water savings without damaging the important economic contribution of agriculture. If, as a last resort, Governments need to enter the market on behalf of the environment, the VFF supports the development of rules for Governments' buying water; these include transparency, accountability, targeted purchase, mature market and an integrated approach that considers alliance of infrastructure upgrade and buyback.

The VFF is unclear on the outcomes that are expected by any increase in environmental flows. While an objective target on increase in flows is easy to stipulate, the real question is what needs to be achieved and how much water is needed to achieve it?

The primary goal of the Commonwealth's Restoring the Balance program is to balance water for consumptive use and water to the environment. The Government must specify how water for the environment will be utilised, how the additional flows will be accounted for, the river health benefits that can be expected and how these benefits will be measured. An assessment must be made of the current environmental status of rivers to provide base data and a procedure put in place to monitor and publicly report environmental benefits arising from additional flows.

New environmental water should be introduced through a phased process with community involvement and continual independent monitoring of outcomes. If the environmental monitoring does not indicate there are clear and measurable improvements in river health as

a result of increased flows, further research will be required before any additional water is returned to the rivers. If there is no evidence to indicate additional water is having a positive impact on river health that water should be returned for consumptive use.

There is no information regarding the socio-economic impact of diverting additional water to environmental flows. As national water reforms are rolled out, the socio-economic impact on communities must be measured and publicly reported. With good information on the environmental benefits gained from additional water for environmental flows and the socio-economic impact, governments and the community will be in a better position to make sound policy decisions in relation to any further commitments to return water to the environment.

The VFF supports an integrated and coordinated approach towards the use of environmental water among all holders of environmental water entitlements to achieve defined environmental objectives in such a way that:

- Makes the most efficient and effective use
- Addresses the social and economic impacts
- Engages the irrigators in the Basin through full consultation processes.

The construction of environmental asset works should be a tool implemented to increase the efficacy of environmental water delivery. Investing in infrastructure to deliver environmental water, just as in the case of water for other uses, minimises losses thereby reducing the volume of water needed to achieve any particular outcome. This could involve upgrading channels and piping water to supply wet lands and other environmental assets.

There needs to be a transparent and rigorous assessment in developing environmental objectives, and setting a water flow target. An ongoing rigorous and transparent review of the outcomes to measure the actual against the expected targets is needed.

Buybacks should be designed so as to reduce structural adjustment costs. The VFF have always supported a planned approach to buyback (targeted buyback) as opposed to a 'shotgun' method of simply buying individual water entitlements with no overall vision for the future of irrigation and regional communities.

5. Other related matters

5.1 Water entitlements

Victoria has progressed the unbundling of water entitlements into the respective components- water share, delivery share and use license- for regulated systems.

Work has commenced on dealing with unregulated and groundwater systems but the nature of these systems makes the process more complicated. It will take time to resolve these complexities to ensure that the rights of entitlement holders are secure while the management of the resources remains sustainable on both a seasonal and long term basis.

Under current programs environmental water will have entitlement carrying the same characteristics as consumptive use entitlement.

5.2 Environmental water

The Victorian Sustainable Water Strategies are creating a definition for non-entitlement environmental water.

The non-entitlement environmental flows are secure in that they are added to the environmental water reserve flows and in general these are appropriately managed.

The draft NRSWS contains the proposal to allow environmental water carryover. The NRSWS will most likely establish the water management framework that will be used as a base for the other strategies that are in earlier stages of development.

NWI principles have been applied in regard to water recovered through infrastructure upgrades. It is essential that appropriate rigour is applied in auditing the savings that are obtained due to water recovery works to ensure that any particular class of water user is not disadvantaged.

The relationships between federal and state environmental water managers, and where appropriate with other groups holding entitlement for environmental purposes needs improvement. A system with less water, which would appear to be the case, will most likely result in choices of assets to protect. It is important that a coordinated and strategic approach is taken with the management of environmental water so as to maximise the environmental outcomes with any given amount and the total available pool.

The most appropriate institutional arrangements for management of environmental water are being examined in the NRSWS. An approach that separates the policy and allocation roles of government and water authorities from the management of the environmental pool is preferred.

5.3 Water Trading

The four per cent cap on trade from a water district is essential in preventing large scale and significant social and economic dislocation of rural communities. The reduced allocations of recent years have already caused significant economic impacts on rural communities. Allowing unfettered trade at this time would result in unintended and significant negative consequences for the sustainability of many rural communities. This is exacerbated by the Federal Government's decisions to speed up a water buy back.

The market operations appear to be relatively inefficient with considerable time required for trade of water to be completed. A national brokering system including registration of brokers and, at minimum, codes of practice are necessary to ensure markets operate effectively and fairly.

5.4 Risk Assignment

The Risk Assignment clauses within the NWI are not worded concisely which allows a range of interpretations leading to a range of different outcomes. Certainty and transparency are

essential in industries where long term and substantial investments are necessary. The current risk assignment processes provide neither.

5.5 Water Accounting

The water accounting system requires more transparency to ensure that all parties sharing the resource understand the processes used and the outcomes that will occur. There would appear to be some gaps in the accounting processes that have led to disagreements on the volumes of water states are required to provide as pay back to other states and a review of the provision may be useful.

5.6 Water use efficiency and innovation

An aspect of water use that has not been widely supported with government funding programs but has potential to deliver significant volumes of water to the environment through savings is addressing on farm efficiency. Increasing on farm efficiency would allow water to be returned to the environment while maintaining the economic contribution from irrigation.

The recent announcement of the \$300 million On-Farm Irrigation Efficacy Program, targeted in the Southern Basin, is a big win for irrigated agriculture. This funding, forming part of the Federal Government's \$12.9 billion *Water for the Future* plan, will be used to upgrade on-farm irrigation infrastructure. This program aims to recover 115GL of water, 50% of which will be transferred to the Commonwealth Environmental Water Holder.

Increasing on-farm irrigation efficiencies will assist irrigated agriculture confront a future with less water without compromising productivity whilst simultaneously assisting the Federal Government to achieve its environmental water acquisition volume.

5.7 Addressing Adjustment Issues

The focus on rural adjustment has not been adequate given the low inflows and low allocations that are being experienced. Adding significant water reforms, including Government buybacks, to the impacts of a prolonged drought have magnified the issues to be addressed and the level of uncertainty in rural communities.

The transparency of the water buybacks has not been adequate and is adding to the level of uncertainty in rural communities. A well articulated process that outline the objectives and targets, and is strategically linked with other programs such as infrastructure upgrades is needed within the buyback program.