



Spokesman on Infrastructure,
Environment and MIS
W. McClumphia

Victorian Farmers
Federation
Sunraysia Branch
Branch of the Year 2007

Secretary: George Paolucci
Mobile

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Submission to the Senate Select Committee on the Murray Darling Basin Plan 18/09/2015

The VFF Sunraysia Branch represents producers of irrigated horticulture in the Sunraysia area. Members are primarily producers of wine grapes, citrus, almonds, vegetables and dried fruits. The branch has an especial interest in water, particularly with respect to the LMW pumped district, and maintains policy independence from the main body of the VFF.

Independence was adopted to better accommodate the particular needs of local irrigators following the ongoing downturn in the terms of trade coupled with ongoing changes in the legal and administrative treatment of water. Independence allows focus on the interests of irrigators without those interests being coupled with and submerged by the larger political imperatives driving interest groups and representative groups, for example those imperatives arising from the policy linkage of the VFF with the National Party.

The branch has made submissions to the MDBP, the Windsor Inquiry and to the Water Amendment Bill 2015. The branch emphasises that the interests of irrigators are parallel to, but not necessarily identical to the broader community interest. Accordingly the branch advocates with the interests of irrigators as its primary imperative.

BACKGROUND-THE MURRAY DARLING BASIN PLAN AS A POLITICAL FOOTBALL

The branch has been supportive of the need for the MDBP in order to address environmental degradation in the basin due to excessive extraction of water for consumptive use, and recognises that the re-establishment of riverine health is a precondition for the ongoing prosperity of basin producers and their communities. The water recovery target is relatively modest, and despite initial uncertainty regarding how water would be recovered from irrigators, the Gillard government undertook to pay for any water recovered, and to buy water only from willing sellers.

Accordingly, the branch was supportive of the draft MDBP and the MDBP as a workable compromise between socio-economic and environmental interests and as an acceptable starting point for MDB environmental recovery.

A ROCKY START, ENGAGEMENT NOT INCLUSIVE

The plan got off to a rocky start, with copies of the plan being burnt at the launch in Griffith and the MDBA chair Mike Taylor resigning soon after. The plan and its imperatives were not clearly explained or effectively sold, including to the media, and the plan never recovered from the perception that it was an unnecessary sop to urban greenies and big eyed South Australian lobbyists.

The MDBA has dealt primarily with politicians, industry groups, and pressure and community groups, whose overriding imperative has been to block, exploit, or to reduce the scope of the plan. The MDBA has failed to connect sufficiently with grass roots irrigators and the media to ensure an adequate comprehension of the elements of the plan.

Consequently there remains ongoing distrust and confusion regarding the plan. The community generally, and many irrigators, remain confused about the plan and struggle to extract elements of the plan from broader aspects of water policy such as water reform. There remains a widespread belief among irrigators that their entitlement, their allocations and their water security will be affected by the MDBP.

Clearly the plan has not been accepted as legitimate by substantial numbers of irrigators and basin residents, many of whom believed, or still believe, that water was taken from irrigators without consent or compensation. As a result the MDBP has been painted black and exploited, and successfully blamed for unrelated downturns in returns to producers, the economic and social decline of rural communities, and high water prices.

POLITICAL PRESSURE COMPROMISING MDBP'S ORIGINAL INTENT

Unfortunately, ongoing political pressure has resulted in changes which compromise the legitimate objectives of the plan. There is a finite amount of money available for water recovery, but following the populist Windsor inquiry, increasing diversion of funds away from buy-backs to irrigator infrastructure subsidies is producing a substantial risk that the 2750 GL target might not be met, as the recent MDBA stock take study affirms.

The 1500 GL cap on buybacks is now law, meaning that water recovery will be more expensive per mega litre and available funds will recover less water. Additionally, at the direction of the new Prime Minister Malcom Turnbull, the Water portfolio and responsibility for the MDBP has been removed from the Environment portfolio and handed to the Agriculture Minister Mr. Joyce, potentially diminishing the status of water as an environmental cornerstone, demoting it back to a commodity and further reducing the chances of the aims of the MDBP being achieved

BUYBACKS EFFICIENT, LOW IMPACT TO DATE, "SWISS CHEESE" EFFECT PRE-EXISTING

The Water Amendment Act will limit further buybacks, but the branch notes that to date, contrary to popular perception, buy-backs have not had any significant negative economic or social impact, despite the politically convenient view that "water has been ripped out of rural communities".

In fact the "Swiss Cheese" effect was well established in irrigation districts, including the LMW pumped district, well before the MDBP was established. The LMW pumped district began drying off in the mid to late nineties with the downturn in the dried fruit industry and a general decline in the horticultural terms of trade. Drying off then accelerated in the early to mid noughties during the collapse of the wine grape boom when the district as a whole was over 40% dried off with parts of Merbein over 50% dried off. Other irrigation districts and communities have similar experiences, for example MIL and GMW.

The plan did in fact present an opportunity for irrigator groups to lobby for changes in the water delivery pricing regimes to protect members of irrigation schemes from ongoing infrastructure charge increases as a result of "Swiss Cheese". The branch advocated on this issue but received no support, and it is disappointing this opportunity was forgone and the lobbying effort generally was placed instead on winding back the plan

WATER CHEAPER DURING FIRST YEARS OF MDBP, BECOMING DEARER IN 2015

Low rainfall has meant that in 2015, water has been scarcer and therefore dearer, settling at around \$200 in the Southern Connected System. However, post the drought years of 2007/08 and 2007/09 until now, water availability has been high and temporary and permanent water has been relatively cheap. If the terms of trade had been favourable and had underpinned reasonable economic returns, then investment in irrigation districts could have re-vitalised dried off "Swiss Cheese" districts such as Sunraysia and driven output growth and flow on economic benefits in parallel with the implementation of the MDBP. ***Economic factors, not a MDBP inspired decline in water availability, have caused rural incomes to fall, rural communities to decline, and irrigation districts to resemble "Swiss Cheese" as a result.***

Some of these factors include- 1) ***an ongoing decline*** over the last 20 years in the agricultural, and particularly the horticultural terms of trade. In an increasingly globalised market place, Australia has

become a high cost, uncompetitive producer whilst remaining a price taker in a corrupt international market place. Surplus production from more competitive and often subsidised foreign commodity producers has made horticulture less profitable, both domestically, and in formerly lucrative export markets. The decline in the terms of trade has been accelerated by an economy increasingly geared to the mining boom which kept both the dollar and the cost of local inputs excessively high. An example of many of how job losses can occur is the export and processing overseas of Australian grown potatoes in Belgium which are then re-exported back to Australia with the loss to Australia of the related value adding jobs

2) ***Low commodity prices*** caused by worldwide oversupply, exacerbated domestically by taxpayer subsidised overproduction (including MIS), as in the wine industry.

3) ***Australia's supermarket duopoly***, in conjunction with own branded imports and a slack regulatory and labelling regime, has cut margins to the bone for most domestic producers, forcing many food producers out of business. Examples are many but include the loss of fruit supply contracts to canneries, and the almost total shift of domestic consumption to imports of frozen vegetables.

EFFECT OF THE MDBP BUYBACKS GOING FORWARD-IMPACT BALANCED BY BENEFIT

Although the water recovery program for the MDBP has been politically targeted, to date it has had little real, as opposed to perceived, impact on irrigation production. However going forward in 2015 and beyond, perhaps into dryer times, the program will have some variable impact. Rainfall, and therefore allocations to entitlement, will determine water availability both overall and in particular valleys and markets, but water already recovered and yet to be recovered will remove some water from both the temporary and permanent markets. As supply and demand varies there will be some ongoing impact attributable to MDBP water recovery.

However the effect on water prices of recovered water has to be considered in the context of both the ongoing overall benefits of a MDBP with sufficient water to be effective, and of other factors increasingly driving the price of water beyond affordability for traditional basin farming enterprises in times, like now, of lower water availability.

FACTORS OTHER THAN WATER RECOVERY CAUSING HIGHER WATER PRICES NOW AND GOING FORWARD

1) ***Increased urban demand.*** As the population increases and the standard of living rises, the urban demand for water is increasing, and will continue to increase exponentially. For example, pipelines from the Murray River extract water for urban use down into the Yorke and Eyre Peninsulas, and another pipeline from the Murray is planned to supply Broken Hill. Such infrastructure will continue to be built and extended all over the MDB and will be supplied by ongoing purchases of HS entitlement. South Australia recently purchased 8 mega litres of Victorian HS, and these types of purchase can be expected to accelerate, reducing the water available for irrigation.

2) ***Existing and future plantations.*** Huge plantations are currently being developed in most states, including the basin states, and will require a lot of water on an ongoing basis. These developments will continue to be developed by domestic and overseas investors until the scarcity of reliable water forces a slowdown. In conjunction with the existing plantations developed under the Managed Investment Scheme model, these developments will be increasingly significant players in the water market.

3) Other big ***corporate users***, including several new industrial dairy farms already mooted, will place increasing demands on available water. Big corporate commodity growers will increasingly look for water to grow cotton, rice, and other crops.

4) FTA's now completed, or being progressed, have created optimism, reinforced by the lower dollar, that overseas markets, particularly in Asia, will be increasingly lucrative, sustainable markets for Australian producers. This will translate to increased expansion by existing enterprises, as well as entry by new players, and the result will be increased demand for water both for permanent plantings and seasonal crops.

It is difficult to predict to what extent the factors outlined above will combine with each other and with climatic factors to affect water prices going forward, but clearly their combined effect will be significant relative to that of the MDBP water recovery buybacks. Conversely, the 1500GL buyback cap in the long run is unlikely to achieve anything more than a propaganda benefit for the government. In the face of climate change, developing economic realities and a changing water demand profile, Basin communities are set for increasingly challenging times which will be better faced with the establishment of an environmentally significant MDBP.

COMMUNITIES COMPROMISED BY LOW WATER RECOVERY: 1500GL Cap

The passing of the 1500 GL buyback cap means that less water will be bought back than was originally intended, and it is a strong possibility that insufficient water will be recovered to run an effective MDBP. Finite water recovery money will be increasingly diverted to on-farm infrastructure subsidy programs which are problematic and yield less mega litres per dollar than buybacks. Basin communities will potentially suffer as a result, given that achieving genuine progress in returning Basin rivers to ongoing health from their current degraded state is necessary for the future economic and social well being of those communities.

CLAWBACK A POSSIBILITY

If the amount of water recovered ends up being short of that required after the available money is spent and the SDL adjustment mechanism is implemented, the question will arise as to how the shortfall will be recovered. If the government is unwilling to put up more cash to buy more water or create more savings, then it is possible that entitlement holders will be required to give up, without compensation, a portion of their entitlement to achieve the SDL. This could be a real possibility given that risk assessment was originally the likely method of water recovery. Clawback could become more likely if the political perception became that interest groups had rorted the MDBP process in their own self interests by diverting taxpayer money to less efficient water recovery methods.

INQUIRY AN OPPORTUNITY TO RE-VALIDATE MDBP- A MILLENNIAL OPPORTUNITY

Given the ongoing budgetary difficulties of the government, the MDBP is a never to be repeated millennial opportunity to balance economic and environmental imperatives, and to use existing funds generously supplied by the tax payer, in order to recover sufficient water for an environmentally effective MDBP meeting the long term economic and social interests of basin communities. It is disappointing to see this opportunity being railroaded and endangered. This inquiry represents a chance for the MDBP to be re-validated, to be publicly clarified, and for the inquiry to recommend that available funds are properly audited and disbursed to ensure that water recovery targets are guaranteed.

W. McClumpha Sunraysia Branch VFF