

**Spokesman on Infrastructure,
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Secretary: George Paolucci

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## Submission to the Water Amendment Bill 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 vine fruits. The branch has a particular interest in water, especially with respect to pumped districts, and maintains policy independence from the main body of the Victorian Farmers Federation. The branch made submissions to the MDBP process and to the Windsor Enquiry.

### SOCIO-ECONOMIC IMPACTS OF WATER BUYBACKS-BUYBACKS A POPULIST SCAPEGOAT

The bill proposes that concerns regarding the socio-economic impact of the MDBP water recovery program are supposedly going to be addressed by capping buy-backs to supposedly “provide certainty” to irrigators and their communities.

The branch notes that water buybacks to date have not had any significant negative economic or social impacts on irrigators or their communities despite the politically convenient view that “water has been ripped out of rural communities.” As the branch has stressed in its submissions to the MDBP process and the Windsor Inquiry, irrigation dependent areas such as Sunraysia and the Riverland were chronically dried off well prior to the passing of the Water Act in 1997.

Post the drought years of 2007/08 and 2008/09, water availability has been high and temporary and permanent water has been reasonably cheap. If potential returns had been high, investment in irrigation districts could have revitalised dried off “Swiss cheese” districts such as Sunraysia and driven output growth and flow on community benefits in parallel with the implementation of the MDBP. Economic factors, not water availability, have caused rural incomes to fall and rural communities to decline as a result. Some of these factors include-

- 1) Low commodity prices caused by worldwide oversupply exacerbated domestically by taxpayer subsidised overproduction (including MIS) as in the wine industry.
- 2) In an increasingly globalised marketplace, Australia is becoming a high cost, uncompetitive producer, ill placed to withstand competition from cheap, often subsidised foreign production. When combined with increased production from increasingly more competitive overseas producers, this has made horticulture in particular less profitable, both domestically and in formerly lucrative export markets.
- 3) Australia’s supermarket duopoly, in conjunction with own-branded imports and a slack labelling regime, has cut margins to the bone for domestic producers and forced many out of business.

### BUYBACKS-EFFICIENT WATER RECOVERY-BENEFICIAL TO COMMUNITIES

The branch has consistently supported buybacks as being an efficient, cost effective method of obtaining the water necessary for a workable MDBP. Prior to the advent of Strategic Buyback, open tenders by the

Commonwealth underpinned the water market and gave many irrigators the opportunity to realise their water entitlement on favourable terms.

2

Contrary to popular belief, the buy-backs helped sustain rural communities by allowing irrigators to use the money from selling entitlement to re-capitalise and to re-jig their water portfolios. For example in Sunraysia, many LMW irrigators sold a portion of their entitlement to pay down debt, pay their water arrears, and keep irrigating using allocation water, and this option to an extent has underpinned the ongoing viability of LMW.

## STRATEGIC BUYBACK

The branch has consistently opposed Strategic Buyback which has-

- 1)-created a two-tier water market and prevented irrigators in pumped districts from obtaining the premium available from selling to the Commonwealth.
- 2)-artificially reduced the pool of potential tenderers and inflated the price per mega litre taxpayers have to pay, thereby reducing the amount of water able to be bought back within the budget.

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

Although to date the water recovery program for the MDBP has had minimal negative impact on irrigation communities, going forward the program will have a variable impact depending on rainfall and on other factors. The water already recovered and yet to be recovered will remove water from the temporary and permanent markets, and as demand increases and supply varies there will be some impact attributable to MDBP water recovery

However that impact has to be considered in the context of other factors and the overall benefit obtained from the recovered water.

## OTHER FACTORS

These factors include 1)-increased urban demand. As population increases and the standard of living rises, demand for urban water is sky rocketing, as evidenced by South Australia's recent purchase of Victorian entitlement. These types of purchases will increase, reducing water available for agriculture.

2)-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 types of developments, in conjunction with the existing plantations originally developed as managed Investment Schemes, will be developed into the future by local and overseas investors until the scarcity of reliable water forces a slowdown

3)-other big corporate farming enterprises are being developed, notably dairy farms, and these will need water along with the plantations.

4)-the FTAs now completed or being progressed have created a belief that overseas markets, particularly in Asia, will be increasingly lucrative, sustainable markets for Australian producers. This will translate to expansion of production 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 factors 1 to 4 outlined above will combine to affect water prices going forward, but their combined effect will clearly be significant relative to that of the MDBP water recovery buybacks. Conversely, capping buybacks at 1500 GL as the legislation proposes, will in reality achieve little more than a propaganda benefit for the government. In the face of developing economic realities, Basin communities are set for increasingly challenging times, the buyback cap notwithstanding.

The other factors discussed will continue to have the bulk of the influence in determining water market outcomes, but the buyback cap will potentially impact on the outcomes of both the MDBP and on the future security of irrigators' entitlement.

## EFFECT OF BUY BACK CAP ON MDBP- COMMUNITIES COMPROMISED

If the buy-back cap is successfully passed, less water will be bought back than was originally envisaged by the plan, and it is a strong possibility that insufficient water will be recovered to run an effective plan. Water recovery money will be diverted to off farm infrastructure programs which are problematic and which yield less water per dollar spent than buybacks.

Given that the amount of money available for water recovery is finite, the plan to cap buybacks at 1500 GL is by definition a plan to recover less water for the MDBP than was originally envisaged. Given that the 2750 target was in the first instance a modest one, and the buyback cap will further reduce its scope, there is a real danger that the environmental objectives of the MDBP will be compromised by the cap. Basin communities will potentially suffer as a result, given that achieving some progress in returning Basin rivers to health from their current degraded state is necessary for the future economic and social well being of those communities.

## CLAWBACK A POSSIBILITY

Another possible outcome which could result from the proposed buyback cap is the clawback of entitlement. If the amount of water recovered ends up being short of that required after the available money is spent and the adjustment mechanism is implemented, then the question will arise as to how the shortfall will be recovered.

If government is unwilling to put up more cash to buy more water or to 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 is definitely a possibility. The idea of risk assessment to recover water to achieve the SDL for the MDBP was on the cards up until the time Prime Minister Julia Gillard undertook to pay entitlement holders for water recovery as an election promise prior to her re-election, and the promise was matched by Mr. Abbot.

## CONCLUSION

The branch believes buybacks are an efficient method of water recovery and that the proposed cap will compromise an effective MDBP without realistically improving outcomes for irrigators and their communities. The branch advocates that the Commonwealth does not proceed to create the proposed 1500GL cap on water buybacks.

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