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House of Representatives Standing Committee on Regional Australia

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

Submission by Western Murray Irrigation Limited (WMI)

WMI as a member of the National Irrigators Council (NIC) also supports the NIC Submission

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Background

Western Murray Irrigation Limited (WMI) is a not for profit unlisted public company limited by shares. The company was privatised from the NSW Government in 1995. WMI customers hold a high security water entitlement of 57,552ML. WMI manages three irrigation areas in the NSW side of Sunraysia, Buronga, Coomealla and Curlwaa. The irrigated area represents 4,400 hectares and is predominantly permanent plantings (grapes and citrus). The value of product at the farm gate for the WMI irrigation districts is $45 million.

The water is pumped directly from the River Murray via three separate pumping stations and delivered through fully pipelined delivery infrastructure. Each pumping station has an independently calibrated meter, owned and operated by WMI, and is supplied water under a bulk water licence arrangement. All supply points within WMI on farm are metered. The replacement value of WMI water infrastructure is estimated at $145 million.

WMI also undertakes extensive drainage water management, monitoring and reporting. Drainage schemes in each area ensure removal of hundreds of tonnes of salt each year and prevent drainage water from entering flood plains.

Permanent water transfers have been occurring from WMI since 2008 and it is expected this trend will continue. At present 20% of the irrigated areas have been dried off and there has been a reluctance to invest given the uncertainly surrounding both commodity prices and water reform policy,

WMI is at full cost recovery and has a combination of fixed and variable pricing which has allowed the company to be self sustaining during the last four years where periods of drought and an extreme wet start to the 2010 season has reduced allocation and usage. WMI prides itself on the company's strong financial performance since privatisation. The company has a Board of Directors with six shareholders and two independent directors as its members.

The Board of Directors of WMI believe the proposed Basin Plan outlined in the Guide has the ability to threaten the future viability of the company.

The Board has been concerned from the start of the process the Murray Darling Basin Authority (MDBA) does not have the skills or resources to complete the impossible task set in unrealistic timeframes. The scope of the plan is too narrow to provide an all encompassing solution needed. The guide has been released with major bodies of work still being commissioned and extensive resources are being committed from the irrigation industry without all information to hand. It is difficult to interrogate the science without the expertise.

The process to date has been damaging to regional communities with little recognition for the progress achieved on the ground in terms of water reform, water use efficiency and catchment management or the hardship experienced during the drought.

High hopes are being held for the inquiry into the impact of the Murray Darling Basin Plan in Regional Australia and the WMI board is available to the inquiry to respond to any queries or to ground truth any proposals.

Introduction

The most telling and relevant comment from the resignation statement of Mike Taylor was:

> "While the Authority has an important part to play, it is neither empowered nor equipped to undertake the entire complex task."
>
> - Mike Taylor, outgoing chair of the MDBA[1]

Real solutions are needed that provide confidence in the future of irrigated agriculture and investment into the regions. This cannot be done in six months and it is time to slow the process down to ensure the data, models and science is comprehensive and sound, the plan is credible and that community consultation and engagement with the States and stakeholders is undertaken valley by valley, region by region and town by town.

WMI supports the National Irrigators Council view that the current Federal Water Act is biased to the needs of the environment given its reliance on the external affairs powers to achieve a head of power under the Constitution.

The Act must be amended to reduce the risk of legal challenge and restore the trust of regional communities that the triple-bottom-line promise of the National Water Initiative can be achieved.

WMI notes that a significant proportion of the environmental problems in the Basin in recent times have been caused by the worst drought in recorded history. Variable river flows are a natural occurrence in the Australian climate and there is no better proof than right now of how quickly flows from rainfall can restore the system and the environmental assets. The Australian environment is hardy and has adapted to "its land of droughts and flooding rains."

The environment already receives the majority of water in the system as outlined in the MDBA guide and there is a wide misconception about overuse by consumptive users. Evidence is clearly available from the last five years that shows irrigators can only access water when it is available.

WMI fully supports a balanced and realistic outcome where tradeoffs have been considered and judgements made make sense. WMI does not support what has been tabled in the guide to date in terms of the arbitrary reduction range of between 3,000 GL and 4,000 GL with equalising percentage cuts across valleys. The cuts are not supported by solutions that could reduce the sustainable diversion limits as this is outside the scope of the MDBA's task. The size of the cuts recommended without a true appreciation of the consequences has clearly mobilised regional communities to unite and argue for a balanced outcome.

WMI believes the committee in their review should explore:

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[1] MDBA media release, 7 December 2010

1. The timeframe for release of the draft basin plan in terms of achieving the best possible outcome for the long term future of the Murray Darling Basin. The release of the draft plan should be pushed back into 2012.

2. The timeframe for implementation of the basin plan. There is inequity between the States at present. 2019 is the preferred date for implementation by all States to provide consistency with Victoria. By extending the timeframe it also allows some of the Government programs to be fully implemented and water savings to be quantified. This includes the major infrastructure projects, the metering projects and on farm projects. Extra time also allows for more accurate development of the Bureau of Meteorology water management databases.

3. Given the Commonwealth Government has already purchased close to 1,000 GL using taxpayers funds they should be given the time to actually test environmental objectives and outcomes with the water they have combined with water held by the States and natural flow events. Clearly at the moment permanent entitlement is being held and the majority of it can't be used due to the natural flooding events occurring. Taxpayers quite reasonably should question the sense of holding large amounts of permanent water entitlement (most of which cannot be accessed in drought years due to the entitlement type) and paying annual fixed and variable State Government water charges. These financial numbers have not been clearly communicated in any reports but will need to form part of the annual budget of Government.

4. The Commonwealth Government has committed to bridging the gap through voluntary buyback of permanent water entitlement. A report released by Waterfind in December shows based on the 3,000-4,000 GL range there is a $1.5 to $5 billion hole in the budget. If this is indeed the case the economic cost benefits of the program need to be clearly defined to convince the taxpayer this is a sound use of funds if there are alternative and cheaper solutions.

5. The use of the temporary water market by Government. During the worst of the drought when the environment was suffering the Government would not enter the temporary water market to provide relief to the environmental assets. Water was available to purchase. The environment must be treated like any business with a value, if it is valuable enough different strategies are used to optimise outcomes in any given year. Right at the moment the environment could easily purchase hundreds of thousands of megalitres on the temporary market at $30 ML without impacting agricultural production.

6. If environmental targets are realistic and acceptable noting that trade offs will possibly be required. The risk of not achieving environmental benefits is high given the lack of scientific data and the risk of unintended inundation is also high. The size of the end of system flows targets should be challenged given the man made structures installed in regulated systems and the fact the river systems have been permanently changed to support people.

7. What water is already held by the environment by all forms of Government and private environmental trusts and how this water can be used to offset an acceptable cut to consumptive use.

8. The engineering solutions for delivery of water to environmental assets should be detailed and assessed using business case methodology currently being applied to other water efficiency infrastructure works. It may even be possible to divert some of the $5.8 billion to these environmental projects.

9. The importance of licencing all interception activities. Forestry and farm dams must be bought to account as the irrigation community should not have to wear the full brunt of the cuts.

10. The future of irrigation infrastructure operators. The operators within the basin vary from Government owned to privately owned corporations, trusts and co-operatives of varying sizes. There is no denying that the uncertainty generated from Government policy has paralysed the operators ability to set down strategic plans and their willingness to invest (unless Government investment is received). Put simply the operators do not know which of its customers will stay or which will go and while the Commonwealth buyback program remains the "Swiss cheese" impact will continue. Those customers who are left behind will have to cover the higher fixed charges. The Australian Competition and Consumer Commission (ACCC) has developed complex water market rules and water charge "termination fee" rules and are in the process of finalising water charge rules and water trading rules. Industry has attempted to engage the ACCC and come up with workable solutions but have failed miserably.

11. The number, size and effectiveness of bureaucracies established to deal with water reform in the basin.

A narrow technical solution provided from the MDBA under its current charter if adopted by Parliament would permanently damage basin communities.

WMI expects true leadership on the basin plan reforms from both sides of Parliament after consideration of the science, full input from the states, community engagement and credible solutions to enhance the potential future of regional communities while improving environmental outcomes.

Direct responses to Terms of Reference

The direct and indirect impact of the Proposed Basin Plan on regional communities, including agricultural industries, local business activity and community wellbeing.

There are two obvious impacts from the proposed basin plan on our region:

1. Employment loss.
2. Population loss.

From these two indicators everything else flows and all businesses are affected. The difficulty is that water entitlement will be purchased by Government from willing sellers. If there are no willing sellers in an area then the economic impacts will be minimal. It is impossible to predict where the impacts will fall. The committee must drill down into the buyback to date to work out exactly where the water has been bought from and assess what impact this has already had on those communities.

WMI is located in the Wentworth Shire. The Shire is one of the largest in NSW. The Shire has a land area of over 2.6 million hectares. Despite the large extent of dry land agriculture the agricultural economy of Wentworth Shire is driven by irrigation. A recent land use study commissioned by the Wentworth Shire noted while irrigation is confined to just 0.5% of the Shire's area it contributes 80% of the gross value of production. The Shire produces 20-25% of the total NSW output by value of citrus and grapes. The economy of the Wentworth Shire is very highly dependent on irrigated agriculture and the introduction of the proposed sustainable diversion limits would place considerable pressure on farm businesses which would in turn flow through to the rest of the Shire's economy.

The Shire already has a very high uptake of fully pressurised pipelined systems combined with a number of highly efficient direct diverters. On farm irrigators have been at the forefront of embracing drip and spray technology. In WMI over 90% of customers have installed water efficient technology. Low allocations and the increasing value of water has meant irrigators have permanently changed their habits to maximise water use efficiency.

There are minimal water savings to be made in the Shire and none to be made in WMI. The only environmental asset of any significance noted in the MDBA guide is the Lower Darling River system. This system does not need additional management nor will it provide employment opportunities as it is managed by the NSW Government and the MDBA through releases from the Menindee Lakes.

The Wentworth Shire forms part of the Sunraysia region and is connected to Mildura as its closest regional centre. Judith Stubbs and Associates undertook a detailed study in 2010 on the social and economic impacts of reduced irrigation water on Mildura. The key results of the study revealed the impacts of a permanent reduction to irrigation water on Mildura are likely to be significant with at least one third of local employment directly or indirectly related to irrigated agriculture. 70-100 jobs exist for every 1,000 hectares of horticulture as compared to 1 job per 1,000 hectares of dry land farming. If there is a 25% reduction in water entitlement and usage (minimum level as recommended for the Murray valley in the guide) 1,513 jobs will be lost and population loss will exceed 4,000 people. Existing indicators of community resilience in Mildura do not compare favourably with the Murray Darling Basin as a whole and Mildura's relative disadvantage means there would be constraints to flexible adaptation to structural change. Mildura has a high aboriginal population, low average incomes and a heavy reliance on welfare.

Mildura is particularly vulnerable as there is limited opportunity for on farm and system efficiency gains and there is no dry land alternative. The population may fall below the all important 50,000 threshold where services are lost.

Tourism from environmental watering is not a solution to replace irrigated agricultural jobs in Mildura given its isolation.

Mildura has already had a number of hard knocks in recent years losing its centre for scientific research excellence the CSIRO in Merbein, the Qantas engineering service centre, timber mills and wine processing facilities. House and property valuations have fallen.

WMI deals with customers everyday and in terms of community well being there has been a noticeable decline in mental health. The decline has been attributable to a number of factors including commodity prices and the drought but irrigators cannot see an end in sight to ill conceived water reforms and many wish to exit to look for a more stable future.

WMI's office is based in a small town called Dareton that continues to decline. The supermarket is for sale with the owner stating it is no longer profitable, the fuel station has been taken over by the local Coomealla Club and is running at a loss, school enrolments have dropped and agricultural suppliers have closed. While the regional centres may survive small towns will be at risk under the cuts proposed in the guide.

Options for water-saving measures or water return on a region-by-region basis with consideration given to an analysis of actual usage versus licence entitlement over the preceding fifteen years.

WMI has no ability to generate any further water saving measures through irrigation infrastructure improvements. When the systems were upgraded there was at least 30% water savings achieved. These savings were fully retained by the irrigator customers and excess water has been used in a variety of ways to manage business risk. Some customers sold permanent entitlement to use the funds to invest in new technologies on farm and some customers' trade excess water allocation on an annual basis to supplement their farm income.

WMI is supportive of the Sunraysia Modernisation project due to the regional benefits it will provide. While water savings generated will not be as high as other projects it meets the criteria of strengthening the Mildura economy and providing a stronger future for irrigated horticulture. Some regions will clearly receive much higher economic benefits from infrastructure projects such as the Goulburn Valley where the Victorian food bowl project is underway and over $2 billion has been committed to the project.

Caution should be undertaken in conducting any analysis of actual usage versus licenced entitlement in a region. Use will first and foremost depend on allocation in any one year.

It is also the case for WMI that a number of water entitlement owners actually farm in South Australia and use the water allocation outside our districts each year. So the water is being used just not at the WMI pump sites.

It must also be remembered existing licence entitlement is a property right. The NSW Government has recently set a precedent of establishing a new general security licence on the Low Darling river system for the Anabranch water savings project (47 GL). If this is to be the case for all environmental transfers of water savings usage will potentially increase as new entitlements are being created. Negative third party impacts will occur.

Options for water savings measures must include engineering solutions for the delivery of water to the environmental assets. The catchment management authorities in many cases have already developed proposals with a local Victorian example being the Lindsay Island works.

The role of governments, the agricultural industry and the research sector in developing and delivering infrastructure and technologies aimed at supporting water efficiency within the Murray-Darling Basin.

There has already been a concerted push for many years to improve water efficiency which was further prioritised due to the drought. Our region has been fortunate to run an effective irrigation incentive scheme which was a partnership between the Lower Murray Darling Catchment Management Authority, the Department of Primary Industries in NSW and WMI.

A cash incentive was provided to install works on farm and included conversion from inefficient systems to installing water scheduling and monitoring programs. This program has now ended and is being replaced with the on farm programs being delivered through the Commonwealth Government. There will be little take up from our region as the work has already been done.

There has been a reduced emphasis on funding rural research across a number of sectors and this is ultimately to the detriment of the irrigation industry. Commodity groups have been quite strong in delivering research and promoting new technology and irrigators will tend to focus on maximising their crop and want specific research. Localised approaches by credible individuals and organisations will always have the best results.

Having said that WMI still believes there is an opportunity to combine the currently fragmented irrigation efficiency research into a centre for irrigation excellence in the Murray Darling Basin.

Measures to increase water efficiency and reduces consumption and their relative cost effectiveness.

Pricing sends clear signals to use water efficiently. NSW has just gone through its round of IPART determinations for Government charges (State Water and the NSW Office of Water) and it was noted the state is moving towards 90% cost recovery. In the Murray valley it is already 100%. Cost recovery is not at the same levels in the other states. The ACCC are advocating for consistency but their draft rules are flawed as they don't cover the lack of charges in South Australia and the constant Victorian Government bail outs of the financial position of its infrastructure operators.

Opportunities for economic growth and diversification within regional communities.

Larger regional centres have a greater opportunity for growth and diversification than smaller centres. Mildura for example may have some short term opportunities with solar developments and longer term opportunities in tourism, education and arts. There is little opportunity to diversify from horticulture on the blocks. Mineral sands mining has provided some employment opportunities in the region. Mildura has excellent processing and freight facilities but needs to retain the economies of scale of inputs to maintain productivity.

The river is central to the wellbeing and lifestyle of Mildura and projects that enhance the natural advantages the river provides should be promoted.

Previous relevant reform and structural adjustment programs and the impact on communities and regions.

Sunraysia has had a number of structural adjustment programs in the last ten years. There has been the kickstart program where funds were provided to prepare a business plan and then infrastructure support could be applied for.

The Commonwealth Government provided a one off $20,000 grant to Murray Darling basin irrigators who could choose how they spent the funds within certain parameters.

A number of irrigators have also had constant access to exceptional circumstances relief including interest subsidies during the past four years.

The small block exit grant was also a program run recently that was designed to provide a package of $150,000 to exit providing the block would not be irrigated for five years and infrastructure was removed. The full water entitlement from these blocks was sold to the Government. The policy has created local problems with neighbours unable to utilise the land for productive purposes.

The Sunraysia Rural Financial Counselling service has provided advice and support to hundreds of customers and is well placed to comment on what does and doesn't work in direct structural adjustment packages.

Impediments need to be removed to allow consolidation of blocks to increase overall farm size.

Infrastructure spending is required on roads, rail and air services to reduce the disadvantage of distance. The National Broadband Network is a lesser priority.

Export markets remain vitally important to regions and open and fair trade agreements are needed to provide market access.

Shutting down whole irrigation areas is preferred to the current Swiss cheese effect that is taking place. Industry supports Government working with groups to exit and remains concerned that valid approaches from irrigators and irrigation corporations have constantly been rejected.

Water trade remains one part of the adjustment solution and WMI has lobbied for regulation of water market brokers and the market itself for a number of years. The recently published National Water Commission – Australian Water Market Report for 2009-10 shows there is a very active water market with entitlement trades increasing by 8% from the previous year and allocation trades increasing by 16% from the previous year. The overall transparency of the Commonwealth buyback program needs to be improved with real time information provided to the market.

Termination fees are part of the structural adjustment for infrastructure operators and should be retained to ensure an appropriate sharing of risk between those irrigators who choose to stay and those who choose to go. The ACCC developed water charge "termination fee" rules has endorsed the validity of termination fees, however, there remains resistance to the payment of the fees. The fees have not been a barrier to trade with large amounts of water entitlement leaving irrigation corporations and districts in the last two years.

The focus of future adjustment programs must be on keeping the truly viable within the irrigation industry and moving the poor operators out. Constant subsidies in some circumstances just delay the inevitable decision that needs to be made.

Regional growth packages supported by effective Government investment will need to be developed in consultation with local Government and representative leadership groups.

END OF SUBMISSION