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**Government
of South Australia**

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Mr Tony Windsor MP
Committee Chair
House of Representatives Standing Committee on Regional Australia
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Dear Mr Windsor

The Government of South Australia welcomes the opportunity to provide input into the House Standing Committee on Regional Australia inquiry into the impact of the Murray-Darling Basin Plan in regional Australia.

For decades the health of the Murray-Darling Basin has suffered due to over-allocation of its waters. Being at the end of the system, South Australia recognised early on the impacts of over-allocation, reduced flows and poor water quality and the imperative for practices along the river to change.

Historically in the management of the Murray-Darling Basin, insufficient water has been provided to meet environmental needs. When there are water shortages, as with the recent severe drought, the effects of this are exacerbated. Without allocating sufficient water to environmental assets within the Murray-Darling Basin, these assets will be compromised, as was recently seen with the rapidly deteriorating condition of Lakes Alexandrina and Albert, and the Ramsar-listed Coorong. Greater flow, on a regular basis, must be delivered through the lower reaches of the Murray, in recognition that it is this part of the system that is suffering the most from the impacts of over-allocation.

The current reform of the Murray-Darling Basin offers a once in a lifetime opportunity to help ensure a functioning healthy river system that restores environmental values and provides for viable and productive industries and communities into the future. It is in the interest of all users of the Murray-Darling system that this is achieved. Only a healthy river system can sustain the livelihoods of those who depend on it. It is important that the Commonwealth Government and Parliament continue to show strong leadership to progress this vital reform.

I note from the terms of reference for the inquiry that the Committee is interested in a broad range of topics in relation to the impacts of the Murray-Darling Basin Plan in regional Australia. The following points provide the Government of South Australia's perspectives on the development of the Basin Plan, the socio-economic impacts of the proposed arrangements, arrangements to assist transition to new sustainable diversion limits in the Murray-Darling Basin, and provide an example of a recent past structural adjustment in South Australia.

The Basin Plan

The Government of South Australia supports the Murray-Darling Basin Authority as an independent body that can adopt a 'whole of Basin' approach to managing the river system based on sound science rather than parochial State interests and welcomes the release of the Guide to the proposed Basin Plan. While the Guide is not perfect, we recognise that it is an important step in the development of a Basin Plan and the beginning of a process to rebalance the water resources of the Murray-Darling Basin system for the benefit of all users into the future. The Plan's principal aim must be to ensure that the Murray-Darling Basin remains a resilient, viable resource that supports lives and livelihoods.

We recognise that this is a highly complex task, the scale of which has not been undertaken anywhere else in the world. The Murray-Darling Basin Authority and governments need to work closely with stakeholders to ensure the Basin Plan meets the aspirations of Governments and Basin communities. However, it is important that there are not unnecessary delays to delivering the final Plan - water entitlement holders and communities need the clearest possible picture of the factors likely to affect their future to allow effective industry and community adjustment to occur.

Sustainable Diversion Limits

Over many years, South Australia has demonstrated exemplary behaviour in managing the water resources of the River Murray and there are many long-standing examples of this leadership, including our early actions to 'cap' water use and our continuous improvement in irrigation efficiency. South Australia seeks a fair and equitable approach to new sustainable diversion limits that recognises responsible behaviour and management practices.

South Australia has operated under a cap since 1969. This was further reduced by the South Australian Government, once in 1979, and again in 1991. During negotiations to establish the first Basin Cap on diversions in the 1990's, South Australia's All Other Purposes Cap was set at 90% of entitlements for pumped irrigation. Meanwhile, according to the Guide to the proposed Basin Plan, diversions in the rest of the Basin increased from 7,500 GL during the 1970's to a maximum in 1999 of 12,500 GL – or a further 5,000 GL.

In addition to capping the State's take on the Basin's resources, South Australian River Murray water entitlement holders have taken a very conservative approach to using their water entitlements. The Government is concerned that the method chosen by the Murray-Darling Basin Authority to determine current diversion limits, and consequently sustainable diversion limits, disadvantages South Australian River Murray entitlement holders because of this conservative approach and results in a greater 'real' impact on entitlements than is the case in other jurisdictions.

Over the past 30 years a majority of the South Australian irrigation water delivery infrastructure has been upgraded, mostly to fully piped and pressurised systems, with a significant proportion of the water savings being returned to the environment. On-farm, South Australian irrigators have invested heavily in irrigation efficiency to maximise their water availability in the capped environment. As a result, there are few if any major opportunities to find efficiency savings to offset the impact of sustainable diversion limits in South Australia. Our State's irrigators should not be required to bear an unfair burden under the Basin Plan when they are among the most efficient in the Murray-Darling Basin.

South Australia welcomes opportunities to work with the Commonwealth Government and the Murray-Darling Basin Authority to examine alternative approaches to achieving a fair and equitable approach to sustainable diversion limits that takes account of these factors.

Socio-economic impacts

South Australian communities that rely on the River Murray have already experienced significant hardship as a result of over-allocation and drought. Implementation of new sustainable diversion limits in the Murray-Darling Basin will further affect communities, industries, businesses and individuals. Under the current proposed arrangements these impacts will not be felt evenly throughout the Basin.

The Guide suggests that there will be relatively less impact from the implementation of proposed sustainable diversion limits in the South Australian Murray compared with other regions. However, the Government of South Australia believes that this has been determined through a coarse level assessment and may produce an inappropriate outcome. Robust and transparent socio-economic analysis must be undertaken to fully articulate the social, cultural and economic impacts of change on South Australian Murray-Darling Basin communities at a sub-regional level.

While it is important to identify the social and economic impacts of the proposed arrangements, the imperative for change in the management of the Murray-Darling Basin must not be forgotten. The impact of low flows in South Australia has come at considerable cost. Water security, a range of industries, and public and private infrastructure have all been significantly impacted and the costs of management and repair of these impacts, as well as the social effects, needs to be considered.

The framework for setting sustainable diversion limits should take into account the net social benefits. This requires a socio-economic analysis that considers the balance between environmental water requirements and consumptive uses in a rigorous and transparent framework (i.e. a cost/benefit analysis), optimising economic, social and environmental outcomes. A pre-requisite of this is the establishment of a 'do nothing' baseline.

The impact of 'doing nothing' (no policy change) is a critical component of any robust socio-economic analysis and needs to be emphasised in support of the proposed Basin Plan initiatives. The long-term benefits of the introduction of sustainable diversion limits can only be fully understood in the context of continuing decline in

river health and the associated impacts on communities and industries that would ensue if continued over-allocation is not addressed.

The Basin Plan must also recognise the significance of the economic activity and social benefits generated by supplies to population and industry in cities and towns, including the many country towns for which River water is the only source of supply.

Transitioning to sustainable diversion limits

The Government of South Australia acknowledges the efforts of the Commonwealth Government to address transition issues that affect communities through the process of Murray-Darling Basin reform. In particular, the Government of South Australia strongly supports the Commonwealth Government's actions to recover water for the environment, including the commitment to 'bridge the gap' to achieve the proposed sustainable diversion limits through investment in irrigation efficiency and infrastructure and purchase from willing sellers.

As discussed earlier, there are few, if any, additional major opportunities to cost-effectively increase the water use efficiency of infrastructure in South Australia. Therefore the majority of the water recovered in South Australia to meet sustainable diversion limits required under the final Basin Plan will need to be acquired through water purchase from willing sellers. The impacts of this must be recognised in setting final sustainable diversion limits to ensure that there is not a disproportionate impact on South Australia's irrigated agriculture sector.

It is recognised that as communities adjust to economies based on less water use there can be impacts throughout each region, as the providers of goods and services to irrigators in turn respond to changes in demands from irrigators. Given the dependence of a number of South Australian Murray-Darling Basin regions on water availability the Government is concerned about the potential flow-on effects to communities, industries and individuals.

Assistance will be needed at a community and an industry and small business level to address potential social and economic impacts that arise from implementation of the Basin Plan. While the Government of South Australia recognises the Commonwealth Government's intention to provide support in this area, it is clear that targeted assistance will be required. Support must acknowledge and respond to the differing sub-regional impacts of reform. Adjustment initiatives need to be socially inclusive and incorporate the welfare of regional families and communities.

Enhancement of Commonwealth funding programs

Strategic targeting and provision of funding through the *Water for the Future* program will help to minimise the social and economic impacts of the proposed changes in the Murray-Darling Basin. The Government of South Australia believes an enhancement of Commonwealth funding programs is required to enable them to respond to the differing sub-regional impacts of reform and would welcome the opportunity to work with the Commonwealth Government to provide input to revising the *Water for the Future* program in particular.

The following comments are relevant to the water purchase and infrastructure investment programs under the *Water for the Future* program.

Water purchase

A strategic approach to water buyback along with clearer and more transparent purchase processes are needed to minimise the social and economic impacts of the buyback program.

Feedback from the market has shown a number of concerns for entitlement holders in participating in the Commonwealth water purchase program, including:

- the stop-start nature of the program through use of tender processes;
- the time taken by the Commonwealth to respond to tender submissions and having accepted a tender submission, the time taken to complete a transaction; and
- an inability to make personal contact with those managing the purchases in order to discuss, clarify and enquire on progress.

Streamlining the purchase process and including market mechanisms that result in more timely settlement would improve the system. The advantages and disadvantages of different market mechanisms to acquire water for the environment have been well documented as part of the Living Murray Initiative, and through work undertaken by ABARE and the Productivity Commission.

In addition to improving purchase processes it is essential that market distortions be removed to facilitate the movement of water to the highest value use, be that environmental, irrigation, industrial or critical human and stock needs. These trade restrictions have the effect of reducing the supply of entitlements into the market and potentially reducing the amount of water that may be recovered by the Commonwealth to offset the impacts of implementing sustainable diversion limits.

Infrastructure investment

The South Australian Government supports a strategic approach to infrastructure upgrades and investment in irrigation efficiency. Where the long-term returns for irrigation-related infrastructure investment are high, the Commonwealth Government should invest in these projects to achieve water savings and offset the impact of reductions required to meet sustainable diversion limits.

In the spirit of a no borders approach, water recovered for the environment from investment across the Basin through *Water for the Future* programs must be shared across the Basin. To not do this would unfairly disadvantage irrigators such as those in South Australia who have already invested heavily in efficient irrigation infrastructure.

It is necessary to ensure appropriate sequencing of investments in irrigation infrastructure to avoid potential adverse consequences. Clearly it is important that water purchase initiatives and investment in infrastructure be undertaken in a complementary manner.

Research and development

Relevant research, development and extension plays a key role in assisting irrigators to gain both a better understanding of the likely implications of changes in rainfall, water availability and temperature regimes on their production and profitability as well as to develop approaches, methods and products to adapt to these changes. The Government of South Australia would support further Commonwealth investment in research and development as another means of assisting the transition to new sustainable diversion limits.

South Australian irrigation industry

Over the past thirty years, there has been an almost continuous process of industry restructuring which has impacted on agricultural industries and communities along the River Murray in South Australia. In large part this has been driven by the rise and fall of commodity prices.

The Lower Murray Reclaimed Irrigation Area (LMRIA) restructuring and rehabilitation program in particular provides insight into the drivers and impacts of rapid adjustment.

In partnership with irrigators, the Commonwealth and South Australian governments funded a major rehabilitation and restructuring program in the LMRIA to reduce irrigation water use and pollutant loads returned to the River Murray. Key elements of the rehabilitation project were upgrading and metering of water supply infrastructure and installation of drainage water re-use systems to recycle polluted water on farms.

It was predicted that throughout the rehabilitation process many farmers would consider exiting the industry and retire land from irrigation or sell it to others to allow for cost-effective rationalisation of land ownership and irrigation infrastructure. As such, Government offered assistance for farm business planning to assist landholders to adjust to reform. As a result of restructuring, the number of irrigated properties in the LMRIA reduced from 116 to 65 following the restructuring of the irrigation network.

A key learning from this program is that the sequencing of the various elements of an adjustment program in the context of broader market or environmental information is critical to program effectiveness.

Summary

Restoring the ecological health of the Basin will require a robust partnership between Basin states, the Commonwealth Government, the Murray-Darling Basin Authority and communities. The Government of South Australia is committed to working with the Authority and other jurisdictions in order to achieve a robust Basin Plan.

I look forward to participating in a public hearing in Canberra related to the House Standing Committee on Regional Australia inquiry into the impact of the Murray-Darling Basin Plan in regional Australia.

In addition, I understand that the Committee is keen to inspect some of South Australia's irrigation and environmental assets. Normal protocol would be for the

secretariat to contact the relevant State Minister's office. The South Australian Department for Water is able to assist the Committee in finalising an appropriate itinerary for the Committee's visit and organising logistical details. The key contact for assistance during January 2011 is Ms Linda Carruthers, Manager Policy and Strategy, Department for Water, Murray-Darling Basin Division. Ms Carruthers can be contacted

I thank you for the opportunity to contribute to this inquiry.

Yours sincerely

**PAUL CAICA
MINISTER FOR ENVIRONMENT AND CONSERVATION
MINISTER FOR THE RIVER MURRAY
MINISTER FOR WATER**