

Submission

Productivity Commission

Murray-Darling Basin Plan: Implementation review 2023

31 July 2023

Thank you for the opportunity of making this submission to the Productivity Commission's

The Murray River Group of Councils (MRGC) supports the balanced implementation of the Murray Darling Basin Plan, to sustain the long-term viability of our regional economy and the wellbeing of our communities and to deliver the environmental outcomes that will protect and preserve our region's ecosystems.

Water is the lifeblood of our communities.

Agriculture and food manufacturing drive our northern Victorian economy. Agricultural commodities in the MRGC region have combined a value in excess of \$4 billion. Together, the agriculture and food manufacturing sectors account for, a third of all economic output, 43% of all local expenditure and one in four jobs in our region. Around half of all farm businesses in our region rely on irrigation.

The rivers, floodplains, lakes and wetlands of northern Victoria have enormous environmental value and are fundamental to our regional identity. Our region is home to four Ramsar wetlands: Hattah-Kulkyne, Kerang Wetlands, Gunbower and Barmah.

Our communities depend on a healthy Murray River system for drinking water and for recreation. Our tourism industry relies in large part on a healthy Murray River system as the single main attraction for the region.

All these depend on the careful management of the Murray Darling Basin water resources in partnership with Basin communities.

MRGC believes that communities must be at the centre of the delivery of the remaining Basin Plan commitments and must be properly engaged and heard to rebuild trust across the Basin.

We urge you to carefully review the information provided in this submission and would welcome the opportunity to discuss any aspects of it with the Commission.

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About the Murray River Group of Councils

The Murray River Group of Councils comprises six Local Councils in northern Victoria; Mildura Rural City, Swan Hill Rural City, Gannawarra Shire, Loddon Shire, Campaspe Shire and Moira Shire Councils. Covering an area of 47,194 km² the Group accounts for some 21% of the land area of the State of Victoria.

The Group has been working together on shared issues on behalf of our communities since 2007. Our region is home to 165,000 Victorians, living in regional cities like Mildura, small rural settlements like Quambatook and Newbridge and thriving towns like Echuca and Yarrawonga.

The Murray River Group of Councils region is a great place to live, work and raise a family in the 21st century. We have skilled job opportunities, strong communities, a beautiful natural environment and more affordable housing available than in cities. We want to see our region grow.



Submission

Background

The MRGC welcomes the Productivity Commission's second 5 year review into the implementation of the Basin Plan.

MRGC thanks the Commission for the opportunity to make a submission and for taking the time to consult directly with representatives from the MRGC recently.

We note that while the 2019 report of the Commission contained many excellent insights and recommendations, a number of these have not been taken up by Basin Governments. This is disappointing and we

Our communities will not accept more water being recovered from the consumptive pool. They tell us they are alarmed at the prospect of Commonwealth Government buy backs particularly as they seem to be aimed at recovering to recover significant further volumes from the irrigation districts that support our region.

We living are in a time where cost of living is rising – especially for fresh food.

Our region produces vast quantities of fresh food. Agriculture and food manufacturing drive our regional economy; together they are responsible for 15,800 jobs and 6.5 billion in output. Around half of all agricultural businesses in our region use irrigation. Northern Victoria produces:

- 80% of Australia's peaches
- 80% of Australia's pears
- 75% of Australia's nectarines
- 70% of Australia's grapes
- 60% of Australia almonds
- 40% of Australia's cherries
- 35% of Australia's apples
- 25% of Australia's tomatoes
- 20% of Australia's milk
- 10% of Australia's eggs

It is home to Australia's biggest tomato processor, Australia's biggest olive oil producer, major cheese and dairy processors as well as Australia's largest almond processor. Unlike other parts of the Basin much of the industry in northern Victoria is highly integrated with manufacturers adding value to locally grown products.

At a time when cost of living pressures are beginning to really bite for many families in cities and towns across Australia, adding input costs to food manufacturing is not

in the best interests of the nation, particularly when the environmental outcomes that are sought from the Basin Plan cannot be met simply by recovering more water.

Significant progress has been made in the delivery of the Basin Plan. Victoria in particular has delivered the majority of its obligations and is working towards delivering on the remaining few – subject to sensible timelines.

The bulk of the impact of these significant changes has been borne by our communities across northern Victoria.

Impact to date of Basin Plan Water Recovery

Northern Victorian communities have put in huge effort when it comes to reducing its use of water for irrigation.

This effort has come from our whole communities, individuals, families, businesses and not just from farmers. It flows right through our towns.

Our irrigation communities have innovated and adapted. They have become some of the most efficient irrigators in the world.

Northern Victoria's irrigation districts have contributed 803.3GL, of predominantly high reliability water share (among the highest reliability water in the Basin), to meet the Basin Plan's environmental water recovery targets. This exceeds the Basin Plan water recovery target for these catchments which is 786.1GL.

In the MRGC region, over one fifth of total pre-Basin Plan water entitlements have been transferred to environmental water holders. 91 per cent of these were recovered through buy backs.

Basin Plan water recovery has driven huge change for our irrigation communities and Councils have seen how it has negatively affected their resilience and the health and wellbeing of the individuals and families in our communities.

Extensive government and independent socio-economic analyses clearly demonstrate that buy backs and on farm "efficiency" projects to recover water have had negative cumulative impacts across our communities.

Water recovery from the consumptive pool has increased water market prices. Entitlement (permanent water) prices have risen from around \$2200 / ML at the time of the previous buyback programs to between \$4000 and \$7000 / ML for Victorian High Reliability Water Share.



For allocation (temporary) water prices have increased too. Estimates range between \$58 and \$72 per ML on average. It is currently at levels over \$200/ML for 3 out of every 10 years.

Basin Plan water recovery has also increased farming risk for many in the cropping and dairy industries by increasing their exposure to the volatile temporary water market. In 2019/20 irrigation season, close to 95% of dairy farmers were net purchasers of allocation water.

Basin Plan water recovery resulted in over 1 600 jobs being lost in northern Victoria. Of these, around 750 in the MRGC area were direct farm jobs.

Water recovery caused milk production in northern Victorian to decline by 28%.

Overall GMID milk production dropped from an average of around 2350 million litres in 2003-04 to 2005-06, to about 1270 million litres in 2019-20 and 2020-21 — a reduction of 46%.

This has caused the closure of milk processing plants like in Rochester and the underutilization of others.

Water recovery has led to an estimated \$550million in lost production in the GMID. This loss of production flows through the regional economy and represents significant lost opportunity for growth and investment in our communities.

In our communities buy backs have left irrigation districts with drastically reduced deliveries over a largely unchanged geographic area. This has increased distribution prices for remaining customers.

In the GMID deliveries have reduced from an average over 2000GL per year to around 900GL per year with a substantially unchanged footprint. This means the cost per customer for running and maintaining the system has increased significantly.

In recognition of the cumulative harm done to communities, in 2019, Water Ministers listened and unanimously agreed to put in place clear socio-economic criteria that would ensure the Basin Plan's requirement that water recovery be socially and economically neutral.

Fairly obviously, the reason there hasn't been significant progress towards recovery of the 450GL of additional environmental water while the socio-economic test has been in place is because it assesses the actual impacts of water recovery from the consumptive pool. It shows that that socio-economic impact is negative.

MRGC believes that the socio economic neutrality test is an integral part of the Basin Plan and that any future water recovery must be subject to it.

Impact of further water recovery

While the impact to date has been significant, the impact of further water recovery from the consumptive pool would be devastating. Our communities understand this and as state at the outset, will not accept further damage to their way of life.

Further water recovery would put the future viability of the Goulburn Murray Irrigation District into question. It is not an endlessly scalable system; rather we are approaching tipping point that could see the collapse of the entire irrigation system stranding \$2 billion of recent Government investment.

It would also put at risk the operations of GMW which operates the rivers and storages in Victoria that the Basin Plan and environmental waterers are as dependent on as irrigators.

Another consideration is the 12 communities which rely on the channel system for distribution of water for critical human needs. A collapse of the system would necessitate the construction of alternative pipelines an associated infrastructure to service these towns.

Recovery of the 450GL would result in a net loss in the gross value of agricultural production (GVAP) of around \$270m/yr. in northern Victoria according to Frontier Economics (2022, Frontier Economics "Social and economic impacts of Basin Plan water recovery in Victoria" p79)

This would lead to an estimated further 900 farm jobs lost and associated job losses in related sectors.

The impact on water prices of recovering the 450GL and the higher estimates of the SDLAM shortfall through buybacks or on-farm efficiencies are estimated to be significant.

Modelling done for the Victorian Government by Aither estimated that with 500GL of future water recovery and current climate trends, allocation prices would reach \$400/ML. At this level, dairy is no longer viable in the GMID. The withdrawal of dairy from northern Victoria would inevitably lead to the relocation of milk processing plants – which is what the industry has indicated to us.

Well over 1000 people are currently employed just in dairy processing in our region currently.

It is likely that tomato processors would reconsider investment in their northern Victorian businesses with allocation prices at these levels also.

These are just two examples.

Water recovery of this scale will inevitably lead to tipping points which will result in the loss of food growing and manufacturing in our region. For our region, this will lead to job losses and loss of economic activity. For the country this will lead to the loss of local food production, the loss of export income and the rise in reliance on food imports.

For our region it will lead to significant upheaval. While it may not be instant, over time our towns will lose population.

Right now, we many of our communities are thriving. We are looking to grow and to attract people from overcrowded and unaffordable cities. Our region is actively position itself to be part of the long term solution to the cost of living and housing affordability crisis affecting Australian cities.

Removing a key pillar of our economy – water – make meeting this goal far more difficult and would require massive economic transition funding for the region.

What further water recovery will NOT do, is restore our environment. As is detailed below, the Victorian floodplain wetlands and ecosystems will not benefit from hundreds of additional GL of water flowing down the Murray. In the altered, managed system that we now have, those ecosystems require active management that will only come from completing the VMFRP and other SDLAM projects.

Sustainable Diversion Limit Adjustment Mechanism (SDLAM)

One of the key aspects for successful delivery of the Basin Plan in full is to allow a sensible extension of time and funding certainty for the completion of the viable SDLAM supply projects such as the Victorian Murray Floodplain Restoration Projects (VMFRP) and the Constraints Management projects.

MRGC further recommends a flexible approach that would allow adjustment of those projects which could deliver environmental outcomes with some changes and the substitution of alternative projects for those which are no longer able to be delivered.

Projects such as the Improved Regulation of the River Murray that would enable the avoidance of an estimated 110GL/yr of operation losses could be revisited and considered for assessment and potential inclusion in the delivery of the Plan as should a range of other river operations projects that would improve the efficient management of water in the system.

These recommendations are not new. The 2019 Productivity Commission report and the Sefton Review both made similar findings and recommendations around timeframe extensions and flexibility of projects have been made to Governments for a number of years now.

As the Sefton Review found: *"Delivering SDLAM measures with equivalent value of 605 GL is critical. Basin communities cannot afford additional water recovery from the consumptive pool if the SDLAM projects are not delivered."* (2020, Sefton et al, Independent Assessment of Social and Economic Conditions in the Basin,p19)

MRGC believes it is more important for the long term health of the Basin to achieve environmental outcomes rather than to pursue arbitrary deadlines and targets set over a decade ago.

While the Basin Plan may not include a force majeure clause, it is abundantly clear to local government that Covid and flooding have significantly added to delays to these projects and that holding States to the June 2024 deadline is absurd.

For our region, the VMFRP projects are vital because without the pumps and regulators they will install, it is not possible to get the right amount of water to the floodplain ecosystems for the right duration of time and then back into the River system.

It is simply not possible to water the thousands of hectares of hugely important wetlands – some of which are Ramsar listed, without the works of the SDLAM projects.

Failure to extend these deadlines could result in the Commonwealth deciding to recover the shortfall by purchasing the equivalent entitlement. As has been articulated elsewhere in this submission, Buy Backs damage our regional communities.

What is worse is that in the highly modified river system that now exists, even with the full 2750 GL of the SDL recovered and even with the additional 450GL of additional environmental water, the Victorian wetland ecosystems would not be protected.

Without the SDLAM projects, this would simply create a situation where water would flow past dying red gums and black box floodplains while causing damage to the channel of the Victorian Murray and its tributaries on its way down the river.

Significant funds have been expended already on these essential projects. Failing to grant an extension of time would see this money wasted and then further public funds expended on the equivalent in water entitlement. It is difficult to see how this can be justified when the alternative of simply extending the timelines is available.

It would also leave future Governments in the position that they would need to invest in these projects anyway in order to restore and protect the precious ecosystems of the Victorian Murray floodplains.

Constraints

It is recognised that completion of the constraints relaxation projects is essential to the overall success of the Basin Plan.

These projects are facing significant delays. While there seems to be some dispute between State and Federal Governments about the reasons for these delays regardless of the reasons, these projects are unable to be completed by June 2024, a fact that has been obvious for some time, and was pointed out by the Productivity Commission in 2018.

By reconnecting rivers to their floodplains more often and especially when operating in conjunction with the VMFRP and other SDLAM projects, relaxing constraints would create real and significant benefits for the environment and will enable Basin Plan objectives to be met.

These projects are complex as they involve the transfer of many parcels of real property rights from private ownership to Governments. In whatever way this is done it is always contentious and contested. MRGC is of the view that the current approach by the Victorian Government is the one most likely to succeed in delivering the projects, even if it does take a considerable extension of time.

It will also inevitably increase flood risk for some private property holders in some river or tributary reaches. Many of these landowners were affected by the 2022 floods and are still deeply traumatised by those events.

The consultation and engagement for these projects must be done carefully and this will take time.

MRGC supports a significant extension of time for the constraints projects. We are also of the strong view that all these projects should be undertaken in a consistent fashion with comparable engagement, consultation, mapping, modelling, and acquisition and compensation arrangements irrespective of the State responsible.

Cost of buy backs

It is often stated that buybacks are the most efficient and cost effective method of recovering water. In a purely transactional sense this may be true, however, this is fundamentally flawed when the true cost is understood.

Buybacks damage communities. The evidence of this is not contestable. The socio-economic test, together with the accumulated evidence of numerous socio-economic assessments from the Commonwealth (ABARES and the MDBA), as well as many independent assessments and our own lived experience in our communities all clearly demonstrate that it is not possible to recover water from the consumptive pool, either through buy backs or through on farm efficiency projects, without long term negative cumulative effects on people living in the Basin.

The current estimated shortfall from the SDLAM projects is 315GL. As stated elsewhere in this submission, the MRGC recommends that this gap be closed by providing a sensible extension of time to those projects that are able to be completed such as the VMFRP, modifying those projects which could still be delivered with changes and allowing new projects to be introduced where the environmental outcomes they would deliver can be substantiated and justified.

If the Government does embark on another open market buy back scheme, the costs will run to the billions of dollars. Water entitlement currently trades on the open market for between \$4000 and \$9000 in the southern Basin.

Buy back schemes, particularly those that include a multiplier will inevitably push these prices further up. MRGC has concerns that investors and holders of significant levels of entitlement would likely take advantage of any above market price offering to generate additional profit.

For the Commonwealth to enter into any buyback program for the 450GL of additional environmental water would require legislative change and would require the abandonment of the socio-economic criteria.

Environmental Outcomes

The overall environmental objectives of the Basin Plan are to protect and restore water-dependent ecosystems of the Murray Darling basin.

MRGC is of the view that the current trajectory of Basin Plan implementation is at odds with this objective.

Pursuit of a number – 3200GL of water entitlements held by environmental water holders – is not on its own ever going to enable Governments to achieve those objectives.

The critical bulk (2100GL) of water needed by the SDLs has been recovered. Many of the environmental objectives are on track to be achieved. However, many require additional works and measures. As pointed out above, many of the ecosystems in

Victoria require the completion of the VMFRP and the Constraints Easing projects to enable their restoration and protection.

It is a source of frustration to our communities that Governments have, seemingly for political reasons – certainly not for environmental reasons, chosen to focus on a single part of the system – the Coorong – in preference to other ecosystems in the Basin.

“Delivering the Plan in Full” seems to the Commonwealth to mean recovering 3200GL of water in dams and sending it down the Murray River to the lower lakes, Coorong and Murray mouth.

Doing this will increase flood risk in the upper catchments. It will scour channels and banks in the Murray and its tributaries. Without significant extra time and funding certainty for SDLAM projects it will also result in the long term decline of Victorian floodplain wetlands.

These are not outcomes that our communities can sign up to and therefore are not outcomes that MRGC member councils, which represent those communities, can support.

The issue is even more stark for the lower Darling/Baarka. It is there that the environmental objectives of the plan seem to be furthest from being achieved. The fish deaths, black water and no-flow events that have plagued the lower Darling / Baarka will not be remedied by purchasing water in the Victorian or Southern NSW irrigation districts and storing water in Dartmouth or Hume Dam.

This can only be addressed by ensuring that the issues of floodplain harvesting regulation and overland flows are resolved and effective monitoring and compliance regimes are put in place.

Water Resource Plans – Monitoring and Compliance

NSW has still not finalised the Water Resource Plans (WRPs) that are a fundamental part of the Basin Plan. These were meant to be submitted and assessed in 2019. These plans form the detailed arrangements for how water is used and managed in each individual catchment in the Basin.

They set out how the Sustainable Diversion Limits will be achieved at a local level for each part of the Basin. They detail the limits for extraction and the compliance and monitoring arrangements that actually manage this process at the local scale.

NSW has recently withdrawn seven plans and it is not clear when these will be operational.

This means that the compliance and monitoring regimes across the Basin are not consistent or even adequately implemented. The Independent Inspector General is unable to assess compliance or take any enforcement action in NSW until these are completed.

The way forward

MRGC is of the view that The Ministerial Council should effectively draw a line under the Basin Plan as it stands at 30 June 2024.

The statutory reconciliation and reviews should then be carried out and reported at the same time the science which underpins the assessment of the health of the rivers and wetlands of the Basin must be brought up to date.

Alongside this, the social science assessing the economic and social conditions of the communities of the Basin and the wellbeing of residents must also be brought up to date and included as a core part of any future Basin wide management plans.

2100GL of water has been recovered and many environmental objectives of the Plan are now starting to show positive signs.

While we do not dispute that more water may be required for the long term health and restoration of Basin ecosystems, the focus must be on achieving environmental outcomes and not solely on GL of water.

With climate predictions showing a drier and more volatile future, with reduced inflows and higher temperatures, substantial change across the Basin is inevitable.

Basin communities such as the water dependent ones that our member councils represent need to be engaged and empowered to input into future plans for their region, their economies and their environment.

Conclusion

We would like to take this opportunity to thank the Commissioners for taking the time to meet with MRGC in June, and to say that MRGC would be happy to expand on, discuss or clarify any of the issues contained within this submission. To do so, please contact Executive Officer Stephen Gardner