

High Security Irrigators-Murrumbidgee

Submission to Productivity Commission on Market Mechanisms for Recovering Water in the Murray-Darling Basin.

Our Organisation

High Security Irrigators-Murrumbidgee (HSI-M) is a new body formed from the former Murrumbidgee Horticulture Council. Changes were made to allow the organisation to more accurately represent all high security water users in the Murrumbidgee Valley. Membership is open to individual irrigators, multiple licence holders operating as a single farming unit, corporate holders of high security entitlements, industry bodies and community members. The latter two being classed as associate members that do not have voting rights. HSI-M is a member of the Irrigators Council of NSW and also the National Irrigators Council.

Is the focus on acquiring entitlements the best way of achieving the environment's needs?

HSI-M does not believe that the present focus of acquiring entitlements is the best way of providing water for the environment because most of the water so far bought is general security water that will only be available if there is an allocation. If the present dry conditions continue it is extremely likely that there will be very little water available for the environment. Should High Security water be targeted in the next round of water purchases then the price paid would have to reflect the current market price.

"No Regrets" Water Purchases

The current presumption of "no regrets" in purchasing water while at the moment acting as a way of reducing water that is perceived to be over allocated by some, could not continue indefinitely into the future because the process does not target the real needs of the environment. To offer some form of reliable protection for the environment high security water would have to be obtained either through market forces or compulsory acquisition. This is of real concern to HSI-M as the total amount of high security water available is small. Total water available in Murrumbidgee (historical 1895-2006) 4270.2 GL/y against high security (after recent conversions) of 425GL/y. (CSIRO) if the drought continues there is a distinct possibility of permanent Plantings competing with the environment for survival.

Water Acquisition after the Basin Plan Implementation

Speculation about future water buy back schemes at present would appear to be premature at the moment as environmental demands have not been clearly identified and indeed social studies to determine the benefits of saving the environment as against preserving rural communities do not seem to be on anyone's agenda. Again HSI-M has a fear that given the public perception that the Murray-Darling Basin is dying and the only way to fix the problem is to get water into the system, governments could be panicked into compulsory acquisition of high security water. Such action would distort the market as currently most of the water purchased on the temporary market is purchased by other growers of permanent

plantings along the Murray in Victoria and South Australia where allocations have been much lower.

Impact of Restoring the Balance Program

The statistics of purchases of entitlements on the Murrumbidgee under this program to date would indicate that the effect on prices paid on other permanent trades that there is information on, have been minimal. For the Murrumbidgee only 68000 megs of water had been purchased as of 31st July 2009 out of a total for NSW of 370500 ML (table 2 issues paper), although a further 18000ML have been held up by the NSW State embargo. Only a very small percentage of this amount is high security water. (Less than 1000ML) As a total of 400000 ML were traded on the temporary market last year at prices that vary within the period in the seasonal cycle that they were made. This would suggest that the effect of RTB purchases on the market for seasonal allocations have not been great either.

Effect of DEWHA Publishing Average Prices Paid for Entitlements

The list of prices paid by DEWHA for water from within the Murrumbidgee valley is incomplete or non-existent. Therefore it would be very difficult to forecast the effect on future purchases no matter what form they may take. We would suggest that rather than publish average prices paid which are useless, we would like to see the actual prices paid for general and high security.

What Market Mechanisms should be considered in Purchasing Environmental Water?

The issues paper from the Productivity Commission outlines a number of different ways the Australian Government could acquire water for the environment. Purchasing entitlements in the market place, through a tender or auction process, buying seasonal allocations and options contracts. Additionally buying properties with allocations and separating the land from the water and then using the water for the environment. All these types of purchase should be considered as long as the process is open and transparent. The idea of a covenant where an entitlement is purchased and the conditions of use are changed is not attractive to HSI-M because the process could clearly be corrupted. We note with great interest that the advice ABARE provided in its recommendations for the RTB program before it commenced have been ignored by DEWHA and wonder why, when they recommended the most cost effective way of purchasing water was by using the open market.

Advantages and Disadvantages of Various Water Buy Back Schemes

The current discriminatory rolling tender process that DEWHA is using to buy water at present is possibly the cheapest way of buying water as only two parties are involved the buyer and the seller. Presumably one of the parties pays the State charges and the trade is complete. By going to a third

party as in the open market an additional cost is introduced as both brokers and water exchanges require a commission on the sale to be paid in addition to the State charge. These commissions are generally charged on both buyer and seller and range between 2-3% of the price. While more expensive, the sale is much more open and completely transparent. Seasonal or temporary trades are of course similar to permanent trades on the open market in that they require a broker or water exchange but the price paid is much lower and allows immediate access to the water so long as there are no conveyance restrictions. This type of trade can only happen once the seller actually has some seasonal allocation that allows the trading process to take place. However we do not believe the Commonwealth should be involved in this market.

Structural Adjustment and the Buyback.

Uptake of the small irrigators exit package has not been widely used by growers within Murrumbidgee. Information on the scheme from other states while sketchy would indicate a higher uptake of the program. The reason for this is not clear but it would seem that the package does not offer enough incentive for growers to leave their land. Growers in the irrigation areas of the Murrumbidgee have had higher water allocations and been subject to less financial pressure from most of the horticulture commodities compared to their interstate counterparts. Property size and having a more reliable water resource are also factors that would influence grower uptake. It is also highly likely that the level of off farm income and the asset test that requires inclusion of the value of the water sold as well as the land would also be contributing factors to the unpopularity of the scheme in this valley. If the scheme was to be re-introduced HSI-M considers that the land value limits would have to be increased along with the actual exit grant to encourage a higher uptake of the program. Additionally the requirement of removing the land involved from future productive use for a five year period is counter-productive in irrigation areas. HSI-M firmly believes that structural adjustment and water purchases for the environment should be treated separately. If in the future High security water is acquired through whatever means and there has been an adverse effect on the community from whence the water has come, then the effect should be addressed by other forms of structural adjustment.

Effect of Environmental Purchases on the Water Market.

HSI-M has operated Murrumbidgee Water Exchange since 1994. During this time the water market has grown and become much more sophisticated. The Commonwealth Government started water purchases for the environment in 2007 and over the last three years bought around 500GL. These purchases have had little effect on the water market as far as we can see. While the number of permanent trades has been relatively small compared to seasonal trades, at this stage it is difficult to notice any change in the pattern of trades. As always the greatest influence has been available allocation within any given season.

Four per cent limit on trade in entitlements

The Commonwealth-Victorian agreement to allow a limit of four per cent on permanent trades out of Victoria will have several effects. Obviously it will affect the overall amount of water that can be traded from Victoria; it will affect the price of the water and disrupt the plans of those sellers in Victoria if they are prevented from selling. It will also limit the options of the Commonwealth in the buyback scheme if they wish to accelerate the water for the environment program. The consequence of course was the move to buy more water from NSW, corrupting the market and

forcing the NSW State Government to impose an embargo on trades out of that state. In the opinion of HSI-M the move by firstly the Victorian State Government to impose a four per cent limit on trades followed by the NSW State Government preventing trades outside NSW has thrown the water for the environment buyback scheme into total disarray. The consequence of these moves is that it has disadvantaged willing sellers from both states by preventing them from trading and has virtually stopped the buyback scheme altogether. One would have thought that with all the money on the table from the Commonwealth (\$12.9 billion) for the Murray-Darling system any socio-economic impacts could have been handled in a much better way.

Termination Fees

Termination fees are those fees imposed by irrigation companies on irrigators permanently selling their water entitlements outside of that company's area of operation. The fees are charged so that irrigators remaining within the system are not disadvantaged by incurring higher running costs that reduced numbers left sharing the cost would otherwise occur. Murrumbidgee Irrigation termination charges for season 2008-09 were \$315/ML for high security users and \$ 180/ML for general security users. It is not clear if these charges are actually passed back to those sections of the system from which the water had been removed. While HSI-M understands the need for such charges and generally supports them we consider them to be an impediment to permanent trades. In our experience most sellers are looking to pass any such charges on to the buyer and with most permanent trades running around \$ 3000/ML an additional 10% is enough to scare most buyers away. For that reason we do not see many permanent trades out of the region. We would suggest that a similar experience has been found by the Commonwealth when buying water from irrigation areas and this would account for the relatively small amount of water traded so far from within irrigation areas.

Other Impediments to Trade

HSI-M does not consider the costs associated with the trading of water to be a major impediment to the overall trading picture, rather we believe other factors are more of a hindrance. NSW State Water and most of the Irrigation companies in both NSW and Victoria are happy to complete the transfer process electronically which streamlines the whole procedure considerably. However the South Australian system does not allow such "modern" procedures to occur and still insist on a paper trail and signatures on pieces of paper and all the delays and frustrations that such a system brings to those who try to trade into that state. It would make trading much easier if a common simple electronic system was in use across all states preventing time wasting delays and reducing costs.

General Comments

The buyback program that the Commonwealth Government is using to obtain water for the environment and thus "Restore the Balance" has so far targeted water that could be seen as easily acquired. The catch cry of "willing sellers selling to willing buyers" has been the hallmark of the water buyback program. Given that this program has been conducted during a severe drought, how much of the water has been acquired from irrigators under duress? It could well be that much of the water so far purchased has come from sellers just trying to survive financially. One can only wonder how successful the program would have been under non-drought conditions. To date very little high security water has been purchased. This is a real concern for HSI-M because high security water

is the only reliable source of water available now and will be the only type available in times of drought, such as we are now experiencing. In the future when all the hype and who-ha has died down and the makeup of all the water purchased has been examined by the Commonwealth Environmental Water Holder and the realisation that the water so far purchased will not be readily available for the environment, will high security water be specifically targeted and in particular Murrumbidgee High Security water with its greater degree of reliability be the next lot of water focused on? If the reluctance of High security water users in the Murrumbidgee to sell water to the government continues, will compulsory acquisition of this type of water be on the cards? We would caution against such moves and would suggest that any move in this direction would be totally opposed by all high security water users.