

Submission to Productivity Commission

Market mechanisms for recovering water in the Murray-Darling Basin

Productivity Commission Issues Paper August 2009

The Jackson Group provides leadership in the north of Victoria by contributing to regional, state and federal debate concerning environmental, resource and sustainability issues.

The group attempts to seek consensus between environmental and development perspectives and assist to direct government policy and community understanding of the need for better land-use and resource management in the future.

Members have diverse backgrounds having occupied positions of leadership in urban and rural Water corporations, catchment management authorities, local government, regional development, water engineering and water services committees.

Major rural primary industries are represented with members actively involved in productive agriculture relying on regulated and unregulated water entitlements.

We have elected to address a selection of the proposed questions which represent the concerns of our members.

Objectives of Restoring the Balance

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

Yes.

Is a 'no regrets' presumption a reasonable basis for purchasing entitlements, and at what point does this cease to be the case?

This is a reasonable basis. The question may arise if bought back entitlement is approaching a volume equal to the remaining consumptive entitlement but that is unlikely in the next three years.

What are the arguments for continuing the buyback after the new Basin Plan is implemented in 2011, and associated state water sharing plans start to be implemented in 2014?

There may be an issue of equity. If there has been little buy back on a stream that is requiring major adjustment in the Basin Plan, then there could be an argument to seek Commonwealth Government by way of further buy back to help restore the balance. Further entitlement may be required if insufficient water is available for the environment to meet the desired flow regimes for river systems and wetlands under the climate change scenario chosen or real climate change conditions are worst than thought

What implications do environmental demands across the Basin have on the targeting of purchases and the mechanisms and instruments that should ideally be used?

There needs to be an equitable approach across all streams, perhaps inversely proportional to the annual average percentage of flow remaining for the environment. It is surprising that the Commission's paper doesn't mention the implication of climate change on future environmental needs.

How should environmental water be allocated across competing projects and sites?

There should be a defensible scientific multi stage approach to determine a range of environmental outcomes supported by broad community input.

Should the buybacks be designed so as to reduce structural adjustment costs or should adjustment be addressed separately? If the former, are there particular buyback mechanisms that should be used to do this? If the latter, what approach should be used?

There should be a link to industry structural adjustment. An example is the recent buy out of all tobacco growing licences in the Ovens Valley. This should have included an option for growers to also cash in on the sale of water entitlements. Our view is that buybacks should be linked to integrated structural adjustment strategies that have consideration for a suite of issues including the future of all regional communities under severe climate change scenario. The purchase price for water should include allowance for salinity and nutrient benefits and reduction in infrastructure

Does the exit grant package for small block irrigators play a useful role in the overall buyback scheme? Should it be offered again?

No. The scheme has not received the support of sellers.

The market for water

DEWHA is now publishing average prices paid for entitlements. What impact is this likely to have on bids in subsequent tenders or one-off purchases?

Victoria has a history of transparency in water pricing and water trade prices (eg the Water Exchange). Publishing of average prices paid for entitlements is likely to ensure fairer returns for all and limit having winners and losers in the market. It will have no long term influence on price paid

How much influence would the choice of market mechanism used to purchase entitlements for environmental purposes have on the market for water?

If government was to prioritize purchases from targeted areas, it is likely the overall cost of water would be reduced.

What impact has the entrance of the Commonwealth (and other governments) into the market for water had on background trade in water between third parties?

Note the price paid is far less than if water saving were to be achieved through water efficiency measures. While the price increase has restricted third party purchase other aspects including low commodity prices have impeded third party purchase. The price of temporary water may also increase

What market mechanisms should be considered?

Are there other market mechanisms, not listed above, that the Commission should be considering?

Whatever mechanisms are to be used there needs to be targeting of particular irrigation groups. These include those identified by system restructuring, those in areas identified as being located in poor soil/drainage zones (red) and those that incur very high delivery losses/costs. The mechanism needs to avoid a “Swiss cheese” outcome for irrigation areas.

Consideration should be given to more flexible package options. More flexibility in the timing of payments and the handover of entitlements could be attractive to some sellers.

Upgrading infrastructure

Should water purchasing and infrastructure upgrades be coordinated and, if so, how?

Yes. It should be coordinated through cooperative inputs by Commonwealth and State Governments and the affected communities. *Areas where irrigation is not preferred should be nominated now*

What potential is there for a more cost-reflective approach to pricing of water delivery to obviate the need for targeting purchases of water?

This always sounds good in theory but to put into practice would create some administrative challenges. For example do you have a different price for every say 5 km increment in distance from the main off-take. Reduction of irrigation footprint is required as stage one of the restructuring processes. Strengthening of the remaining irrigated area can be achieved by tariff changes like introduction of real outlet costs

How well has the irrigator-led group proposal component of Restoring the Balance addressed the possibilities for taking group action that coordinates infrastructure upgrades and water sales? How could it be improved?

There have been examples of problems because there are so many levels of Government involved - water authority, State Government & Federal Government. If a common set of criteria could be developed to guide irrigator groups in forming proposals then quicker and better outcomes are likely. All levels of government working in harmony and with a common purpose would improve the entire process

Impediments to the use of particular market mechanisms

Four per cent limit on trade in entitlements

What impact is the 4 per cent limit having on the market for water entitlements?

The 4% rule has deprived numerous landowners the right to sell their water entitlement for the best price and to make an investment decision of their choice.

With the implementation of exemptions to this rule it may be too early to make a judgment on this.

Transaction costs

Are these costs a significant impediment to the efficient operation of government water buybacks and the water market more generally?

Should consider a national Water Market run on similar lines to the stock exchange.

The Jackson group is appreciative of the opportunity to comment on issues concerning the Murray Darling Basin and water buy-back for the environment and remains available for further contact if required.