



## **Submission to Productivity Commission**

# **Market Mechanisms for Recovering Water in the Murray-Darling Basin**

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Submit to [water\\_recovery@pc.gov.au](mailto:water_recovery@pc.gov.au) by 5 pm on 18 September

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## **Cotton Australia**

Cotton Australia is the key representative body for the Australian cotton growing industry. It helps the industry work together to be world competitive, sustainable and also tell the good news about the industry's achievements. Cotton Australia determines and drives the industry's strategic direction, retaining its strong focus on R&D, promoting the value of the industry, reporting on its environmental credibility, and implementing policy objectives in consultation with its stakeholders.

Cotton Australia works to ensure an environment conducive to efficient and sustainable cotton production. It has a key role in Best Management Practices (BMP), an environmental management program for growers. This work has seen a significant improvement in the environmental performance of the industry, with huge improvements in water use efficiency, significant reductions in pesticide use, and millions of dollars invested into R&D.

## **General Comments**

With particular relevance to the future of irrigated agriculture in the Murray-Darling Basin Cotton Australia represents those farmers who choose to grow cotton as but one of a number of irrigated cropping options suited to Northern NSW and southern Queensland. Many of these farmers are also represented by local irrigator associations. The irrigator groups in the Murray-Darling Basin (NSW and QLD) are also members of state irrigator councils. Cotton Australia is also a commodity member of NSW Irrigators Council and Queensland Irrigators Council. Cotton Australia supports the submissions of these groups and peak bodies, particularly on the technical aspects of market mechanisms for water purchase in the Murray-Darling Basin.

Cotton Australia publicly supports the buyback of water entitlements from willing sellers under the Australian Government's Water for the Future plan. However, as the majority of the Australian cotton crop is grown under irrigation in the Northern Murray-Darling Basin catchments that flow into the Darling River, the impacts on these regional economies and communities is of particular interest. It is clear that a number of barriers currently exist to an equitable and uniform purchase of entitlements across the whole Murray-Darling Basin potentially resulting in a disproportionate buyback from Darling River catchments prior to the implementation of the MDBA Basin wide plan in 2011.

The current Australian Government policy of no-regrets water purchase without an understanding of how much is required, where it is required and when it is required, is putting irrigation based communities in the Northern Basin at great risk. A thorough understanding of all the issues and impacts needs to be articulated before an equitable solution can be developed. The cotton industry has consistently called for a clear path forward.

Our single greatest concern with the Government's water policy is the lack of integration with the current activities under the plan such as the almost sole focus on buybacks. We believe that this approach will likely deliver devastating economic and social affects in regional communities without delivering the environmental benefits it has been developed to achieve.

One of our fears would be delivering water to high value environmental assets that are privately owned e.g. Macquarie Marshes and Gwydir Wetlands. This would only encourage overstocking and further degradation and distress for these and similar areas. Cotton Australia has consistently advocated a strategic approach to environmental water. This should start with the identification of assets by government before government identifies the methods to obtain this entitlement. Only then should the management framework be defined.

We believe this process should:

1. Identify the environmental assets and land use management and water needs;

2. Develop a management framework that includes descriptions of geographic requirements, regularity of watering requirement, volume of water requirement, and land use management; and
3. Develop and implement a method of obtaining (purchasing) the water and land assets necessary to implement that framework.

By following this process we believe the process above will not only deliver the environmental benefits sought, but will limit the social and economic consequences for regional communities within the Northern Murray-Darling Basin.

Cotton Australia believes that it is essential to the long-term viability of the key natural assets of the Northern Murray-Darling Basin that environmental water management be directly linked to environmental land use management of these key assets.

### **In Summary**

Cotton Australia believes that the Restoring the Balance (RTB) buybacks on a no-regrets basis has the potential to get ahead of the other key components of the Water for the Future plan; infrastructure upgrades and on-farm water use efficiency improvement, that can help to maintain productivity and continue to underpin regional Basin economies.

That the absence of a clear plan for the management of environmental water entitlement in the Northern Murray-Darling Basin, that articulates how the water will be utilised for the improvement of high value natural assets of the Northern Basin, there is no guarantee of a significant environmental outcome. In fact without co-management of water entitlements for privately owned wetlands of the Northern Basin there may simply be a shift from one productive use to another.

Cotton Australia looks forward to the release of the Productivity Commission draft report in November, 2009.

## **Responses to Productivity Commission Issues Paper (August 2009) Questions**

Cotton Australia supports the position outlined in the issues paper (Section 4. Issues, page 11) that broadly speaking, water purchases should be targeted in a rational way to fulfil a priority need for environmental water. It is perplexing to Cotton Australia that the Northern Basin water entitlements are subject to a targeted purchase plan when major barriers to unrestricted trade in entitlements exist in other Basin jurisdictions, notably Victoria. Removing these barriers to the buyback program would seem to represent a very high priority for governments.

The cotton industry has consistently been calling for a clear path forward on resolving the lack of integration with the current activities under the plan such as the almost sole focus on buybacks at the expense of infrastructure upgrades, and improving on-farm water use efficiency.

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

Cotton Australia continues to argue that "there is more to natural resource management than water entitlement" or in other words a holistic approach to managing the high conservation value natural assets of the Northern Basin is urgently required. Water purchase in isolation is unlikely to achieve much improvement resulting in a flawed conclusion that even more water must be acquired for the environment.

It is apparent that, despite significant increases in high security entitlement allocation, the Macquarie Marshes in NSW are still largely considered to be a distressed natural asset. It is clear to many that the increased managed environmental water flows are contributing to regular (planned) overgrazing and subsequent degradation of the marsh system. Therefore the amount of environmental water is not the only determining factor of the condition of this wetland; clearly land use practices will also be a key determinant of the NRM outcome.

As the Commission's issues paper points out (Section 4, page 12) water purchase in the Northern Basin catchments is unlikely to assist in improving environmental assets in the southern Basin. Water purchases in the Northern Basin should be identified against an environmental target much more clearly than is currently the case, especially with the targeted funding allocations for Northern Basin purchases.

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

Cotton Australia would concede that regrettably the lack of clear thresholds for Northern Basin catchments may well result in the purchase of entitlements being exceeded prior to the Basin plan release. As a result, irrigation communities will undergo unnecessary structural adjustment, particularly if the CEWH commences to trade annual allocations at some point in the future (when infrastructure etc. may have been decommissioned).

### ***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?***

Cotton Australia would aspire to a Basin Plan that gave clear and prioritised goals for water purchase on a catchment basis to achieve a clearly articulated NRM outcome that was the product of consultation with irrigators and community stakeholders. If this is not the case then it is likely there will be widespread disappointment.

The imminent development of a cliff-face emerging between buybacks and the sustainable diversion limits proscribed by the Basin Plan should be avoided to prevent an element of

duress for entitlement holders. Cotton Australia believes it only fair and reasonable that the purchase program should have substantial funding allocations between the release of the Basin Plan and the commencement of the water sharing plans in 2014.

Cotton Australia believes that from a Northern Basin perspective a market based adjustment where targets are known to exist is preferable to the relatively 'blind' no-regrets approach currently underway and a 'no choice' adjustment model.

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

The extreme inefficiencies that exist in transmission losses between Northern Basin catchments and the Murray make it essential that Northern Basin entitlements held by the CEWH are matched to prioritised environmental assets and their science based requirements.

The wholly private ownership of oft quoted "distressed natural assets" of the Northern Murray-Darling Basin presents a major challenge for maximising the environmental return on the taxpayers investment in water buybacks. The fact is that under the current system the land use management in these distressed high value wetlands may simply result in the water being transferred from one consumptive use (crops) to another (pastures).

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

Whilst acknowledging that the Department (DEWHA) is developing a framework for determining Commonwealth environmental watering actions designed to assist in the application of environmental water, we submit that considerations of land use of high value environmental assets other than the application of water must be considered in determined optimum outcomes.

The Macquarie Marshes, Gwydir Wetlands and Narran Lakes are clear examples of this. Outcomes obtained by land purchase or co-management – as opposed to the further application of scarce water resources – have proved to provide a significantly better environmental outcome. This approach would leave a lasting legacy of the Water for the Future plan reminiscent of the NSW Western Lands Act, 1901.

***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?***

Cotton Australia is very concerned that the water buybacks lack integration with the other components under the plan such as the almost sole focus on water purchase at the expense of infrastructure upgrades and on-farm efficiency. We believe that this approach will likely deliver devastating economic and social affects in regional communities without delivering the environmental benefits it has been developed to achieve.

Structural adjustment under the Water for the Future plan will have a number of possible meanings. It is true that the sale of entitlement is the structural adjustment of that individual or company; however, it is not proven that this extends to the remaining licence holders or the community.

If a focus on adjustment such that water use is minimised whilst productivity is maximised is a key component of an overall adjustment strategy, then a consideration of buyback instruments and, to a lesser extent, mechanisms, must certainly be undertaken. In determining how to adequately provide for environmental assets based on the matters

discussed previously in this submission, a further consideration of minimising impact on productive use ought to be undertaken.

Cotton Australia believes this has been largely articulated in terms of the Water for the Future plan through the infrastructure and on-farm water use efficiency programs; however, these are not yet implemented. This form of adjustment; to ensure an efficient and viable irrigation industry remains to underpin Basin communities is key to the overall bottom line success of the plan.

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

The size of the Australian Government purchase makes it the 'elephant in the room' for whatever market mechanism is in place.

***What examples of the use of market mechanisms for purchasing water entitlements or similar property rights are you aware of, and what lessons can be learned from these that might apply to purchasing water in the Basin?***

The challenge of developing new natural resource management models for the high value natural assets of the Murray-Darling Basin should be embraced as an objective of the Water for the Future plan. The lack of clear NRM objectives for the Northern Basin buybacks and how the CEWH will manage the environmental entitlement is a key issue for the region.

Irrigators have participated in good faith in the development of water sharing plans (and resource operations plans) that are in fact novel co-management plans for the water resource on a regional scale; however, there has not necessarily been a corresponding co-management model developed for the land use management of high value natural assets like the Gwydir Wetlands (wholly privately owned grazing land).

## **Upgrading Infrastructure**

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

The lack of clear environmental objectives and catchment targets in the Northern Basin is a barrier to better coordination of the implementation of the infrastructure component of the plan. The lag in implementation of the infrastructure and on-farm efficiency program components of the plan are an ongoing frustration to cotton growers.

Cotton Australia sees a greater opportunity for producers and their local communities for an investment in infrastructure and efficiency than in the capital buyback approach. This appears to also be reflected in the relative funding proportions of these respective programs under the Water for the Future plan.

The solution is simple; first determine what environmental entitlement is required for a sub-catchment and then determine how to use the two acquisition methods (investment and purchase) in conjunction with one another to achieve optimal outcomes.

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

Cotton Australia believes the 4% limit is only relevant to Victoria; the rule is obsolete in NSW and certainly has no application at all in the Northern Murray-Darling Basin.

The statistics of purchases across states indicate the vast majority of RTB purchases have come from NSW whilst a large number of contracts are unable to settle in Victoria due to existing trade barriers. The Commission should use its powers of inquiry to quantify this latter amount.

This situation is clearly disadvantaging the Northern Basin in particular and NSW in general. It is concerning enough for the NSW Government to apply an embargo on further permanent Government trades until the matter is settled.

***Is a limit on outwards trade the best way to address concerns over possible socio-economic impacts on particular irrigation areas?***

Any trade limit to address socio-economic impacts would need to be applied equally across all irrigation areas to have an equitable outcome. The current situation simply reflects that some jurisdictions already realise and take seriously the need for concurrent socio-economic adjustment mechanisms for irrigation communities in the Murray-Darling Basin.

Cotton Australia would prefer to see the co-implementation of the complementary Water for the Future plan components; infrastructure upgrades and on-farm efficiency, than more artificial barriers to buybacks.

***Is the Commonwealth-Victorian agreement on the 4 per cent limit a satisfactory way to allow a greater quantity of entitlements to be purchased in Victoria?***

Victoria have agreed to an extra 300 gegalitres over 4 years which is negligible when viewed in the context of the 297 gegalitres already purchased from NSW and is subject to a veto power of the Victorian Government in any case.

The key consideration is a level playing field across Basin states. The agreement between the Commonwealth and Victoria merely serves to entrench an inequity and to justify the belligerent position of one jurisdiction over others.

***What impact is the NSW Government's ban on sales of NSW entitlements to the Commonwealth for environmental purposes likely to have on the ability of the buyback to obtain water efficiently and effectively?***

The NSW embargo will have a significant effect. The NSW Government is clearly trying to create a point of leverage that leads to Basin jurisdictions with existing trade barriers to address this inequity.

***Is the potential for irrigation assets to be stranded a relevant concern? Should some buyback mechanisms be preferred over others because they have a lower propensity to lead to stranded assets?***

Cotton Australia has been consistently calling for the co-implementation of the infrastructure and on-farm water use efficiency components of the Water for the Future plan. This would allow irrigators who do not participate in the buybacks to remain productive and continue to support their regional economies while allowing others to exit.

The Cotton Australia view is that there are more than just irrigation assets that have the potential to become stranded and that many small and medium sized businesses in the Basin are greatly exposed to the possible perverse outcomes of the buybacks at the expense of the other plan components.

***How can the right incentives for investment in irrigation infrastructure be achieved during the buyback program?***

Expenditure per megalitre of water gained from infrastructure investment will be higher than a megalitre obtained via buyback. Infrastructure investment can help to maintain productivity and allows regional economies to thrive on the back of the 3.5 times multiplier that irrigated agriculture provides.

The Water for the Future funding allocation by the Australian Government provides for approximately double the funds for infrastructure and on-farm efficiency improvement and these components should be advanced to make investment more attractive to an irrigator than outright sale of entitlement.

**SUBMISSION ENDS**