

21 September 2009

Recovering Water in the MDB  
Productivity Commission  
Locked Bag 2, Collins Street East  
MELBOURNE VIC 8003

Dear Sir/Madam

**Submission**  
**Market Mechanisms for Recovering Water in the Murray-Darling Basin**  
**Productivity Commission Issues Paper**

I refer to the Productivity Commission Issues Paper relating to 'Market Mechanisms for Recovering Water in the Murray-Darling Basin' and provide the following submission on behalf of Gannawarra Shire Council.

Council believes that a significant Federal Government buyback of water in Gannawarra Shire would have long lasting and potentially catastrophic impacts on the future viability of our community, which is already struggling with extended drought, climate change and commodity price fluctuations associated with the global financial crisis.

Gannawarra Shire is located on the Murray River between the Shires of Swan Hill and Campaspe. The major towns in the municipality include Kerang, Cohuna, Koondrook, Murrabit, Leitchville and Quambatook. As is the case in many municipalities, our population is ageing and has been declining slightly over recent years. The population is currently around 11,000 people.

While employment in the manufacturing and services sectors has increased over recent years, agriculture is still the main employer, with around 30% of total employment directly in agriculture. The Gross Value of Agricultural Production (GVAP) for the Shire is \$248 million, of which \$112 million is from irrigated agriculture. Of the irrigated agriculture component, dairy comprises \$105 million and horticulture \$7million at this time.

It is clear from the above statistics that the removal in the near future of large amounts of irrigation water through Federal Government buyback would have an instant and permanent effect on the economic future of the region and therefore on the population levels and future of settlements in our Shire.

The Shire of Gannawarra lies within the Torrumbarry region of the Goulburn-Murray Irrigation District (GMID). Since water trading began there has been a large amount of water trade activity in the Shire, with net purchases into the area and sales from the area at different times. The most recent trends are of permanent trade of water out of the area as dairy farmers struggle to survive

in the face of multiple years of drought, fluctuating input prices and – most recently – a massive drop in the price of milk, which is a direct result of the global financial crisis. While milk prices are starting to show some positive signs of recovery, the dairy sector is still quite fragile due to ongoing drought and low water allocations.

Although the Torrumbarry Reconfiguration and Asset Modernisation Strategy (TRAMS) is working to ensure the future of our part of the system, the Federal Government buyback has the potential to impact on this process.

With these issues in mind, Council would like the Productivity Commission to consider the following points.

### ***Quantity and location of buyback***

Torrumbarry's High Reliability Water Share water right has traditionally been approximately 400GL. It is important to note that up to 2007–08 Torrumbarry had approximately 74GL of water right/High Reliability Water Share permanently traded out, principally from mixed farming and dairy enterprises to downstream horticultural users. While this was balanced in early years by temporary trade into the region, this is no longer the case. It is understood that a further 13,500ML in 2007–08 and 15,700ML in 2008–09 was traded out of the region, with around a 100GL (25%) loss of permanent water share to the end of 2008–09.

The Commonwealth, in announcing its entry into the water market under the Water for Future Plan, foreshadowed in its media release of 24 July a targeted purchase of 45GL of Murray High Reliability Water Share (HRWS) product (with 25GL below the Barmah Choke.) This strongly suggests the target for the Torrumbarry district would be around 25GL per annum. As the Commonwealth's environmental water purchase is expected to continue over 5 years, this would result in a further 125GL reduction in water right for the area, of which it is understood the first 25GL has already been purchased by the Commonwealth in 2009–10.

Given the Commonwealth's buyback scheme announcements and the identification by the Northern Victoria Irrigation Renewal Program (NVIRP) of yellow zones for the Commonwealth to target, the most likely scenario is that 50% of the Torrumbarry region's traditional high security water share will be permanently traded out within the next 5 years. Within 20 years this is estimated to reduce to as low as 35% for HRWS.

Page 16 of the Productivity Commission report states that the budgeted expenditure for the buyback is \$3.1 billion and would be sufficient to purchase approximately 1,500GL of water. Council is most concerned that at no stage has any evidence been provided to support the need for a buyback of this scale. Nor has any evidence been provided regarding where such water should be sourced or applied for optimum environmental effect.

### ***Redirection of Water Savings***

Council notes that some water savings from the Murray previously identified for the environment have been redirected by the Victorian Government to Melbourne in 2010–11.

While the modernisation of the water infrastructure in Northern Victoria is welcomed it is noted that a consequence of the work on upgrading the outfalls, there is less water reaching the environment. This is noticeable along the Loddon River.



### ***Definition of sellers***

The report refers to the purchasing of 'water entitlements from "willing sellers"'. We would suggest that this terminology is misleading as most sellers in the current environment would be considered to be highly stressed and under extreme pressure due to extended drought and commodity price slumps.

Many sellers feel as though they have been forced to sell their water because of a lack of alternative options. Most who have traded water to date have done so on the understanding that they could buy in temporary water to meet their immediate needs or purchase permanent water at a later date when their circumstances were more favourable. It is clear that the Federal buyback will enable the State government to transition land in the yellow zones out of irrigation permanently on the basis that it will no longer be viable to maintain the required infrastructure. This consequence is not understood by irrigators and this flies in the face of claims that the Commonwealth is buying from 'willing' sellers.

The government has also foreshadowed an end to Exceptional Circumstances support to farmers. This adds to the uncertainty and stress levels of farmers and impacts on their ability to make a long-term, rational decision.

It is also important to note that the Federal Government has embarked on this buyback after a period of 10 years of drought, at which point many irrigators are feeling as though they have little option left but to sell their remaining assets. The buyback may have had very different results had it occurred in a non-drought period or in circumstances where ongoing Federal Government drought support was definite.

### ***Targeted buying/System limits***

Council believes that buyback should not virtually cripple a particular community through what would be perceived by many as 'forced' mass departures. The identification by the NVIRP of 'yellow' zones where the Commonwealth buyback can occur above the 4% rule appears set to severely disadvantage the Torrumbarry region.

Of high and low security water identified in the GMID in the yellow zone, it is likely that about 160GL will be targeted for possible buyback in the Torrumbarry system. As yet, there has been no work done to identify the impact of such a huge change in the irrigated farming landscape on the surrounding townships and community.

With the heavy targeting of the Torrumbarry district, it is possible that many parts of the system will become uncompetitive and too expensive for irrigators to operate in. A case in point would be a spur line in which some irrigators were targeted, with the remaining irrigators, who may be operating successful agricultural enterprises, left to carry the financial burden of their part of the system and who may then have no option but to sell out due to now prohibitive operational costs. This situation could be extrapolated out to a system level, which would have devastating effects on the community.

### ***Unaccounted costs to the community***

The Gannawarra Shire community will feel the long-term impacts of the buyback in the form of reduced agricultural production. The impacts of these massive changes on the future of

settlements in our region have not been addressed and we remain extremely concerned about the long-term effects on the community.

It is well recognised that the trade of water out of a community also carries with it a trade of wealth and the reduced ability of the community to sustain itself. The entry of the Commonwealth into the water market will accelerate and irrevocably damage communities already trying to adjust to market and climate factors.

While irrigators are able to 'cash out' by selling water to the Commonwealth, businesses are left with a reduced local market. They therefore stand to lose considerable equity without compensation. Further, residents within the towns stand to lose employment and equity in their homes and could consequently become socially disconnected. Generational welfare dependency could be the long-term result.

In many cases the effect of the buyback may not be felt for several years. Businesses have been able to sustain themselves during the last two low allocation years. However, they will now be contending with reduced entitlement and therefore reduced opportunity within the district on top of potential low allocation levels.

A recent study carried out on behalf of the Wakool Shire Council showed that for every 100ML of water that is lost from their municipality:

- \$300,000 is lost from agricultural production
- \$900,000 is lost from the regional economy
- \$3,500 in direct municipal rate revenue is lost
- On agricultural job is lost
- One regional job is lost.

As Gannawarra has higher value irrigated agricultural products than Wakool Shire, these effects are likely to be significantly greater in our Shire. The current buyback arrangement does not adequately consider these impacts.

A 2002 study by La Trobe University on the 'Socio Economic Impact of Reduced Water Allocation in the Murray Darling Association Sub-Region', which includes Gannawarra Shire, showed that if the option of allocating 1500GL of water for environmental flows were to be adopted then the expected impact on the Murray Darling Association Sub-Region would be an annual loss in output of \$233M and 1,915 jobs, or 5.9% of the work force.

The report made clear that there is a clear argument for regional equity which states that particular regions and communities must not be forced to bear the burdens imposed as a result of the implementation of a national policy.

Council believes that the Federal Government needs to ensure that sound policy is in place to ensure that the buyback does not jeopardise the sustainability of our area. Particularly, water trade out of an area should not result in significant population and economic decline with resultant social dislocation.

Gannawarra Shire Council recognises that efforts must be made to diversify existing agricultural and horticultural enterprises through research and entrepreneurial activities. It is already also encouraging and facilitating new investment opportunities in agriculture, and working to increase

tourism visitation and environmentally friendly energy production (particularly solar energy generation).

However, research on the social impacts of the Federal government purchase of water in our region is required before further purchases are made. Further, significant investment and assistance from both Federal and State governments is essential in this period of unprecedented change if communities in northern Victoria are to survive and flourish.

I trust that the above submission highlights some issues that are of interest to the Productivity Commission and which it can consider as part of its report.

Yours sincerely

**Rosanne Kava**  
**CHIEF EXECUTIVE OFFICER**