

**Submission to the Productivity Commission
In response to**

**Rural Water use and the
Environment:
The Role of Market Mechanisms.**

Daryl McDonald

Chairman.

Murray Valley water Diverters Advisory Association.

10th, July. 2006.

INTRODUCTION:

Murray Valley Water Diverters represent some seven hundred private diverters in the New South Wales part of the Murray Valley. The majority, by far, of our members are irrigation farmers, who are involved in the production of all of the agricultural commodities of the Murray Darling Basin, bar Cotton.

We also represent the interests of Local Government and other diverters along the valley.

As Chairman, I have taken the unusual step of basing our submission on a critique of another, that by Prof John Quiggin.

Prof Quiggin's response has been singled out for no other reason than it is typical of urban based, economic rationalist arguments on these matters. All too often measures are being advocated on issues with which the proponent has little or no first hand knowledge of the implications 'on the ground'. And in this case, it would appear that Prof Quiggin is a little behind the field on the issue of salinity.

Please excuse this expediency. Reading and responding to yet another 250 page report/inquiry/reform document is not a very productive use of time on a serious, full-time farm. In fact, a major constraint on productivity on the Author's farm, has been dealing with the endless reports/inquiries/reforms/initiatives that have been thrust upon regional communities over the past five or six years.

Response to submission by Prof John Quiggin:

Dear John,

Your submission to the Productivity Commission '*Water Reform in Australia*' seems to rely heavily on the notion that '*Salinity and related problems of land and water management constitute one of the biggest environmental problems facing Australia.*'

Indeed, the first four pages of your submission contain no less than seven references to salinity, and in particular a somewhat mis-leading reference to '*rising salinity levels*' (P4).

May I suggest a look at

http://sunday.ninemsn.com.au/sunday/includes/fetchcontent.asp?url=/cover_story
28/05/2006.

It would seem all is not as it appears in the world of public science in relation to matters H₂O & NaCl.

First we have Prof Peter Cullen performing an amazing backflip in stating "*I don't think the river (Murray) is dying at the moment.*" Here we are, in another very dry season, two and bit years downstream of the worst drought on record, and the man who led the charge for an extra 1500GL to "Save the Murray" says it is not dying at the moment. So much for '*the need for urgent action*'.
MYTH BUSTED!!

Next, the oft touted claim that Adelaide's drinking water would be too salty to drink etc,etc,. is debunked once and for all by the hard data that shows their water is the best it has been for sixty years. (*It is worth noting that salinity levels of the water flowing into South Australia are ~ 25% less than the benchmark figures recorded at Morgan*)
MYTH BUSTED!!

Then, we have the once respected C.S.I.R.O, having to pull its mis-leading leading claim on its website '*Salinity levels are rising in almost all the Basin's rivers.*' because there is no hard evidence to support the claim.
MYTH BUSTED!!

Prof Cullen does another amazing backflip in relation to Murray Cod. Twenty-six ton of Cod caught in a region where researchers could only catch two fish?
MYTH BUSTED!!

Rising water tables in the Murray Irrigation district? **MYTH BUSTED!!**

It would appear that the commonly held perceptions and agency science mantra of *rising salinity levels* just don't hold water. **Further to the matter of salinity and agency science on water issues, we must consider the findings of the House of Representatives Standing Committee on Fisheries, Forestry and Agriculture '*Getting Water Right(s)*, June, 2004, "*the scientific evidence presented to justify increased river flows was not sufficiently robust.*"** Eleven of the twelve committee members endorsed this finding, including two of the three Labor members.

How convincing is an argument that will persuade a politician to go against their official party line? The science in question was supposedly the best available, yet when reviewed by Dr Lee Benson, it was found the levels of uncertainty in the modelled outcomes was as high as 90%. And this was referred to by Don Blackmore as "*overwhelming scientific evidence.*"

In view of the weight your submission places on salinity issues ('*Economic costs associated with salinity may be as much as \$350 million/yr when foregone opportunities in agriculture are taken into account.*'----- *It is well known that acid and sodic soil problems cost agriculture many times more in lost \$ production than salinity, the area of land effected is of the order of five times that effected by salinity, and these soil problems can exacerbate salinity*), and the reality that salinity out here in the real world is not behaving according to the computer models, I suggest that your submission has clearly got off on the wrong foot.

Further on (P6), you raise the issue of salinity in South Australia, and there, it would appear there is a problem. In fact over 50% of all the salt entering the River Murray does so in just 6.7% of the catchment that is S.A. Amazing really.

This leads us to ask the question why are only two of the twelve salt interception schemes (2003 numbers) in South Australia?

Your point on page 6 '*There is little real incentive for irrigators to pursue on-farm efficiency improvements, since any water saved can only be sold to other irrigators.*', is just plain wrong. Irrigators have demonstrated over the past couple of decades quite dramatic improvements in water use efficiency. They have had to do this just to survive. Our entitlement has been cut from 2380 MI in the mid 80's to a maximum of 1390 MI today, NO COMPENSATION, THANK YOU VERY MUCH, yet our production has increased. Further, Malcolm Turnbull has now proposed a scheme to capture these efficiency gains, so your point here is redundant.

On page 8, you argue that adverse effects on individual irrigators from water trade (read repurchase, I.E., permanent trade) are negligible. For the seller there may be a financial benefit, but for the many remaining irrigators, and the surrounding communities there is an obvious and significant downside to such trades. In all major irrigation areas, the fixed asset cost is significant component of a water bill. Reducing the amount of water delivered by a particular system invariably leads to a higher per unit cost to be met by the remaining irrigators in that system. The benefit to one is met by a cost to many. This reality is glibly glossed over on P 11 with your statement referring to pricing increases, '*some of which are quite subtle*'. I can assure you that in the major irrigation areas of the Murray Valley, these effects are not subtle.

More importantly, the sale of water out of a region reduces the productive capacity of the region. Service suppliers, and downstream processors of the inputs and outputs of the waterless farm also bear the cost of the trade. Your argument is to support those who are being forced out of agriculture by penalising those who remain.

Further, you talk of 'adjustment processes' occurring all the time. Quite true. However, too often these adjustment processes are helped(?) along by government policy with scams like the Managed Investment Schemes. Designed to minimize tax liability, and with little real hope of turning sustainable profits, these schemes have become a blight on the rural landscape. In fact, the current woes of the Wine industry can be directly attributed to an obsession with water trade to so-called 'high value crops', and the massive plantings of the M.I.Schemes. Overproduction of any of these highly perishable commodities, as nearly all 'high value crops' are, inevitably leads to a collapse of the market, yet you choose to only mention the influence of overseas markets and import competition. As such, your argument misses a major downside to water trade yet again.

Under current structural adjustment arrangements in the form Competition Payments as part of the C.O.A.G reform process have not been going to the areas affected by the reforms, (in the main, Regional areas). Instead they have been siphoned off into the general revenue coffers of successive State Governments.

On page 8 again, you imply that the environment is a residual recipient of water. This again, is quite mis-leading. The Water Sharing Plans which govern extractions in Southern NSW, (The biggest water use area in the MD Basin) clearly gives preference to environmental needs over allocations to general security water users, who divert ~90% of all water used for irrigation in a normal year.

Page 9, the claim '*it is increasingly recognised that existing allocations of water for use in irrigation are unsustainable.*' a very general statement with no supporting evidence. In the case of the Murray, it would appear the river and its surrounding environment is in remarkably good shape considering the low rainfall of the past few seasons.

There are some obvious flaws in the arguments you present to address the issue of trade between productive use and urban Australia. It is an issue that must be addressed in more depth than the simplistic approach you have used. P 10, an urban water authority pays \$200/MI for 'temporary water' and sells that water for say \$1000/ MI, less the cost of treating and delivering that water at \$400/MI, leave the authority with a profit of \$400/MI. Let's say another farmer purchased the same water and made a farm gate profit of \$300/ MI (Quite feasible in tough seasons, we do it too often), our \$300 becomes around \$600-700 at the local region level, and then becomes around \$1500+ at the supermarket shelf, or export terminal. This is what is known as the multiplier effect which was quantified by Prof Roy Powell in the early 1980's. (2-2.5:1 at the regional, 5;1 at the national level).

There have been many who have chosen to contradict Prof Powell's findings, yet, as far as I am aware, none of his detractors have been able to quantify the multiplier effect with more clarity than Prof Powell. Until such time as we have a better figure, we must assume the 5:1 figure stands.

From this we must ask 'Where is the most benefit for the economy from the use of this water? Treating water to drinking standards to flush down toilets is not very clever, or productive. Purchase of water for ill-defined and un-measurable environmental purposes is an even more illogical measure if the environmental 'need' cannot be supported by bona-fide science, as in the case of The Living Murray Initiative.

In conclusion, I would strongly urge that your submission be re-written after you avail yourself of all that data regarding salinity, as you have chosen this as the central plank on which to nail your case upon. Further, before assuming minimal impacts to the vast majority of irrigators affected by permanent trade (read re-purchase) I would suggest that you consult with those communities most at risk, and gather some real time information about the issues.

Groups in this area are only to willing to consult with people/authorities willing expand their knowledge.

Yours Sincerely,

Daryl McDonald,

Chairman,
Murray Valley Water Diverters Advisory Assn.