

Murrumbidgee Horticulture Council Inc.

Submission to the Productivity Commission Review on

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

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Rural Water Use and the Environment: The Role of Market Mechanisms

The Murrumbidgee Horticulture Council Inc. (MHC Inc.) is the peak body representing perennial horticulturalists and high security irrigators in the Murrumbidgee region. The MHC Inc. has been actively involved in the water policy debates of the last decade. The Council also manages a water brokering service and provides an interface between irrigators and the local irrigation corporations. MHC Inc. is a member of the NSW Irrigators Council and represents irrigators on the NSW Department of Natural Resources' steering committee for the Social and Economic Review of Water Sharing Plans. We are a strong supporter of a transparent, open and market-driven trading platform for water and welcome the opportunity to make a submission to the Productivity Commission's review on the role of market mechanisms.

The Productivity Commission discussion paper identifies a number of significant issues that impede trade objectives. As the paper outlines there are a range of factors that impact on rural water use decisions including commodity prices, cost of alternative inputs and the traded price of water. Certainly during the last few years of drought we have seen a substantial change in the expectation of returns from water trade and an increasing comfort with market principles. However, trade restrictions continue to hinder the market. In particular timing restrictions and inconsistencies between the rules of irrigation corporations continue to undermine confidence in water trade. Consequently, our submission relates specifically to trade restrictions and perceived externalities. The removal of trade restrictions coupled with accessible information and options for communities will result in effective and active water markets.

1. State Government and Irrigation Company restrictions on trade – particularly in relation to timing of trade for temporary water transfers.

Current restrictions on temporary trade - particularly restrictions on the timing of inter valley and intra valley trade - impede market mechanisms. The Murrumbidgee Valley (Regulated System) Water Allocation Plan requires temporary transfers of High Security Water to be lodged by 1 September. Inter-valley and inter-State water dealings must be completed by 31 January. Intra-valley water dealings must be completed by 28 February.

These timing restrictions are market limiting and skew prices. Irrigators are required to make decisions on water use very early in the season and consequently trade volumes are conservative. Water that is not activated for use or trade cannot go to its most productive use. In an open market this water could be traded at any time through out the season including to other water users (for use or carry over) or to the environment.

In addition to the Water Allocation Plan, Irrigation Corporations set rules to manage trade within their bulk water licences. These rules vary between corporations but generally act to restrict trade outside of the licence either by placing timing restrictions or by requiring trade notifications at the season outset. For example, Coleambally Irrigation does not allow High Security irrigators to trade outside the licence after 1 September (28 February for General Security irrigators) but allows internal trades for the whole irrigation season. Murrumbidgee Irrigation allows inter-valley and intra-valley trades until 31 January and 28 February respectively and internal trades for the whole season, but only where irrigators have advised of their intention to trade (and the trade amount) by 1st of August for High Security irrigators and once announced allocation exceeds 50% for General Security irrigators. There are also restrictions on the amount that can be traded (75% of base allocation) and water intended for trade is no longer available for use by the entitlement holder even if it has not yet been traded. An irrigator who buys temporary water after having traded water out that season is subject to penalty (including a reduction in the next seasons allocation).

These internal rules create confusion in the water market. Irrigators are more likely to trade conservatively (resulting in significant under-use of allocation) or not at all if they have been subject to a trade related penalty in previous years. Irrigation company restrictions on the amount of water that can

be traded has the potential to result in third party impacts - as water can be redistributed within the bulk water licence with no dividend to the entitlement holder. One of the key objectives of the National Water Initiative was to secure individual property rights for water. Entitlement holders within bulk water licenses are subject to trade restrictions that can limit their ability to exercise their water property right.

2. Perceived concerns regarding externalities – particularly stranded assets and flow on impacts to communities of water leaving an area.

While the stranded assets concern is well acknowledged, it is likely to be effectively dealt with by the impost of exit fees or other similar arrangements (eg the continued payment of access charges to facilitate trade of water back to the licences in the future). Of greater concern to many irrigators are the perceived risks to community of water leaving the area. Many communities within the Murrumbidgee Irrigation Area exist because of irrigated agriculture. Addressing these concerns requires the provision of information and options.

Water is only one contributor to an enterprises cost of production. Information and support can assist farm business to make better decisions about the use of their skills and assets – including their water asset. It is not water leaving a district that results in the loss of community it is the viability of the enterprises within it. Where the commodity mix is diverse and prices are favourable water will remain a necessary and affordable input cost. Under different circumstances irrigators need to understand how best to use their water asset - including realising it through trade.

Where landholders appreciate the full extent of their water asset, market mechanisms are more likely to succeed. Water can be used as a supplementary income source to manage fluctuations in commodity prices and to fund changes in farm infrastructure (including revising plantings, varieties or investing in irrigation technology). Murrumbidgee Irrigation is currently converting the gazetted horticultural supply area to pressurised irrigation systems. Some horticultural irrigators have expressed an interest in recovering the costs of the on farm conversion works through trading water savings from the conversion.

Providing options for irrigators to realise the worth of their water asset with the confidence that water will both stay in the area and be available to irrigators when they need it is important for those concerned about impacts on their community. Trading water with the environment as Adaptive Environmental Water may provide the opportunity to secure this confidence. Where irrigators can sell water to a locally managed environmental trust as adaptive environmental water, this would provide immediate income (realisation of asset) but also ensures water is (a) used for locally agreed environmental benefit and (b) available to irrigators for temporary purchase in years of need. Alternatively some irrigators may feel uncomfortable with trade but would welcome the opportunity to donate a component of their annual allocation to the environment in return for a tax concession from the donation.

Conclusion

The recent advance of CAOG and the National Water Commission to develop our water resource as a valuable asset and tradable commodity are to be applauded. The Murrumbidgee Horticulture Council Inc supports the removal of trade restrictions and the provision of innovative options that recognise the true value of water for the benefit of irrigators, communities, and the environment. We wish the Commission well in the review of rural water use and the role of market mechanisms.

Yours sincerely



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