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Rural Water Study
Productivity Commission
LB2 Collins Street East
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Dear Sir/Madam

RURAL WATER USE AND THE ENVIRONMENT: THE ROLE OF MARKET MECHANISMS

Thank you for the opportunity to make a submission on this report. The report is very comprehensive and we will make comment on the issues which we have some knowledge on and some opinion.

1 WHO WE ARE

The Murrumbidgee Private Irrigators Inc. is an organization that represents the interests of river pumpers who are not in the Murrumbidgee Irrigation Area or the Coleambally Irrigation Area. The membership of our organization holds licenses for 30% of the volume of diversions along the Murrumbidgee River being in the order of 700,000 megalitres.

2 IMPROVING EXISTING ENTITLEMENT AND ALLOCATION REGIMES

Entitlement and Allocation Regimes

We agree that there needs to be improvement in the entitlement and allocation regimes however we do not agree with all of the recommendations you have put forward. First and foremost your report seems to be predicated on the basis that most irrigators are serviced by Irrigation Corporations. Our members are serviced by the government via their SOC State Water. We have been in the position for years of paying State Water for the delivery of water yet not seeing any investment in the delivery capacity of the rivers and creeks. This has seriously hindered a number of my members with their businesses. For instance the Yanco Creek system is a “no net trade in” because of the capacity constraints brought about by years of inaction by State Water in dealing with willow infestation, weirs, large woody debris and the like. Improving entitlement and allocation regimes does nothing to fix these types of problems. At least irrigation companies can vent their frustration through voting for board members – we are unable to do even that.

Water Accounting

We totally agree that the accounting system needs to be far more robust than it currently is. For instance end of system flows out of the Murrumbidgee system at Balranald (Into the Murray) and through the Billabong Creek (into the Edward River and then the Murray) are not counted as inputs into the Murray. Improvements in the accounting system must be a true accounting system with debits and credits not just debits. While this is seen as a priority by the National Water Commission we have not seen thus far any movement on this important issue. It is our fear that significant decisions to remove water from systems will be taken without the requisite underpinning of robust accounting systems to enable people to see what is going on.

Groundwater Extractions

There is a lot of information about the groundwater systems in the Murrumbidgee valley. While there is some interconnection in most areas there is not. We are somewhat troubled by the view that you believe that groundwater pumpers are pumping from the river. The groundwater extractions in the Murrumbidgee valley have increased markedly over the last 35 years yet river unaccounted differences (losses) have stayed the same. If there was a level of interconnection then this would not be the case. River losses would have increased in line with the increase of groundwater extractions. I am sure there would be hundreds of groundwater users who would love to have their licences transferred to the river. It would in the first instance mean a substantial decrease in their costs as many rely on diesel pumps to extract water. However I do not believe that river pumpers or the environmental movement would relish the thought of another 270,000 mgl being taken from the river.

Including Groundwater Extractions in the Murray Darling Basin Cap

We believe this is a pernicious move to reduce river allocations. Groundwater by its very nature is different from surface water. Groundwater irrigators have in the past been asked (some would say begged) by the NSW Department of Natural Resources (and its forebears) to increase groundwater pumping to assist with the mitigation of salinity problems and rising water tables in the surrounding area. Currently the new system for allocations has been introduced where by "available water determinations" (AWD's) will be made. AWD's can be greater than or less than 100%. This is in recognition that groundwater recharge changes over time and in some instances recharge may be greater and other times it may be less. To insist that in times when the AWD is over 100% then the difference should come off surface water is simply ludicrous. This would undermine the NSW government's recent Achieving Sustainable Groundwater Entitlements (ASGE) programme and negotiations which have taken place with irrigators and their representatives. It would also undermine current arrangements in place with surface water sharing plans.

Groundwater should not have a cap as such. It should be managed through bandwidths. Bandwidths have an upper and lower level and extraction and consequent recharge should fall within the bandwidth. This is the world's best practice in the management of aquifers yet we do not seem to be able to manage in this fashion.

Groundwater has the capacity to be managed much as a bank. In “wet” periods, extractions fall and water is stored in wait for the next “dry”, when extractions would be allowed to increase even to go into an overdraw position relying on the next wet to balance the ledger. This would be a rolling average – which would then be within the estimated sustainable yield.

So to reiterate we are not in favor of a combined cap and will seek to make our views known to the NSW and Federal government through our peak organization the New South Wales Irrigators’ Council of which we are a member.

Greater Flexibility for Intertemporal water-use.

We are in agreement that there needs to be more flexibility in the use of carry-over for irrigators. Currently we are limited by the 15% carry-over rules in the Murrumbidgee Valley. We would like to see this increase in line with neighbouring valleys. Carry-over does enable irrigators to plan better and drought proof their enterprises if required by saving small allocations and combining them with allocations in the next year to enable a more viable area of crop to be grown.

Improvement of information to irrigators

We are in total agreement with improvements in the frequency and quality of information to irrigators. We have been paying for information to be collected and stored and manipulated by DNR and State Water in NSW however when we want information we can never get it. Also we are often charged for information when we have been paying for years for it. Better quality information may have to be coupled with better technological access to irrigators, specifically faster and cheaper high speed internet access for rural and regional Australia. This must be a priority for the government if irrigators are to make better use of information.

3 REDUCING CONSTRAINTS ON WATER TRADE

Removal of Trade Restraints

The market is not perfect and the Productivity Commission seems to predicate their statements on removal of trade restraints on this basis. While we want to see trade freed up we believe there needs to be a sensible approach to trade – just as there is for the national economy. We believe there is a case for application of exit fees and would like to see this applied to the river (where water goes out of the valley or state). This is because, we like ICD’s and joint water authorities can be left with stranded assets and this will erode our security of supply.

In a perfect world structural adjustment issues are better addressed through existing safety net and rural adjustment programmes, and/or additional targeted assistance where appropriate, than through restrictions on water trade – however the truth of the matter is that restrictions on trade are used not only in the water industry but other industries as well. This is because they are relatively easy to put in place and usually quite effective. In my limited experience with rural adjustment programmes, I have seen governments take away water (from surface irrigators) through use of the water sharing plan to decrease yield with no compensation being paid and in

the case of groundwater, money will be paid out on the basis of three year old valuations with irrigators contributing a third of the cost themselves. This would not have happened to urban dwellers if the government wanted to buy their houses for a highway construction.

There needs to be some restraint on inter-state trade in order that communities, regions and the state can have a productive capacity and that we enable regional communities to have prosperity. It would not be in the state or the country's interest for regional NSW to move to Sydney or the coast.

I believe there are some areas where trade can be expanded in the valley. The February cut off date for intra valley trades is too limiting with many farmers unable to predict their water needs and therefore transfers this far in advance. The inter-valley cut-off date has caused problems for some of our members at the bottom end of the Yanco Creek system who have both Murray and Murrumbidgee water and who find it difficult to trade between the two by the end of January. Likewise I have members who have river water and are part of an ICD and were unable to transfer water between the two. This seems ludicrous and this needs to be looked at as it is a severe constraint on efficiency of farming enterprises.

4 EXTERNALITIES, ASSESSMENT CRITERIA AND GOVERNANCE ISSUES

Property Rights

We agree that property rights have to be better specified. As it stands the water property right is not worth the paper it is written on. The NSW government does not have just terms compensation and we have witnessed an erosion of assets without compensation. It would seem to us that the NSW government is unwilling to better specify property rights as it is content with being able to take water off irrigators and not pay anything. I go back to my analogy with houses being compulsorily acquired for highway expansion. A home owner in Sydney would be given the fair value of their home – they would not be expected to contribute a third of the value as their contribution to changing community expectations – the community now wants a four lane highway instead of a two lane highway so they can get to the city faster. Until property rights are better specified and the continual erosion of regional assets is halted, market mechanisms will be inconsequential because there will be no water to trade!!!

Environmental Policy Objectives

We agree that clear specification of the environmental objectives to be targeted is essential to assess whether or not various mechanisms have achieved their objectives. There has been no benchmarking of environmental water. Water has been put down the river with stakeholders having little or no information on the environmental outcomes. This has been the missing link in the Living Murray Debate for some time. What we were faced with were scenarios for returning water to the Murray yet we were given no indication of what the water would be used for. The six icon sites which have been selected go part of the way in identifying what the water will be used for however we are still in the dark as to the overall environmental policy objectives of State and Federal governments in this matter.

This confusion is added to with the myriad of agencies who purport to be environmental managers. What we see can be loosely described as inter-agency rivalry and when you are trying to deal with agencies over natural resource matters is literally a nightmare. Environmental policy objectives need to be more tightly specified and the mechanisms associated with them have to be clearly agreed by all jurisdictions. Presently we are seeing a change in mechanisms, from “infrastructural works” to save water to “purchase of water”. This has been undertaken without any discussion with relevant stakeholders. It quite frankly is one of those things that looks smells and feels like a shambles so we believe it probably is a shambles.

Flexibility

We agree that flexibility is important yet it seems to be hard for institutions and government agencies to provide flexible frameworks. Frameworks we are forced to operate under are prescriptive with slow responses to changes in environmental conditions and information. While adaptive management is flaunted as the way ahead in reality micro-management is the flavour of the day. Adaptive management requires a continual building up of scientific knowledge and management of resources and in reality the NSW government can not afford this. DNR has been restructured 4 times over the last four years and many experienced staff have now been retrenched. They have little resources to monitor rivers properly and think about and put in place best practice resource management. Micro management is easier and uses fewer resources.

Governance Framework

We believe the role of environmental managers is one where we would seek stakeholder engagement. We are of the view that the role of an environmental manager may not be competitively neutral. That is they are likely to be funded by government and therefore have greater access to resources to buy water thereby distorting the market in the particular valley they are active in. We agree that there needs to be some coordination in the activities of groups seeking to obtain and/or manage environmental water. In the Murrumbidgee Valley the following are active:

- Murrumbidgee Wetlands Working group
- Landcare
- Two Catchment Management Authorities
- Water for Rivers
- Environmental Trust
- Department of Natural Resources
- Department of Environment and Conservation
- Murray Darling Basin Commission
- Riverbanks

How on earth are these groups coordinated? How can we as taxpayers be sure we are getting value for money? It would seem to us that this is a jamboree for all and sundry and there needs to be a clearer governance framework for the management of environmental water and the practical issues you outline on page 109 of your report need to be considered.

5 MARKET MECHANISMS FOR ALTERED RIVER FLOWS

Lack of Transparency in Planning Regimes

We have been of the opinion for some time that:

“There has been a lack of transparency in planning processes and further that this has been exacerbated by the absence of comprehensive analysis of any alternative options.” (P118) PC Report

Further there is little detail in the way in which trade-offs were reached between consumptive and environmental water in plans. This is an area where the planning regimes lack credibility because it seems you attend meetings and a consensus view is reached at the meeting and when you get the final document back it bears no resemblance to what was agreed at the meetings. This is because back room deals were done between green groups in Sydney and the government. Planning processes and the rationale used needs to be clearly articulated within the planning process.

Market mechanisms will never replace robust and transparent planning. It is a bit rich for the Productivity Commission to declare that market mechanisms will provide for mutually beneficial exchanges between environmental and non-environmental water users when the majority of environmental water managers are funded by governments whose pockets are somewhat longer than most farmers. This in effect is an imperfect market. Also the “environment” and other river beneficiaries do not pay for transportation or storage of water and this again is a market imperfection.

It seems bizarre that the government can subject inland rivers to thorough regulatory planning processes yet it seems rivers and groundwater aquifers in the Sydney basin are not subjected to the same amount of rigor. For example environmental flows have not been suspended from Burrinjuck for the Murrumbidgee River yet they were from Warragamba (the main dam for the Sydney water supply) and groundwater is to be extracted from around Sydney to ease their water shortage yet we have not seen a groundwater sharing plan for this aquifer. We have also not seen how the estimated sustainable yield will be calculated and what proportion of the yield will be retained for environmental purposes.

Investing in Off-Farm Infrastructure

We believe that the government’s first recourse is to exhaust all avenues for water savings through investment in infrastructure. There are many instances where appropriate infrastructure would be more expensive than “purchasing” the water on the open market. What the Productivity Commission fails to provide any analysis for is the on-going consequences of taking the water away permanently from regional communities.

This biggest problem we see is the myriad of organizations who are involved in trying to source the savings – they are tripping over themselves in the rush and also the lack of coordination between groups (all of which are funded by governments) and the lack of agreement on how savings will be audited and accounted for. This would seem to us a waste of precious taxpayer money.

Clarifying and Balancing Objectives

The Productivity Commission asserts that the objective of an environmental flow regime should be to achieve the greatest benefit to society by balancing ecological benefits associated with river flows with the costs. However we believe there is a more fundamental question which is:

“What is the meaning of a working river?”

It seems that we have lost sight of the fact that these rivers are highly regulated working rivers used by different communities for different purposes. It is impossible to turn back the clock and so we need to have appropriate environmental objectives balanced with consumption needs.

Any costings need to take into account the true cost including opportunity costs of the balance between ecological benefits and river flows. The balancing act needs to ensure that property rights are not eroded without due recompense.

We would like to take the opportunity of thanking the commission for the opportunity of commenting on their report of Rural Water Use and the Environment: the Role of Market Mechanisms and look forward to hearing from the Commission in due course.

Yours sincerely

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