



National Farmers' Federation

Submission to the

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

Productivity Commission Issues Paper

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Member Organisations



Contents

The National Farmers’ Federation	4
Introduction.....	4
Restoring the Balance Objectives	5
The Market for Water	9
What market mechanisms should be considered?	12
Portfolio of mechanisms and water products.....	13
Upgrading Infrastructure	14
Impediments to trade – 4% limit.....	16
Impediments to trade – termination fees	17
Impediments to trade – transaction costs	18
Impediments to trade – Government procurement guidelines	19
Conclusion	19
Bibliography.....	20
NFF Contact.....	20
Attachment 1 – Analysis of all environmental water.....	21
Attachment 2 – NFF Analysis of CSIRO SYA Medium Case Scenario	24
Attachment 3 – NFF Analysis of CSIRO SYA Dry Case Scenario	25
Attachment 4 – NFF Submission to CEWH Environmental Watering Framework	26
Attachment 5 – ADFA letter to Minister Wong regarding Exit Grants Package	30

The National Farmers' Federation

The National Farmers' Federation (NFF) was established in 1979 and is the peak national body representing farmers, and more broadly agriculture across Australia.

The NFF's membership comprises of all Australia's major agricultural commodities. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations collectively form the NFF.

Each of these state farm organisations and commodity council's deal with state-based 'grass roots' issues or commodity specific issues, respectively, while the NFF represents the agreed imperatives of all at the national and international level.

Introduction

The NFF welcomes the opportunity to make a submission to the Productivity Commission's Inquiry into market mechanisms for recovering water in the Murray-Darling Basin (the "Inquiry"). The NFF also welcomes the Commission's intention to expand or interpret more widely its terms of reference.

This Inquiry is timely in that the Commonwealth has undertaken two years of acquisitions and gained some experience in purchasing entitlements. The Inquiry will also build on the 2008 review undertaken by the Department of the Environment, Water, Heritage and the Arts (DEWHA) known more commonly as the Hyder Report (Hyder Consulting, 2008). This report was drafted in conjunction with the Stakeholder Consultative Committee (SCC) for the Water Entitlement Purchase Program (Restoring the Balance in the Basin).

Since the Commonwealth commenced its \$3.1 billion acquisition program, conditions in the Basin have remained dry with many irrigators experiencing continued and significant impacts from low water allocations. As a result, many irrigators are seeking to realise their water entitlements in part or in whole, as a response to mounting financial pressure from drought. In other words, they are largely "distressed" sellers. This has created opportunities for the Commonwealth that would probably not have occurred should conditions have been favourable to the productive use of irrigation water, i.e. farmers would have a cash flow and not be relying on the sale of assets.

As a result, the behaviour of the Commonwealth in the market environment must be seen to be, above reproach – from a moral, ethical and commercial perspective – as the monopoly market player. NFF are concerned by any deliberate activity by or on behalf of the Commonwealth that could lead to a water market collapse to the detriment of water entitlement holders across the Basin.

The NFF supports the continued acquisition by the Commonwealth of water entitlements from irrigators on the proviso that this is from willing sellers and that there continues to be an appropriate sequencing with the investment under the \$5.8 billion Rural Water Infrastructure program, i.e. these must be rolled out together rather than acquisition followed by infrastructure.

NFF notes that opportunities to acquire water products using a variety of market mechanisms may not be fully realised. Such opportunities include groundwater, unregulated water, as well as

the use of a variety of lease options and importantly, the roll of terminating or cancelling entitlements.

Significantly, and despite community expectations, the environment requires water that is variable. This does reflect demands that the Commonwealth purchase high security products or that the Commonwealth does not purchase “paper” entitlements or “air”. Such concepts seek to attenuate property rights to the detriment of all entitlement holders, including the Commonwealth.

Restoring the Balance Objectives

Is the focus on acquiring entitlements the best way of achieving the environment’s needs?

The purchase program has been in response to wider community perceptions about an imbalance in the consumptive and environmental use of water. This has been underpinned by the view of the scientific community that water is over allocated. However, the implementation of an acquisition program has literally been done in reverse to the environment’s needs.

What was required was a concerted effort to identify those environmental assets for which the Commonwealth has responsibility (i.e. not all assets will fall under the Commonwealth’s responsibility). The specific environmental needs must then be identified – these must be isolated into water flow and non-flow related issues. The latter cannot be resolved by the Commonwealth’s water entitlements and need to be resolved in other ways. A plan should then be developed for each of these assets that would identify the watering needs. This should be overlaid with the use of initiatives such as engineering solutions to ensure that these assets are able to be efficiently watered at least cost (in some cases wetlands need high rivers to physically get water into them).

From this, a profile of water products can be determined. These can then be “bulked up” on a catchment basis to determine the volumes required of each product (and where one watering event can be used on multiple environmental assets as it passes down the river). Furthermore, this can be bulked up on a Basin scale.

There are two important points here. The first is that water products can mean water entitlements, but may also include planned water, water allocations, lease arrangements, supplementary water entitlements, flood events and so on. In fact, the most appropriate watering regimes are not the use of high security entitlements as the wider community and environmental group’s desire. Moreover, this should be water that restores low and medium flood events (particularly the latter). These can be most appropriately delivered by general or low security water entitlements, supplementary entitlements, water allocations, planned environmental water and lease arrangements.

The second is that there needs to be coordination between all environmental water holders (Commonwealth, Authority, State, regional NRM groups, Water for Rivers etc) to determine what water is used where to maximise environmental outcomes. For many environmental assets, it may be that there has been sufficient water recovered to date from a range of environmental water holders.

The NFF has analysed environmental water recovered to date – of which there has been substantial volume (see Attachment 1). This shows potential existing and future recovery,

primarily across the southern connected Basin will deliver 5799 GL to the environment¹. This is in addition to environmental water uses in stream such as evaporation and seepage (as an example it takes over 700 GL to deliver water along the Murray River).

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

The Commonwealth’s presumption of “no regrets” is based on a thesis that there is so much over allocation and when combined with climate change scenarios under the CSIRO’s Sustainable Yields Audit (SYA), any early program purchases cannot possibly resolve the balancing of consumptive and environment use of water resources. At least until the Basin Plan is released which will determine what the sustainable diversion limit ought to be.

The NFF recently undertook an analysis of the SYA of the current development/current climate with future development/2030 climate for the medium and dry scenarios (see Attachment 2 and 3). This shows that under a medium scenario, there will need to be an adjustment of 728 GL across the Basin while under the dry scenario, a significant adjustment of 3,368 GL is required. It should be noted that the SYA scenarios have no direct relationship with the reliability of water entitlements held within each state (i.e. this may require a greater adjustment).

As an aside, the recent NSW Government and Commonwealth Memorandum of Understanding regarding water purchases within NSW discloses that the Commonwealth is seeking 890 GL each from NSW and Victoria and that this is in direct response to the CSIRO median case scenario. This does not match the NFF analysis for either scenario.

When the above is further analysed on a catchment basis some interesting findings result. For the medium case scenario, the catchment adjustment is less than 2 GL for five catchments (Paroo, Warrego, Moonie, Barwon/Darling and Ovens) and a further catchment requires an adjustment of just 7 GL (NSW Lower Darling). There are further three catchments that require an adjustment of less than 21 GL (Namoi, Campaspe, Wimmera and Loddon/Avoca).

At these low volumes, Commonwealth acquisition should not occur on a “no regrets” basis. In fact, since acquisition has commenced, the Commonwealth has exceeded the target adjustment under a medium scenario in two valleys – the NSW Lachlan and Barwon/Darling. The latter has been exceeded by nearly 30 GL – it was originally the only valley that was in a positive situation when comparing future development/2030 climate to current development/climate.

When all acquisitions are overlaid on a catchment basis, there are a significant number of catchments where Commonwealth purchases to date leave very little water left to make the required adjustments.

NFF would recommend the withdrawal of no regrets purchasing (either no entry or restricted entry) from at least 16 valleys/catchments.

Even under a dry scenario, NFF suggests five catchments need either no entry (Paroo, Barwon/Darling, Ovens) or restricted entry (Warrego and Moonie).

Furthermore, the Commonwealth’s acquisition program is clearly focussed on regulated surface water. However, the Basin Plan will consider the interception of groundwater and plantation

¹ In some cases, future water recovery will depend on operationalisation of the relevant program – delivering possibly less or more water than estimated.

under the future development scenario. Clearly this should require a focusing of acquisition to groundwater entitlements and unregulated licences as well.

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?

The draft Basin Plan will be released in mid 2010 and finalised to be in place by mid 2011. The release of the draft should provide strong signals where the Murray-Darling Basin Authority (the “Authority”) views where adjustment should occur. This may or may not reflect the Commonwealth’s acquisition profile.

The Commonwealth agreements with both NSW and Victoria indicate purchases of 1790 GL over the period to June 2013. It would appear there will be acquisitions during the 2011 to 2014 timeframe.

The current expenditure of funds has accelerated to such an extent (see later discussion) that it is likely that over 80% will be expended prior to the Basin Plan being finalised. The danger then is that a water entitlements purchased may not adequately reflect the needs of the Basin Plan’s sustainable diversion limit.

The main argument for acquisitions to occur post 2014 will be to phase out Government market participation specifically to allow market participants to adjust to a monopoly buyer withdrawing. Importantly, this should also be considered on a catchment basis as well as for the program as a whole.

Furthermore, there was acceleration in the acquisition package for political reasons (the Xenophon deal). The position of the NFF is that both the water acquisition and water infrastructure investment programs need to be rolled out together to give entitlement holders a choice of exiting (wholly or partly) from irrigated agriculture or the continue investment to enable the production of more food from less water (more crop per drop).

This is a fundamental pillar of the NFF’s support for Commonwealth acquisition from willing sellers.

NFF does not support further acceleration of the acquisition program, nor does NFF support an abrupt withdrawal from the market. There must be consideration of a phase down withdrawal to minimise any negative consequences for market prices from the withdrawal of Commonwealth investment.

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

NFF understands “environmental demands” to be those related to environmental assets rather than environmental groups. Given this, NFF does not believe there is sufficient information cross the Basin on the watering needs of environmental assets to determine an approach to market acquisition of water.

In saying this, there is good information in the Southern Basin Connected System. For the Murray River (and most likely other rivers in the Basin), there is a significant gap in medium flood events in particular.

NFF notes that many environmental groups (and others) have been calling for the acquisition of high reliability entitlements in the belief that this will provide the essential water for

environmental assets regardless of the climate. However, NFF believes that this is a misnomer. In fact, the water entitlements most appropriate are low reliability (e.g. NSW general security, Victorian sales, NSW Supplementary), which are available in the most volume when most required for low and medium flood events and can be used to increase flow events to deliver environmental outcomes in most years.

There is a need, therefore, for the community to understand that high reliability entitlements may not even be allocated water to deliver to the environment in the worst droughts – as has been seen in recent years. The role for high reliability entitlements in these situations would be to protect the most at risk species or environmental assets rather than ensuring water is delivered for the environment in all climate situations.

Given the above, the mechanisms and instruments most appropriate may be targeting of acquisition of low reliability entitlements, unregulated licences or supplementary licences. Furthermore, cooperative leasing solutions, similar to the Murrumbidgee Irrigation RiverReach Project would be appropriate. In the latter, irrigators retain ownership of the entitlement but agree to transfer allocations above certain triggers to the environment in better resource years.

Such options have not yet been pursued by all Governments, but for the Federal Government is driven primarily due to the Commonwealths procurement constraints along with wider community expectations of the acquisition of “real” water.

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

NFF notes that the Commonwealth Environmental Water Holder is currently developing a framework for the use of environmental water across various environmental assets. This is a temporary response until the Basin Plan, which incorporates an Environmental Watering Plan, takes effect.

Please find attached NFF’s submission to this framework (Appendix 4).

In general, however, environmental watering must be undertaken on the principle that there are no impacts to third parties and specifically such actions do not result in the loss of reliability to irrigation entitlements (e.g. through increasing system losses from out of bank flows).

Furthermore, the NFF supports the use of environmental water products primarily in the source catchment (i.e. Namoi entitlements used for Namoi environmental assets in the first instance). This will ensure maximum outcome closest to the source of water storage and minimise additional system losses. Should such water be used downstream (i.e. through the use of policy mechanisms such as shepherding), the environmental allocations must be reduced to take into account system losses associated with their storage and use.

Should 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?

Structural adjustment means different things to different people and organisations. NFF understands that COAG are addressing structural adjustment but have determined to keep a “watching brief” on the issue.

This has resulted in some communities being disadvantage already as a result of the Commonwealth’s acquisition program. For example, while Twynam expressed belief that there

would be no loss of staff, it could be strongly argued that contractors, suppliers and processors (e.g. for cotton) were disadvantaged by the sale of Twynam's water entitlements to the Commonwealth. No structural adjustment was provided resulting in significant infrastructure and community impacts (e.g. stranded rice mills at Hay, stranded cotton processing plants in the Gwydir Valley).

To include structural adjustment as part of the acquisition package would not assist those outside the sale of entitlements.

Therefore, NFF suggests two approaches. Structural adjustment should be included as part of an acquisition package for irrigators. Moreover, a genuine and separate structural adjustment package for irrigation dependent communities and affected businesses (e.g. contractors, suppliers and processors).

Does the exit grant package for small block irrigators play a useful role in the overall buyback scheme? Should it be offered again?

While there was a good response to this package, there were limitations. These mainly revolved around the stringent conditions attached to irrigators participating in the package. These are required to decommission their irrigation land (both permanent plantings and infrastructure). This resulted in many participants who wished to remain in their home from selling the irrigation land to neighbours who wished to be better prepared by expanding their operation – an opportunity to become more efficient by using their existing entitlements over a larger area of land.

Neighbours could be broadly divided into two groups. Those who wished a Greenfields site and those who wished to acquire the land, irrigation structures and possibly plantings intact (this being a cost effective option). NFF understands that many fell into the last category.

The result is that the Commonwealth received the water entitlements, but the irrigators exiting were left with land that they were still financially responsible for managing (e.g. pests, weeds, diseases) as well as being obliged to pay statutory charges such as shire rates and any other Catchment Management Authority or RLP Board fees.

A letter from the Australian Dried Fruits Association to Minister Wong about these perverse outcomes is located at Appendix 5.

Should the package be offered again, the above perverse outcome should be resolved.

The other area where the exit grants package might be useful is for those areas which State Governments are seeking to close down and exit irrigation (e.g. Food Bowl) as a result of modernisation.

The Market for Water

What impact has the Restoring the Balance program had on the price of water entitlements to date? What, if any, impact has this had on the market for seasonal allocations?

Anecdotally, it could be said that Commonwealth investment, combined with the drought, has had a positive effect of water entitlement prices. The Commonwealth investment put a floor in the market. However, the significance of the Commonwealth's involvement could be seen

following implementation of the NSW embargo when the permanent price of water fell, to such an extent that it was reported that Twynam had re-entered the permanent water market to re-acquire water entitlements. This makes good business sense for the company – selling entitlements on a high note and acquiring entitlements much lower.

However, it should be noted that the drought is driving the market. If there was no drought, the Commonwealth would have found it difficult to acquire the water it has to date. Many sellers are distressed sellers. As a result when the embargo was in place, desperate sellers resorted to fire selling their entitlements to satisfy either banker's requirements or other transactions that they were reliant on the sale to the Commonwealth to fund (these included retirement from irrigation, retirement from farming and restructure of businesses).

Again, anecdotally, the ability to acquire entitlements prior to Commonwealth investment was tight – with some irrigators in the Murrumbidgee Valley seeking to acquire small parcels over a number of years to expand operations.

In terms of the annual/temporary market for water, the Commonwealth purchases are not driving this. Moreover, drought driven requirements for dairy, horticulture and South Australia (Adelaide, the SA Government program to underwrite survival water of permanent plantings and water for the Lower Lakes) has driven this market and maintained a floor.

DEWHA is now publishing average prices paid for entitlements. What impact is this likely to have on bids in subsequent tenders or one-off purchases?

This information is too general and too late to assist irrigators make informed decisions on tenders to the Government. Irrigators are increasingly reliant on brokers to undertake tenders because brokers have the current information on what prices are accepted and what prices are being rejected by the Commonwealth.

Irrigators wishing to participate without the use of brokers will be resorting to a “cat and mouse” game with the Commonwealth to find out the “value proposition” for water entitlements. This is simply not good enough.

The NFF does not endorse that individual trades are publicised. However, market information is king and irrigators need to access a tool similar to the Murray Irrigation Water Exchange. This provides a code for each trade (prevents identification of the buyer and seller), and each trade is listed on a daily basis in terms of water volume and price. Average sales are really only relevant from an historical perspective and should not be used to inform tender prices.

NFF strongly urges implementation of a similar scheme as described above to inform potential market participants and the dramatically reduce the transactions costs of these highly distressed sellers in seeking to actively sell water entitlements.

Moreover, many brokers (and perhaps legal representatives) have positioned themselves as now being experts in water entitlement trade. However, NFF understands that some irrigators' tenders in the 2008-09 round which were accepted in terms of value proposition, have failed to pass due diligence. This has arisen due to a number of factors.

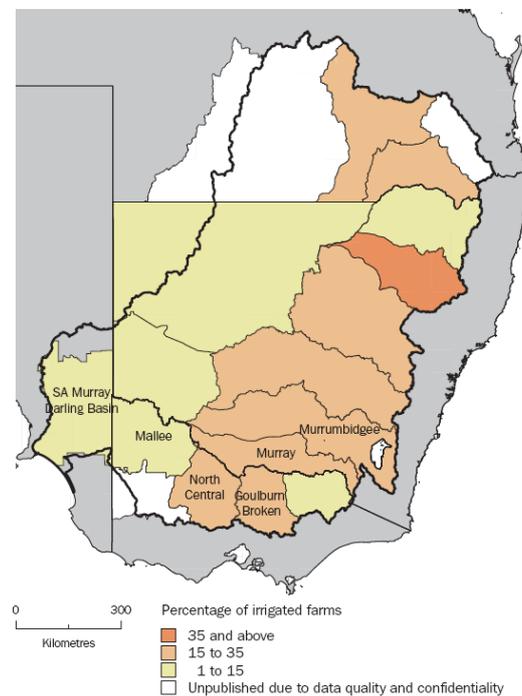
Trade in entitlements is complex and made particularly so where there have been “Snowy borrows” and other encumbrances. NFF understands that there have been failures in interpreting the Commonwealth's tender documents that has led to the rejection as due diligence. In other cases, entitlement registers were not adjusted as a result of other entitlement

trades occurring previously – again leading to rejection. Where these are not the fault of the irrigator, the Commonwealth ought to reconsider undertaking due diligence again rather than outright rejecting the tender or even the Commonwealth “may” or just “might” reconsider.

What impact has the entrance of the Commonwealth (and other Governments) into the market for water had on background trade in water between third parties?

Due to drought, background trade is likely to be somewhat impaired, although the work of ABS (see Figure 1 on the following page) shows that irrigators remain active in the market for water with 15-35% of farms purchasing water in 2004-05 (prior to the Commonwealth purchase of water commencing). NFF suspects that this data relates to allocation trade rather than entitlement trade.

Figure 1 Farms in the MDB that purchased additional irrigation water, by NRM region 2004-05
(Source: ABS, 2008)



In 2008, ABARE also released a report on Irrigation Farms in the MDB (ABARE, 2008). It highlighted water trading in 2006-07 and noted that 2% of farms participated in the trade of entitlements and around 23% were involved in the annual/temporary trade in allocations. Reason given for not buying water includes water was not needed (decision not to plant) or the price was too high (driven by horticulture and urban demands). Table 1 below shows the results of this survey.

Table 1 Water trading by industry 2006-07
(Source: ABARE, 2008)

		dairy	broadacre	horticulture	Murray-Darling Basin
Percentage of farms trading					
Permanent entitlements	%	3	1	4	2
Temporary irrigation water	%	31	20	23	23
Reasons for not buying water					
Trade of water restricted	%	10	20	8	13
Price too high	%	42	40	10	25
No irrigation water available	%	12	17	8	13
Not interested	%	5	11	14	11
Extra water not required	%	17	19	46	31
Other	%	5	3	6	5
Reasons for not selling water					
No or low allocation	%	8	20	7	12
Trade of water restricted	%	9	14	9	11
Used all water available	%	56	36	37	40
Prefer to carryover water	%	7	16	18	14
Not interested	%	8	5	18	12
Uncertainty of allocations	%	13	11	18	14
May have needed it	%	28	20	28	26

Water for the background trade is becoming scarce as the major buyer is the Commonwealth. Those seeking to sell to the Government see this as their best opportunity to realise assets. For irrigators, the market is now limited to the ability to purchase, given recent drought conditions and the impact on business profitability. It would be expected that this will result in an increase in temporary trade in lieu.

Apart from the Commonwealth acquisition, trade in entitlements and trade in allocations may be driven by what is likely to occur from failed Managed Investment Schemes (MIS). The plantings are owned by investors, the water by the management company. If the latter seeks to realise water assets, are the investors willing to see plantings failed or enter the annual allocation trade to save their investment. It has been estimated that MIS alone in the Southern Connected Basin will require some 80 GL in the annual market if this situation arises.

An option for the irrigation sector moving forward is some ability to purchase allocation trade in Commonwealth entitlements in the future, should this water not be required for environmental assets. While this suggestion may not be palatable to many who are focussed on environmental watering, it should be part of the overall discussions going forward.

What market mechanisms should be considered?

How could the tender process be improved?

The main concern from a seller perspective is the ability to access reliable current information on the Commonwealth's value proposition (i.e. purchase price of entitlements). At present, sellers are largely restricted to using brokers to process applications as these have current knowledge of prices accepted and rejected for different water products.

If wishing to undertake a sale to the Commonwealth without a broker, irrigators may realistically have their transaction costs dramatically increased by the submitting and rejecting of unacceptable tenders due to price. An urgent improvement is needed and could be done

effectively through the DEWHA website without impacting on either the Commonwealth's ability to negotiate or the disclosure of market participants.

Another area which could be improved is the timeframes for processing the application. NFF understands that currently there is a DEWHA process to determine whether the application is acceptable in terms of the proposition (this is termed an acceptance of the offer), then there is a DEWHA senior approval prior to progressing to due diligence, exchange of contracts and settlement.

This initial process, while necessary has added to an already substantial time frame from offer to acceptance. Moreover, it led to unnecessary angst for a group of sellers in the Western Murray Irrigation area, when a DEWHA officer inadvertently advised proponents that their offer had been accepted. Many of the sellers were dependent on the sale – some offers were contingent for other transactions to occur. This circumstance combined with the NSW embargo threatened the financial viability of these sellers, and created significant undue stress.

This was a case where the sale of entitlements within a private irrigation infrastructure operator (IIO) could occur regardless of the embargo – with entitlements being held within the company until such time as the embargo was resolved. Had this occurred, the water allocated (and it was doubtful if much, if any, would be allocated in the short term) could have been delivered by the infrastructure operator to environmental sites within their area of operation or alternatively carried over until the following year. Conversely, the Commonwealth were not prepared to entertain the idea because any allocation water could not be applied to sites outside the IIO. This is simply short-sighted and can cause undue stress to sellers in a time when many are already under significant duress.

The narrow view taken by the Commonwealth that it must have entitlements held “on the river”, rather than within an infrastructure operator has not assisted facilitating transactions. The facility offered by infrastructure operators should be seen as a loophole to facilitate trade!

How do you think an open market process would have fared instead?

Perhaps more the point, how would the tender or open market process have fared if undertaken by an independent third party on commercial grounds. NFF notes that Governments are very good at policy but do not often have good track records at operationalising in commercially effective ways. Hence, there is perhaps a need to look strategically at recent performance, particularly during the NSW embargo, and analyse whether the acquisition process may be better implemented by independent third parties.

Portfolio of mechanisms and water products

What mix of market mechanisms and water products should the Australian Government be using to achieve its environmental objectives?

There is a strong focus on purchasing entitlement only – with many demanding high reliability entitlements. There are many comments relating to purchasing “air” or “paper” entitlements. This only serves to de-value all entitlements and if not carefully managed will result in impacts to lending arrangements of non-Government entitlements.

Demands for high reliability entitlements also disregard the needs of the Australian environment. It is not like European rivers where there is consistent stream flow. Australia's inland streams are

highly variable, particularly the Darling River and Northern Basin. Consequently, the types of water products required are those which are variable.

Market mechanisms will therefore include purchase of entitlements, purchase of licences (groundwater, unregulated and supplementary water) and lease arrangements from existing entitlement holders.

Furthermore, there must be a genuine discussion on the merits of cancelling Commonwealth acquired licences in an effort to mimic nature as well as to retain the security of remaining irrigation entitlements which are at real risk of significant impacts. This would not be seen by Treasury or environmental groups as a popular option but will also deliver environmental benefits, perhaps through the use of water plans (i.e. planned environmental water). Modelling will be essential to ensure that no water user (environment, urban or irrigation) is negatively impacted.

Upgrading Infrastructure

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

Absolutely! The NFF strongly advocates an equitable rollout of both purchase and acquisition programs. To date, there has been an acceleration of water purchase while most infrastructure projects have been delayed due to negotiations with State Governments. Moreover, these will take a significant time to implement.

The acceleration in acquisition will largely see around 83% of the program expended by June 2013 – six years, with 17% to be spent over the following four years. This is even more accelerated when the small expenditure in the first year (\$45.5 M) is excluded. 82% of funds are expended over five years – half the program life, with 18% expended over the first then last four years.

In the meantime, the infrastructure program has commenced its third financial year and remains largely unspent, with delays due to negotiations with the States and the failure of some state to develop project plans to underpin projects. NFF urged the Federal Government to implement an on farm program separate to the State Priority Projects and were successful – a \$300 million project was announced in the May 2009 Federal Budget. NFF understands this is to be launched shortly.

Irrigators must be given a choice. At present, they have only one, i.e. the sell their entitlement to the Government. Infrastructure upgrades offer significantly more benefits to the nation. They deliver the most efficient irrigation systems (on and off farm), deliver water entitlements for the environment, maintain irrigated production using less water, improve social and economic circumstances in rural communities, enable farms to be upgraded during drought when the land is current out of use, provides employment for local contractors struggling due to drought, and allows inputs to be sourced from local providers (e.g. concrete pipes).

Unfortunately, the Commonwealth has agreed to implement the “Xenophon” package to accelerate acquisitions over the period until 2011-12. Table 2 shows the acceleration (Productivity Commission, 2009, p. 5) as well as current spending profile. This shows that for

the 2009-10 financial year, the Commonwealth will have spent over \$889 million² to acquire water. Furthermore, the Commonwealth has indicated that it will pursue 46 GL in tenders with NSW for immediate approval and a “substantial volume” of tenders through due diligence to exchange of contracts. NFF understands that these parcels of water will be part of the 2008-09 acquisition of 521 GL of entitlements.

Table 2 Restoring the Balance Buybacks and Estimated Expenditure

(Source: Productivity Commission, DEWHA Website, NFF estimates)

Financial Year	Original	Revised Prod Comm	Estimated Expenditure ³	Difference
2007-08	\$55.00	\$45.50	\$34.40	\$15.60
2008-09	\$157.00	\$612.60	\$889.40	-\$276.80
2009-10	\$466.00	\$464.00		
2010-11	\$468.00	\$509.60		
2011-12	\$346.00	\$445.10		
2012-13	\$N/A	\$506.80		
2012-13 to 2016-17	\$1633.00	\$N/A		
2013-14 to 2016-17	\$N/A	\$516.40		
Total	\$3,120.00	\$3,100.00	\$923.80	-\$265.70

Currently, the spending profile is running around \$276 million over budget, implies a target expenditure in 2009-10 of around \$198 million.

However, NFF foresees that in lieu of an adjustment, the current accelerated spending profile will continue. The agreements with Victoria and NSW will see around 60 GL purchased under agreement from each state (120 GL in total). Using 2008-09 as a proxy price (average price of \$1707/ML), 120 GL would cost a little over \$200 million. This would leave very little to pursue acquisitions outside the NSW and Victorian agreement (e.g. Food Bowl system closure, South Australia and to progress Northern Basin tenders in Queensland).

Clearly, this scenario is unlikely to be realistic. Therefore, NFF expects that the acceleration beyond the appropriated amounts (adjusted for the “Xenophon” package) is likely to continue. This will see the Restoring the Balance acquisition package likely to largely conclude long before the accelerated program to 2012-13.

NFF are concerned on a number of fronts. This includes that a planned exit from the program to minimise impacts to the remaining water market (background market) and that the infrastructure investment program will literally be left in the dust – providing entitlement holders with one program rather than a choice.

Moreover, the impact on regional communities will be significant, particularly when these communities cannot see clearly the linkage between the acquisition program and the new Sustainable Diversion Limit in the Basin Plan (i.e. how will the Commonwealth use its acquisitions to offset the SDL in each catchment and the Basin as a whole) to maintain the reliability of entitlements throughout the basin. The latter is a core principle in the Government’s investment program.

² NFF estimated based on information from DEWHA website (actual purchase prices, GHD Hassall Summary of Market prices as a proxy, and estimates for supplementary purchases as a proxy value)

³ Ibid

How well has the irrigator-led group proposal component of the RTB addressed the possibilities for taking group action that coordinates infrastructure upgrades and water sales? How could it be improved?

NFF is aware of only one irrigator-led group proposal – from a group of Western Murray Irrigation Limited irrigators. This has failed as one irrigator refused to participate. A similar outcome was experienced by the NSW Government for the Great Darling Anabranch piping project that was announced in 2006. In the end, the lone irrigator agreed to participate, however, this took a number of years to reach agreement significantly delaying the project and the benefits to farmers and the environment.

Such proposals may be assisted by a parallel structural adjustment process. The Commonwealth Government did indicate it was prepared to make concessions in terms of price for a group led proposal but this did not appear sufficient.

Impediments to trade – 4% limit

What impact is the 4% limit having on the market for water entitlements?

It should be noted that all Government's agreed to the 4% limit as part of the National Water Initiative. However, the way that this has been implemented within the states has led to angst and contravenes the principle of competitive neutrality. Moreover, the application of the Commonwealth Government's Transformation rules through the ACCC market rules reforms has largely meant that for NSW, the 4% trade cap is no longer an impediment as irrigators can choose to transform their entitlements to "river" based entitlements which then enable the sale of the entitlement outside the 4% cap area.

NFF notes that South Australia has legislated to remove their 4% trade cap.

Victoria's application of the trade cap has been at a much smaller scale than the equivalent in NSW and moreover, included trades to superannuation companies held by the farmer or the transfer from a licence to an entitlement. In the end, this has frustrated Commonwealth acquisition as well as sellers of entitlements where the 4% cap was either reached or was about to be reached.

It is important to note that the 4% cap was "re-set" each year allowing trades up the limit to occur in the following irrigation season.

What impact is it having on the effectiveness and efficiency of the Australian Government's purchasing programs (both under the RTB program and the Living Murray)?

It is perhaps no longer relevant to analyse the Living Murray program as this has now concluded, and mainly focussed on infrastructure investment rather than acquisition. The 4% cap was becoming an issue mainly over the last 1-2 years and so would not have affected the majority of the roll out of the Living Murray. Moreover, the major limitation to the Living Murray program was not a lack of programs, but a lack of a willingness to invest in Ministerial Council approved programs listed on the investment register. This was because jurisdictions retained the right on how to spend their allocation to the program. As a result approved programs were not all funded.

Apart from Victoria, the 4% cap is really not an issue in any other state. The question then becomes, what is the impact in Victoria. The Australian Government has agreed to a structured

purchase program in Victoria limited to 60 GL per annum outside the 4% cap. Water can also be acquired from areas targeted to be shut down in the modernisation process (i.e. Food Bowl) or from on farm investment outside the limit. It could be argued that this agreement is now the cap rather than the 4% limit.

To what extent are irrigators who wish to sell their entitlement being disadvantaged by the limit?

NFF notes that there are some irrigators wishing to sell who cannot do so. However, the NFF has no ability to substantiate these claims through data collection or anecdotal evidence.

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

In the lead up to 2014, it may be worthwhile considering a structured process of adjusting the 4% limit upwards. This would also prevent unnecessary shocks by way of a flood of entitlements to the market in 2014. Moreover, the serious consideration and implementation of an appropriate structural adjustment program by Governments may assist.

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

NFF suggests acceleration in the infrastructure investment program as an alternative. Such programs have the capacity to deliver better and multiple outcomes than water purchase alone.

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?

Given the Productivity Commission Issues Paper was released prior to the embargo being lifted on 24 September 2009, NFF will disregard this question. Suffice to say, comments attributed to the Victorian Commonwealth agreement are likely to also apply to the NSW Commonwealth agreement.

Impediments to trade – termination fees

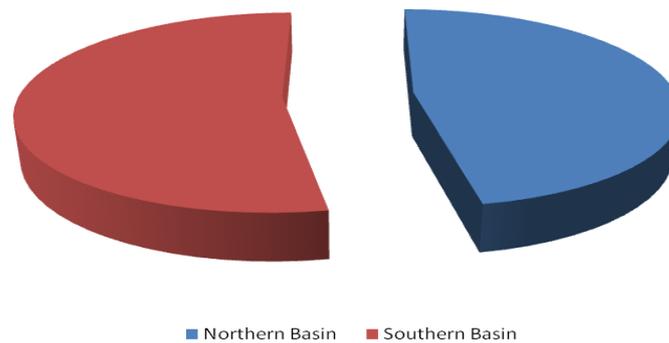
How substantial are the impediments to trade in entitlements created by the imposition of termination fees?

NFF has no data to base a response. Termination fees are well understood by the market and NFF does not believe that these create an impediment to trade, although it could be conceded that termination fees may “confuse” the market.

The market factors in the price of termination fees for the sale. Termination fees are primarily a tool used in the Southern Basin. An analysis of purchase across the Basin should disclose anomalies due to the imposition of termination fees. Figure 2 on the following page shows that acquisition split across the northern (Lachlan Valley and north) and southern basin shows only a slight variation between the two with the southern Basin being favoured. Note that this is a rough analysis of the entitlements tallied and not adjusted for reliability.

It would therefore appear, that termination fees are not the issue – or at least a major issue.

Figure 2 Commonwealth Acquisition of Entitlements based on Northern Basin Southern Basin split



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?

The potential for stranded assets is a real concern, particularly given the significant acquisition of water envisaged across the Basin. With around 890 GL from each of NSW and Victoria, it is likely that the Commonwealth is targeting in the vicinity of 2000 GL across the Basin. Around 545 GL has been purchased to date or about 27%. On the face of it, there currently appears to be a balance between the northern and southern basin acquisitions based on entitlement. However, the majority of entitlements are held in the southern Basin. Therefore, there is likely to be a targeting over the longer term in this area.

Although both acquisition and infrastructure investment mechanisms have a role, NFF has long support investment in infrastructure as the preferred option due to the significant additional benefits over purchasing from willing sellers. Investment in on and off farm infrastructure will enable similar production with less water. Moreover, anecdotally, farmers are buying now “dry” irrigation farms and applying their existing entitlements over a larger area of land. The stranded assets discussion needs to be considered also in this light.

This may also require a re-configuration in terms of channel systems and farm outlets to cope with larger holdings overall to reduce the likelihood of stranded assets.

Impediments to trade – transaction costs

Are the costs associated with trading water entitlements (including those associated with delays and lack of market information) higher than they should be?

NFF has already made comments on the transaction costs for potential sellers. Those who do not wish to use brokers may be required to do so to ensure that their tender is accepted. This increases their costs as they will have to also pay commission. Multiple tenders to determine the Commonwealth’s value proposition is likely to lead to considerable frustration, undue delay and may result in some irrigators missing the current tender (i.e. if this is over subscribed). This did occur at the conclusion of the 2008-09 tender resulting in significant angst and financial costs to individual sellers.

Are these costs a significant impediment to the efficient operation of the government water buybacks and the water market more generally?

Absolutely this can be solely borne by the Government buyback.

How might these costs be reduced?

More clear, timely, relevant market information. NFF has made suggestions elsewhere in this submission on how this might be put in place. The Commonwealth must also very clearly explain current situations to the market. For example, the 60 GL for NSW for 2009-10 does NOT include tenders that the Commonwealth have now lodged for trade approval from NSW.

Impediments to trade – Government procurement guidelines

To what extent have the CPGs restricted or limited the design of current DEWHA purchasing mechanisms and the decision to buy only water entitlements?

NFF believes there is a significant impediment in the operation of the CPG as well as the Commonwealth's auditing and accountability. In discussions with DEWHA about resolving a particular trade issue, NFF has been informed that certain actions cannot be taken due to these factors and due to the risk involved.

In a normal commercial environment this does not occur. The market participants factor in the risk, e.g. that an allocation will be delivered for use in a particular year or manner or perhaps, from a seller prospective, that the buyer will conclude the transaction and pay money. In some instances, contracts have been exchanged but the cheque does not arrive in a timely manner.

What impact might the CPGs have on the Commonwealth's ability to use alternative purchasing mechanisms to buy water products other than water entitlements?

As in above, the CPG are the primary driver for the Commonwealth's genuine assessment of leasing, allocation trades and a range of other mechanisms. It is also a primary driver for no consideration of the cancellation of entitlements as an alternative mechanism.

Perhaps a resolution ought to be that an independent third party is contracted, on a commercial basis, to acquire a range of water products suited to different environmental water needs, including recommending cancellation of entitlements.

Conclusion

The NFF has welcomed the Productivity Commission's Inquiry. While this submission includes a number of discussions for the purchase program and other elements (such as termination fees, transactions costs and barriers to trade), the NFF are concerned that there continues to be an acceleration of the purchase program to the detriment of the Basin's irrigation communities. Irrigators are confined to a purchase program with little headway into the infrastructure program

Furthermore, the Commonwealth's own processes can limit the effectiveness of its own program. This includes, but is not limited to, the range of entitlements that a being purchased.

NFF welcomes further opportunities for dialogue on this important Inquiry.

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Attachment 1 – Analysis of all environmental water⁴

Entitlement Jurisdiction	Allocation name	Year aprvrd	Volume and main conditions	Main purpose	Key Reference(s)
MDBC	Barmah-Millewa Forest EWA	1993	100 GL/yr shared by NSW and Victoria (provision to carryover up to 700 GL; can be withheld for up to 4 years)	Wetland watering	RMW operating rules referred to in DLWC (2002)
MDBC	Barmah-Millewa Overdraw	2001	50 GL/yr during wetter years (around 80% of years) shared by NSW and Victoria	Wetland watering	RMW operating rules referred to in DLWC (2002)
NSW	Lower Darling River ECA	2002	30 GL/yr (Menindee Lakes must be >480 GL, and have been >640 GL since the last time it was <480 GL)	Flush blue-green algae when at high alert levels	DLWC (2002)
NSW	NSW Murray Wetlands EWA	2000	30 GL/yr	Wetland watering	DLWC (2002) NSW Murray Lower Darling Water Sharing Plan (2004)
NSW	Moira Lakes Savings	2000	2.027 GL/yr (for use in NSW Murray wetlands)	Wetland watering	DLWC (2002) NSW Murray Lower Darling Water Sharing Plan (2004)
NSW	NSW Murray Additional Environmental Allowance	2004	5.4 GL/yr (whenever the high security allocation is equal or less than 97%)	Environmental flows in the Murray	NSW Murray Lower Darling Water Sharing Plan (2004)
NSW	Murrumbidgee ECA	1998	25 GL/yr (additional volume of 25 GL/yr when allocations are <80%, increasing up to 200 GL for allocations 80% - 100%)	Water quality needs, algal bloom suppression, fish breeding, and forest and wetland watering	DLWC (2000a)
NSW	RiverBank	2006	~100 GL/yr⁵ (\$44M Federal; \$100M NSW: 2006/07 \$15M 2007/08 \$35M 2008/09 \$37M 2009/10 \$29M 2010/11 \$28M)	Restore wetlands: Lowbidgee, Great Cumbung Swamp, Macquarie Marshes, Gwydir Wetlands and Narran Lakes. Completion date 2011.	DECC Riverbank Business Plan (2007)
FED	Darling River Water Savings Project	2007	~63 – 183 GL/yr (savings estimated in Part 1 Report)	TBA	NWC (2007)
VIC	Victorian Murray Wetlands EWA	1987	27.6 GL/yr (2,600 ML/yr allocated to Hird and Johnsons Swamps)	Wetland watering and salinity control	DSE (2002)
VIC	Gunbower Forest EWA	1997/98	25 GL (one in three years) and 40 GL (one in twelve years)	Top up and extend small to medium sized floods, and cause low-level flooding after two years of being dry	MWEC (1997)
VIC	Goulburn River EWA	1995	80 GL in November in wet years (around 70% of years). Additional 25 GL when inflows to Lake Eildon have been high and the storage is relatively full	Spring flush	DCNR (1995), DSE (2002)

⁴ Coloured rows indicate completed projects

⁵ There is no publicly available information on the purchase program and what volume of entitlements have been recovered.

Entitlement Jurisdiction	Allocation name	Year apprvd	Volume and main conditions	Main purpose	Key Reference(s)
VIC	Food Bowl Stage 1	2007	~75 GL/yr	75 GL/yr for Melbourne; 75 GL/yr for irrigators; 75 GL/yr for stressed rivers. Completion date 2012.	Modernising Victoria's Food Bowl Irrigation Modernisation Information Paper (2007)
FED	Food Bowl Stage 2	2008	~112.5 GL/yr	112.5 GL/yr Murray River environmental flows; 112.5 GL/yr for irrigators. Completion date unknown.	COAG Murray-Darling Basin Reform MOU (2008)
VIC	Wimmera & Glenelg Rivers	2003/04	41.24 GL/yr	Environmental flow objectives	Victoria State of Water Report (2006)
VIC	Lodden River	2005/06	2 GL/yr	Boort District Wetlands; and provide water to Little Lake Boort	Victoria State of Water Report (2006)
SA	SA Additional Dilution Flows	1987	3,000 ML/d or 1095 GL (when storage volumes in the Menindee Lakes exceed nominated trigger points, at the same time the combined storage volume of Hume and Dartmouth Reservoirs also exceed nominated triggers)	Reducing the salinity of water to South Australia (there may be incidental environmental benefits)	RMW operating rules referred to in DLWC (2002)
SA	SA Murray Wetlands EWA	2002	200 GL/yr	Permanent wetland watering	RMCWMB (2002)
WFR	Water for Rivers	2003	212 GL/yr (Snowy ANF below Jindabyne Dam) 70 GL/yr (Murray) (197 GL recovered; 65.67 GL for Murray; 98 GL/yr committed/ underway/ scoped)	Restore 21% ANF flows to the Snowy River below Jindabyne Dam Restore flows to the Murray River Completion date 2012.	Snowy Outcomes Implementation Deed (2003)
MDBC	The Living Murray Initiative	2004	~500 GL/yr (342.5 GL/yr recovered; 163.2 GL/yr to be implemented)	Restore environmental flows to six icon sites in the Murray River. Program concluded 30 June 2009.	The Living Murray Business Plan (2004)
FED	Water for the Future	2008	~2000 GL/yr (545 GL acquired to date)	\$3.1 b to purchase water to restore environmental flows in the Basin. Completion date 2018. Agreement to recover 890 GL each from NSW and Victoria.	DEWHA (2009)
FED	Water for the Future	2008	~800 GL/yr ⁶	\$5.8 b infrastructure investment. It includes a range of State Priority Projects, modernisation plans, and on farm infrastructure works. See also Food Bowl Stage 2. Completion date 2018.	DEWHA (2008)

⁶ It is estimated that ~\$3.2 billion will recover water at an average cost \$4000/ML. The rest of the package is expected to recover very little water or water outside the Basin.

Total Environmental Water⁷ for Basin⁸

	Existing Environmental Water (GL)	Environmental Water To Be Recovered (GL)
NSW	267.4	100.0
Vic	240.8	75.0
SA	1295.0	0.0
MDBC	492.5	163.2
Federal	545.0	2550.5
WFR ⁹	65.7	4.3
Total	2906.4	2893.0

⁷ Various water products

⁸ These figures do not include any planned or other existing environmental water north of the Murrumbidgee Valley nor does it include system losses which is an environmental use. For the Murray River alone, the latter is in excess of 1000 GL/annum

⁹ 197 GL actually recovered; the amount specified is the volume to be apportion to the Murray River only (to be capped at 70 GL)

Attachment 2 – NFF Analysis of CSIRO SYA Medium Case Scenario

River System	CURR DEV/ CURR CLIMATE GL	FUT DEV/ 2030 CLIMATE MED SCENARIO GL	DIFF		C'LTH PURCH LTCE GL	Comment
			GL	%		
Queensland						
Paroo	0	0	0	0	0	No entry
Warrego	52	50	-1	-3%	0	Restricted entry due to small volume
Condamine/ Balonne	712	681	-32	-4%	0	
Moonie	34	32	-2	-6%	0	Restricted entry due to small volume
Border Rivers	412	392	-19	-5%	0.2	Restricted entry due to small volume
TOTAL	1210	1155	-54	-4%	0.2	
New South Wales						
Gwydir	317	283	-33	-11%	28.5	Restricted entry due to small volume left
Namoi	258	245	-13	-5%	3.7	Restricted entry due to small volume left
Macquarie/ Cudgegong	386	350	-35	-9%	23.2	Restricted entry due to small volume left
Barwon/ Darling	230	231	1	0%	14.3	Over recovery - exit strategy?
Lachlan	292	260	-32	-11%	33.5	Over recovery - exit strategy?
Murrumbidgee	2251	2171	-80	-4%	33.4	
NSW Lower Darling	146	139	-7	-5%	0	Restricted entry due to small volume
NSW Murray ¹⁰	1870	1783	-86	-5%	56.1	
TOTAL	5749	5463	-287	-5%	192.7	NSW acquisitions capped at 890 GL
Victoria						
Ovens	25	25.3	0	0%	0.0	No entry
Goulburn/ Broken	1071	1008.4	-62	-6%	55.4	Restricted entry due to small volume left
Campaspe	342	324.2	-18	-5%	3.5	Restricted entry due to small volume left
Lodden/Avoca	349	328.5	-21	-6%	0.0	Restricted entry due to small volume
Wimmera	121	108.3	-13	-10%	0.0	Restricted entry due to small volume
Vic Murray ¹¹	1642	1566	-76	-5%	65.6	Restricted entry due to small volume left
TOTAL	3550	3361	-189	-5%	124.6	VIC acquisitions capped at 890 GL
South Australia						
SA Murray ¹²	630	601	-29	-5%	11	Restricted entry due to small volume
MDB TOTAL	14798	14069	-728	-5%	329	

It is interesting to note that the Memorandum of Understanding between the Commonwealth and NSW notes that the capped amounts for NSW and Victoria is “based on the expected reduction (medium CSIRO projection) in surface water availability borne by the environment in these states” (Commonwealth of Australia and NSW Government, 2009, Cl. 16, p. 3). This assumes a reduction of around 1780 GL for NSW and Victoria alone. The MOU’s figures do not match the above analysis – the figures of which have been sourced directly from the CSIRO Sustainable Yields Assessment (CSIRO, 2008, Appendix A, p. 59). The MOU’s undertakings are more in line with the dry scenario (see and Attachment 3 on the following page) than the medium case.

It should also be remembered that water will also be recovered through the \$5.8 billion Rural Water Infrastructure program – this will be in addition to the above figures.

¹⁰ SYA only contains one figure for the Murray for all three states. NFF has apportioned this to each state based on average diversions.

¹¹ Ibid

¹² Ibid

Attachment 3 – NFF Analysis of CSIRO SYA Dry Case Scenario

River System	CURR DEV/ CURR CLIMATE	FUT DEV/ 2030 CLIMATE DRY SCENARIO	DIFF		C'LTH PURCH	
	GL	GL	GL	%	LTCE GL	
Queensland						
Paroo	0	0.2	0		0	No entry
Warrego	52	45.1	-6	-12%	0	Restricted entry due to small volume
Condamine/ Balonne	712	595.3	-117	-16%	0	
Moonie	34	28.5	-6	-16%	0	Restricted entry due to small volume
Border Rivers	412	331.6	-80	-19%	0.2	
TOTAL	1210	1000.7	-209	-17%	0.2	
New South Wales						
Gwydir	317	227.9	-89	-28%	28.5	
Namoi	258	195.4	-63	-24%	3.7	
Macquarie/ Cudgong	386	304.4	-81	-21%	23.2	
Barwon/ Darling	230	215.2	-15	-6%	14.3	Exit strategy?
Lachlan	292	216.6	-76	-26%	33.5	
Murrumbidgee	2251	1860.9	-390	-17%	33.4	
NSW Lower Darling	146	112	-34	-23%	0	
NSW Murray ¹³	1870	1431	-439	-23%	56.1	
TOTAL	5749	4563	-1187	-21%	192.7	NSW acquisitions capped at 890 GL
Victoria						
Ovens	25	25.8	0	2%	0.0	No entry
Goulburn/ Broken	1071	761.8	-309	-29%	55.4	
Campaspe	342	242.9	-99	-29%	3.5	
Lodden/Avoca	349	232.2	-117	-34%	0.0	
Wimmera	121	65.8	-55	-46%	0.0	
Vic Murray ¹⁴	1642	1257	-386	-23%	65.6	
TOTAL	3550	2585	-965	-27%	124.6	VIC acquisitions capped at 890 GL
South Australia						
SA Murray ¹⁵	630	482	-148	-23%	11	
MDB TOTAL	14798	11429	-3368	-23%	329	

¹³ Ibid

¹⁴ Ibid

¹⁵ Ibid

Attachment 4 – NFF Submission to CEWH Environmental Watering Framework

20 July 2009

Mr I Robinson
Commonwealth Environmental Water Holder
Department of the Environment, Water, Heritage
& the Arts
GPO Box 787
CANBERRA 2601

Dear Ian

A Framework for Determining Commonwealth Environmental Watering Actions

The National Farmers' Federation (NFF) welcomes the opportunity to make comment on the above framework.

NFF understands that this framework is seeking to establish a short term strategy until the Environmental Watering Plan embedded into the Basin Plan comes into force. To this end, and in the absence of more detailed ecological plans on a catchment or asset basis, it is perhaps the next best, least cost alternative.

It should be noted that in the development of this framework, and more importantly, the development of the Basin Plan Environmental Watering Plan, each environmental asset must have an individual asset plan (which should also include delivery mechanisms and potential delivery partners) and fully implemented MER program. This would assist prioritisation of assets for watering and in meeting the water use objectives listed in Section 3.

Matching water products (or trading water in from other connected systems) to environmental outcomes at specific sites will be an important part of the framework. NFF encourages the CEWH to also look at water products that are not widely used or accepted as appropriate for the environment, e.g. lease, forward contracts, options etc.

Many farmers and others who live and work in rural communities currently have a sense of isolation in the water reform process, exacerbated by the current lengthy drought. Farmers and their communities, nevertheless, are impacted by reforms and feel this most markedly in relation to the Commonwealth's Water for the Future acquisition.

While most farmers and their communities support the intent of the reform process, it is a measure of the difficulty in managing these tradeoffs.

One area that would be of particular assistance would be how to engage these communities in having "ownership" of the acquisition process and the application of this water to environmental assets across

the Basin, particularly assets they know and care about. This notion of “ownership” is not well understood and accepted by Governments and herein lays the challenge.

One option may be to put in place a process that sees water returned to the environment primarily used on environmental assets within that catchment. Furthermore, engaging local communities in identifying environmental assets of value to them for use of the water will undoubtedly engender ownership. A prime example of this is watering of wetlands on private land within Murray Irrigation by the Murray Wetlands Working Group. Originally treated with disdain or distrust, this wonderful initiative had engaged local communities and farmers to deliver environmental outcomes.

NFF notes that such a process should not be burdened by red tape or be process heavy. Perhaps a process run by local Catchment Management Authorities (or even a competition like initiative) would suffice. Tying environmental watering objectives to local water resource plans and these outcomes would enhance local community ownership – particularly as these plans already have strong local ownership.

Specific issues that NFF do not see addressed by the framework include:

1. There must be a transparent process for accounting for environmental water, including type of entitlement and how these can be best used to address environmental needs, e.g. northern Basin un-supplemented water on a catchment or sub-catchment basis.
2. How to address the flooding risk of landholders by overbank flows as a result of environmental watering (i.e. it is the environmental water being delivered within a tight time frame that delivers an overbank flow).
3. There is much focus on the icon sites in the Murray River (and elsewhere in the Basin, identified as RAMSAR sites). It is important to recognise that there are many environmental sites important to different parts of the community. Undue emphasis on a few high profile icon sites should not be at the expense of other environmental outcomes.
4. A lot of public focus has been on over allocated systems and the need to better balance consumptive and environmental uses. However, not all environmental concerns are flow related. In delivering this shorter term framework and the longer term Basin Plan Environmental Watering Plan, a range of options to deliver environmental outcomes must be explored, i.e. do not attempt to resolved non-flow issues with flow solutions.
5. There is a lot of focus on the Southern connected system. In developing this plan for the Basin, northern Basin environmental assets, concerns, entitlement types etc must be included.
6. The environmental objectives of water resource plans must be included in the development of ecological priorities.
7. Adequate attention must be given to the river itself as part of the catchment system, i.e. do not focus entirely on high conservation value aquatic ecosystems such as RAMSAR sites.
8. The Murray system has a program of delivering engineering solutions to allow environmental water to be delivered using less water, i.e. pumps and infrastructure to get water to wetlands rather than supplying water to increase the river flow height. The remainder of the Basin does not have such initiatives and will undoubtedly lead to poor environmental outcomes and a waste of what little environmental water is available.
9. NFF notes the suggestion of the multiple use of water (assuming this is intended for multiple environmental sites along the river system). While this is commendable, it must also be recognised that in some system, return flows from environmental assets is already prioritised in water sharing plans to other uses (e.g. consumptive use by entitlement holders, of which the environment is included). To change this to targeting of environmental assets will have a negative impact on entitlement yield/reliability. If multiple environmental uses for returns flows are introduced, the

impact on entitlement reliability/yield must be recognised under the NWI risk assignment framework as a change of Government policy.

10. With the myriad of environmental water managers across the Basin, it is inevitable that there will be confusion, increased costs and decreased efficiency. This must be avoided. There is some merit in investigating whether the best outcome is one manager or multiple managers. It is critical that the expertise of environmental managers is improved. Recent failures like the fish kills in the Niemur River discredit the whole environmental flows program. Consideration of an Environmental Water Action Plan modelled on the NWC Groundwater Action Plan should be considered. A National Centre for Environmental Managers would have merit.
11. Use of environmental water will inevitably lead to increased system losses (such as transmission, evaporation and seepage). Such losses, which are environmental uses in reality, must be minimised to reduce third party impacts to other entitlement holders.
12. The framework notes the use of ecological character descriptions, particularly for significant sites such as Ramsar wetlands. NFF understands that these descriptions are not yet well documented or agreed; hence their use is quite limited at this stage.
13. Use of carry over provisions for non-entitlement water must avoid third party impacts to entitlement holders. Such water might include rules (or water resource plan) water which may or may not have existing carry over provisions. Where no carry over provisions exist, NFF does not support carry over. If carry over is provided, NFF supports the principle that in the event of a dam spill, non-entitlement (environmental) water must be the first water “spilled”. This is consistent with the current approach to the Barmah Millewa Forest and other environmental water provisions. Use of such provision must be modelled to track potential impacts to entitlement holders.
14. NFF notes the proposal to use models and tools to assist the CEWH in managing environmental water and its delivery. NFF would urge that, as these are not yet developed, a high priority is given to their development.
15. To ensure that there are no impacts to other water entitlement holders across the Basin, management (storage and use) of environmental water must be modelled against the water resource plans of each catchment. Where there is an impact, this must attract NWI risk assignment.
16. Recently, there has been agreement between NSW and the Commonwealth to shepherd environmental water beyond the source valley. While the intent of this initiative is to be commended, NFF must reiterate that such initiatives must have a neutral effect on entitlement holders – with no winners and importantly no losers through negative impacts to entitlement reliability or yield.
17. The document talks about key delivery partners but has no explanation of who these are. It would seem likely that this could include regional NRM organisations, but should also consider private delivery partners, such as irrigation corporations or indeed individual irrigators. These can be just as (or more likely more) efficient and effective as public partners.
18. The framework, in a number of areas, notes the deficiencies in data/information requirements and proposes action to rectify this. How these deficiencies are to be remedied is important, but more importantly, if these cannot be remedied until sometime in the future, how is the framework to be adjusted to make allowance for information deficiencies?
19. Important for the irrigation sector, and critical to the success of the framework, is timely decision making. This will provide certainty about access to water for consumptive purposes. Timing of environment use often coincides with planting decisions and watering decisions for permanent planting or dairy. An overly bureaucratic process which delays decision making will adversely affect entitlement holders. This is important across the Basin, particularly for access to un-supplemented flows and supplementary water where provided under State legislation and water resource plans.

Table 2 appears to have been constructed by persons somewhat naive of the allocation process. For example, forecast water availability is determined by assessing end of season storage levels (including who owns this water), catchment conditions (wet/dry and vegetation growth) to determine run off

conditions, likely estimate of delivery (issued by state agencies), inflow patterns from Snowy Hydro (for southern system only), are system losses likely to be high or low, is there likely to be a flood event, and water resource plans (rules). This list is incomplete. The list of information sources should be expanded to include privately held information (e.g. irrigation corporations).

Over the past 20 years, irrigators have become very well informed about entitlements, water management and particularly allocations, including how they build and expectations of delivery in any given year. It might benefit those managing environmental water, to engage in a discussion with the sector on many of the issues raised in Table 2. In many ways, irrigators have in place even useful “rules of thumb” that can helpful in assisting understand likely delivery of allocation against entitlement.

This knowledge has been established by irrigators engaging with state based managers who make decisions against water resource plans. Such ongoing discussions also include River Water Murray staff for the southern connected system.

It should be noted that irrigation areas provide, particularly in times of extreme drought or dry conditions, key refuges and critical habitat. This could be enhanced using water delivered by irrigation infrastructure to those sites. Murray Irrigation has a good initiative for watering of wetlands on private lands or alternatively sites such as Barren Box Swamp west of Griffith. These sites then could provide the basis for re-colonisation of other environmental sites when favourable conditions return.

The above is a preliminary analysis of the proposed framework. The NFF would welcome the opportunity to discuss this in more detail. Please contact me on 02 6273 3855 or dkerr@nff.org.au to arrange a suitable time.

Yours sincerely

DEBORAH KERR
Manager – Natural Resource Management

Attachment 5 – ADFA letter to Minister Wong regarding Exit Grants Package

THE AUSTRALIAN DRIED FRUITS ASSOCIATION INC.

Reg No. A12515

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December 16, 2008

Senator the Hon Penny Wong
Minister for Climate Change and Water
Electorate Office
PO Box 6237
Halifax St, ADELAIDE, 5000

Dear Minister,

Re: Small Block Irrigator Exit Grant package

I refer to your announcement about this modified Exit Grant package on 2 November 2008 and the subsequent release of the grant guidelines.

While the Australian Dried Fruits Association Inc (ADFA) is pleased that the Federal Government has recognized the need to provide assistance to smaller irrigators who are struggling with today's economic and environmental issues, we have reviewed the finer detail and resolved to register serious concerns about the excessive and unnecessary conditions being imposed directly on irrigators and indirectly on their industries. It is our considered view that these conditions pose grave risks to communities based on existing irrigation districts in Sunraysia such as Mildura, Merbein and Red Cliffs.

ADFA is also aware that the Commonwealth has committed \$103m towards the Sunraysia Irrigation Modernization project. We are concerned that this initiative may be undermined by conditions associated with the Small Block Irrigator Exit Grant. There is a real risk that land will be taken out of production, at a time when an upgraded irrigation system will need a maximum number of irrigator clients if it is to be profitable and efficient.

The grant conditions of particular concern include:

- the requirement to remove all permanent plantings and irrigation infrastructure
- the requirement that the block itself must not be used for irrigation for the next 5 years

Importantly, the ADFA understands and accepts that basic grant conditions need to be set by the Commonwealth such as the requirement that any irrigator who wants to take the SBI Exit Grant shall sell his/her full water entitlement to the Government, as well as requiring these irrigators to agree that they will not become involved as a principal in an irrigation business for a period of 5 years.

However, the current SBI Exit Grant package risks obstructing the normal adjustment process which includes property build-up by those growers remaining in the industry. Rather than taking land out of irrigation production for a period of 5 years or more, this land should continue to be available to existing growers or new entrants to irrigation based industries. The Sunraysia region has already seen a significant number of properties stop producing due to both economic and drought impacts – it does not need to see any further increase in vacant properties.

Similarly, requiring irrigators who want the Exit Grant to remove their permanent plantings and irrigation infrastructure is highly disruptive and likely to have negative impacts on the industry involved and the local community. These conditions are unnecessary and risk impeding not only the ability of remaining growers to become viable in established irrigation districts but also the ability of the dried fruits industry to attract investment and lift production to levels required to service domestic and export markets. The ultimate consequence on local communities may well include higher unemployment due to job losses on farms and its processing plants.

Future profitability in the dried fruits industry is dependent on a number of factors including access to the latest technology, better returns and a continuing adjustment process that includes increasing property size to achieve scale of operation.

Government assistance measures such as the SBI exit grant should facilitate property build-up rather than stop exited land from being taken over by neighbouring businesses.

In summary, we urge you to review the conditions being applied to the SBI Exit Grant with a view to removing those likely to have serious adverse impacts including:

- the requirement to remove all permanent plantings and irrigation infrastructure
- the requirement that the land in question must not be used for irrigation for the next 5 years

ADFA believes these changes can be made and enable both the Commonwealth and industry to achieve their prime objectives.

Yours sincerely



Peter Jones,
Chairman