REROC

RIVERINA EASTERN REGIONAL ORGANISATION OF COUNCILS

Response

Senate Inquiry

into the

Management of the

Murray-Darling Basin

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Response to the Senate Inquiry into the

Management of the Murray-Darling Basin

This submission is prepared on behalf of the Riverina Eastern Regional Organisation of Councils ("REROC") in response to the Guide to the Proposed Basin Plan ("the Draft Plan") prepared by the Murray Darling Basin Authority ("MDBA").

REROC is a strategic alliance of 13 General Purpose councils and two water county councils located in the eastern Riverina region of NSW. The members of REROC are the councils of Bland, Coolamon, Cootamundra, Corowa, Greater Hume, Gundagai, Junee, Lockhart, Temora, Tumbarumba, Tumut, Urana, Wagga Wagga, Goldenfields County Council and Riverina Water County Council.

In preparing this submission REROC is aware that the Guide is intended to provide an insight into the direction that the MDBA is likely to take in relation to the development of the Draft Plan. We welcome this Inquiry which will further explore important issues which have arisen as a result of the release of the Guide. The proposals put forward by the MDBA in the Guide will have far-reaching consequences for the communities that are located in the Basin and for southern NSW in particular. Therefore closer scrutiny with regard to how the Basin is managed is welcomed by the communities that REROC represents.

The REROC region is located in the mid-Murrumbidgee catchment. Farming in our region is predominantly dry area with irrigation based farming having no major representation. In addition there is a high level of forestry activity in the most easterly part of our region which supporting major employment secondary, timber processing industries.

Our members recognise that the wealth of the eastern Riverina is, to a significant degree, interdependent with the wealth of the western Riverina which is dependent on an irrigation-based economy. Our comments in relation to the Guide recognise that interdependence.

In addition the REROC members are committed to working for a Plan that achieves the right balance for regional communities, the environment, business and food production.

1. The Quality of the Socio-economic Analysis

This issue has been raised by many communities and the REROC members also question the quality of the analysis particularly when it results in an assertion by the MDBA that only 800 jobs will be lost as a result of the proposed reductions in water for productive use. The assertion that the loss of over one-third of the water available for productive uses in the Basin, including up to 45% in the Murrumbidgee, will result in a total loss of 800 jobs beggars belief and consequently undermines the credibility of the Draft Plan as a whole.

We note that the MDBA has agreed to revisit this issue before the release of the Draft Plan and we strongly support that decision. In conducting the new round of socio-economic studies we request that the MDBA consider the multiplier factors that will come into play in relation to the reduction of water for productive use. In addition we request that the multiplier impacts of water loss should be considered in a local as well as regional context.

We note that the MDBA appears to have given some consideration to the domino effect that will result from the loss of water stating:

> Specific irrigated agriculture sectors have substantial supply chains that could be adversely affected by a reduction in output. For example, the rice, cotton, horticulture, dairy and vegetable production industries all have extensive processing and packaging operations. All such operations are dependent on extensive supply chains and, further, support the regional economy and community activity.[1]

However the MDBA has then chosen to sum-up the impact of those impacts on the Murray and Murrumbidgee regions (basically all of southern NSW) stating that the regions are:

> Likely to experience significant impacts on rice processing sector. Over twenty towns within these regions are considered to be highly reliant on irrigation expenditure.[2]

This sells the impact of the loss of productive water short. For example many people from the western part of the Riverina region travel to Wagga Wagga to access health services, professional services such as accountants and solicitors and to access a wider range of retail shopping options. Loss of income producing activities such as irrigation farming in the west will impact on the numbers of people who spend a proportion of that income in the east. So to simply look at the impact of a reduction in water for productive use on a single town, or a single farming family, will not accurately reflect the total impact of the loss on a region as a whole.

In addition many of the secondary industries that operate in the Riverina region are processors of agricultural products. Most of these industries have chosen to locate within the region in order to be close to raw materials. There appears to be an underlying assumption that those that can no longer find work on farms will be able to move to work in secondary industries, however this may not necessarily be the case if secondary industries can't expand, or perhaps even continue to operate, because of lack of raw materials.

For example, when the Rice Mill in Deniliquin was forced to close during the drought because there was no rice to process, 80 people lost their jobs. As a result of the closure of the Mill a number of small business in the town were forced to close or cut staff. It would seem that Deniliquin would provide an excellent case study for the MDBA as to the multiplier effects of loss of productive capacity in the farming sector.

Our members are sure that as a result of the drought there are other similar scenarios which would provide the MDBA with both quantitative and qualitative data on what happens to a communities when there is a significant loss of water for productive activities. The MDBA appears to have undertaken some exploration of the impact of less water on communities in the Basin as a result of the drought. The Guide states:

> Severe and prolonged drought across the Basin (from 2000 to 2009) has resulted in a sustained period of substantially reduced water available for economic purposes. This has adversely affected the cash flows and capital and increased the debt levels of farms, households and businesses in the agriculture, forestry and fishing industry and related sectors.[3]

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[1] Guide to the Plan at 8.14, pg 123.
[2] Ibid. Table 8.2, pg. 123
[3] Ibid. at xxi

The MDBA therefore appears to have considered at least some of the multiplier effects on the economic fabric of Basin communities that occur when water availability is substantially decreased. However the MDBA has not adequately taken up these issues or utilised them to inform its findings on the socio-economic impacts of less water, nor has it chosen to explore what the impacts are likely to be. The Guide states:

> A significant proportion of Basin communities appear to have sufficient diversity of economic activity and social capital that they will be relatively resilient to the proposed reductions in diversions. However, several regions appear to be at a relatively higher risk of substantial social impacts, including in the north-east of the Basin, the Border Rivers, Gwydir, Namoi and Macquarie–Castlereagh regions and, in the southern Basin, the Lachlan, Loddon, Murrumbidgee and Murray regions.[4]

We note that the "several regions" mentioned includes virtually all of southern NSW, home to almost 500,000 people. Our members would also appreciate a fuller indication of what "relatively resilient" actually means and how the MDBA determines relative resilience. We are concerned that what it actually translates to from the perspective of the Plan is how far a community can be pushed before its economy completely collapses. We note that the MDBA states:

> Based on this analysis the Authority has made a number of critical judgements in developing these proposals.[5]

As the MDBA's critical judgements are based on such esoteric terms as "relatively resilient" and an almost total lack of explanation as to what the "substantial social impacts" of the Plan will be on all of southern NSW, our members are quite rightly concerned about the future of the Riverina, one of the Australia's major food bowls post the introduction of the Plan. Such cursory treatment of the economic well being of an entire region supports the perspective that the MDBA's agenda is completely focused on environmental outcomes and that the socio-economic impacts of the Plan run a distant last.

The Guide states:

> All catchments would be likely to experience reductions in economic activity at least in the short to medium term, with the greatest percentage reductions estimated to occur in the Moonie, Gwydir and Barwon–Darling regions in the northern Basin, and the Murrumbidgee, Loddon and Murray (NSW Murray) regions in the southern Basin. **Depending on the local communities' capacity to adapt, these regions would also be likely to be the most at risk in terms of adverse social impacts.[6]**

Statements such as these which brush aside the economic consequences of the Plan have, quite rightly resulted in communities throughout the Riverina-Murray region demanding answers. The MDBA has neatly passed the buck in relation to the future of communities in the Basin by simply stating that the level of adverse social impacts depends on the "communities' capacity to adapt". Exactly how does the MDBA propose that communities adapt? If a community does not survive after the loss of productive water then the MDBA's assumption is

[4] Ibid
[5] Ibid.
[6] Ibid. pg. xxvii.

that is the affected community's inability to adapt that it is the problem not the actions of the MDBA.

Communities in rural and regional areas are often told by politicians, government agencies and departments that new jobs will be created which will make up for those that are being lost as a result of the introduction of a new program or policy. When pushed as to where the jobs will come from the answer more often than not is "tourism" or the "new green economy". This is simply not true and while subsequent governments at both state and federal level consistently fail to invest in the growth of rural and regional areas it will continue to be untrue.

The MDBA should provide an indication of the ways in which it believes that communities will be able to adapt in order to minimise the risk in terms of adverse social impacts. What form or context does the MDBA envisage adaptation will take? For example where will the jobs be created to replace those that are lost as a result of the cut-back in the region's productive capacity, which will inevitably occur once water is permanently lost?

2. Critical Human Water Needs

The *Water Act 2007* (Cth) ("the Act") requires that critical human water needs be taken into account in the preparation of the Plan and that these needs should be accorded the highest priority water use for the communities dependent on Basin resources.

Critical human water needs are defined in s 876A(2) of the Act as follows:

> Critical human water needs are the needs for a minimum amount of water, that can only reasonably be provided from Basin water resources, required to meet:
>
> (a) core human consumption requirements in urban and rural areas; and
>
> (b) those non-human consumption requirements that a failure to meet would cause prohibitively high social, economic or national security costs.

The Guide goes further than the Act or the Regulations, as MDBA defines what it believes are the critical human water needs, they are as follows:

- Drinking, food preparation and hygiene;
- Water to cover community essentials such as keeping hospitals, schools, emergency services and other key services operating;
- Water for essential commercial and industrial users; and
- Water to maintain, as far as possible, the social fabric of the community.[7]

REROC is concerned that this definition of what constitutes critical human water needs will carry across to the State water management plans and becoming a default definition.

Our members note that the Act states that water should be provided for non-human consumption *where the failure to meet the need would cause prohibitively social and economic costs*. However the MDBA has interpreted this to mean water for "essential commercial and industrial users". It is unclear what constitutes "essential", is it a use that is required to support the delivery of essential services or is to sufficient water to ensure that

[7] Ibid. at 10.2, pg.148

large employers are able to continue to operate – thus ensuring that prohibitively high economic costs are not incurred.

In addition it is unclear whether the prohibitively high social and economic costs as stated in the Act are to be determined at a local, regional or state level. The determination of what constitutes a prohibitively high cost is in the eye of the beholder, what may be a high cost from the perspective of a small rural township could be considered a minimal cost for those residing in Sydney or Canberra.

Under the Act the Plan does not have to determine critical human water needs beyond the River Murray system, but must take into account those needs in determining the SDLs. REROC is concerned that town water supplies may be negatively impacted as a result of town water allocations being determined on the basis of critical human water need, rather than in response to actual and projected demand.

Many of the industries operating in rural and regional Australia are highly water dependent, as they are processors of agricultural or forestry products. While a number have their own Water Access Licences those that are located in urban areas are more likely to be dependent on town water supplies for the survival. The Guide briefly recognises this issue stating:

> A reduction in current diversion limits is likely to affect the food industries in direct and indirect ways. Food processing uses a large amount of water for production in comparison with other manufacturing activities.[8]

This statement implies that water may be lost to manufacturing as a result of the Plan. It is imperative therefore that sufficient water is allocated to Local Water Utilities to meet both the critical human water needs and the needs of industry. This becomes even more important if an underlying socio-economic assumption by the MDBA is that those who can no longer work in the agricultural sector because productive water availability has been cut will find work in secondary industries within the region.

Therefore we encourage the MDBA and the Government to clearly determine what critical human water needs are and whether or not business and industry are to be included in the determination of the level of water required to meet those needs.

3. Identification of Infrastructure Opportunities to Increase Water Efficiency

Our members believe that insufficient attention has been paid to the opportunities that exist to increase the availability of water for the environment through the introduction of infrastructure initiatives that improve water efficiency.

Our members note that the Commonwealth has committed $4 billion in principle to irrigation infrastructure efficiency projects.[9] The infrastructure investments will occur as a result of the implementation of the Commonwealth's Water for the Future program. The MDBA states that it believes that 2,000GL/y by 2014 will be recovered through water purchasing and infrastructure improvements. Therefore timely and targeted spending on infrastructure is very important. The Guide however recognises that:

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[8] Ibid. at 7.3, pg 88.
[9] Ibid. at xxix.

> The buyback and infrastructure programs are currently in progress and are likely to secure significant amounts of water prior to the introduction of the SDLs. **At this stage the total volume of water that will eventually be obtained via the buyback and infrastructure investment programs in each region of the Basin remains uncertain.**[10]

The MDBA admits that

> The long-term average sustainable diversion limit (SDL) proposals in this Guide are set on the basis of achieving environmental water requirements for the Basin with the **infrastructure that exists today.**[11]

Our members are concerned that the MDBA has given insufficient attention to engineering solutions which would improve water efficiency in the Basin and therefore increase water available for the environment. We note that the MDBA has allowed 1596 GL/y for conveyancing losses for critical human water needs in the Murray system; REROC believes that rather than accepting the loss it would be more efficient to consider how it could be minimised through the use of innovative engineering solutions.

For example the Pratt Water Project in its 2004 *The Business of Saving Water* report identified the following in relation the Murrumbidgee Valley:

- 1,334,000 ML/year of unaccounted flows, losses and water identified for saving in the River Valley system;
- $824 million worth of investments that would save water in the Valley, including improvements to measuring and monitoring, aquifer storage and recovery, en-route storage and improvements to stock and domestic systems; and
- Investment options such as piping laterals and major canals and channels in the near-farm zone.

Our members encourage the MDBA to give further and more detailed consideration of what could be achieved through the introduction of engineering solutions that would increase water efficiency. Not only do such solutions increase the amount of water available, they also create economic gains through new employment opportunities. The Pratt Report estimated that the implementation of the identified water efficiency investments together with the new production opportunities created as a result of the efficiencies would generate an increase in regional employment of 4,500 jobs.

4. Risk Allocation Provisions

Our members note that the Guide states:

> Should there be any remaining gap when water resource plans are implemented — for example, from insufficient willing sellers — the proposed risk allocation provisions will be triggered.[12]

REROC acknowledges that during consultations on the Guide the MDBA representative advised that current Government policy was that water would only be purchased from willing sellers. If sellers were not willing an undertaking was given that there would be no water purchased.

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[10] Ibid. at 7.10, pg. 99.
[11] Ibid. at 15.1, pg 194
[12] Ibid at pg xxviii.

REROC understands that while the decision to purchase only from willing sellers is current government policy, it runs counter to the provisions of the Act which provides for the risk allocation (assignment) provisions to be triggered under Division 4 of the Act. Until the Government is prepared to amend the Act and remove these provisions we are concerned that such policy statements are at best ephemeral.

We also note that the MDBA has identified the triggering of the risk allocation provisions as one of the ways in which "the social and economic impacts of the long-term average sustainable diversion limits (SDLs) will be reduced"[13]

Further we note that it is intended that the risk allocation provisions will be activated in relation to groundwater, regardless of whether or not there are willing sellers. Our members are concerned that the operation of the risk allocation provisions have not been properly formulated and further we are concerned that when activated it could reasonably be seen as constituting the compulsory acquisition of groundwater entitlements.

There is also concern that because the risk allocation provisions have not been properly formulated any compensation that might be provided by the Government in relation to the acquisition of groundwater may not represent market value for the asset. Further there is concern that the National Water Initiative Guidelines on risk assignment (which have been adopted by the MDBA) indicate that compensation should only be triggered at a point where overallocation and overuse have been addressed thus ensuring that the NWI risk assignment framework is unrelated to, and separable from the impact of reducing the consumptive pool of water to bring levels of extraction within sustainable limits.[14]

5. Timeframe for Introduction of the Plan in NSW

Our members are very concerned about the staggered timeframe for the introduction of the Plan. NSW communities will be impacted by the introduction of the Plan 5 years before anyone else in Australia. Therefore not only do NSW communities become the guinea pig for the Plan they will also feel the economic brunt of its introduction before the rest of Australia.

It is our members' belief that rural and regional communities in NSW will be severely disadvantaged by the staggered introduction of the Plan and that the MDBA's proposed transitional arrangements will not be sufficient to mitigate that disadvantage.

It is our members' stance that a more equitable outcome would be for the current NSW Water Sharing Plans (WSPs) be extended until 2019, which would allow NSW and Victoria to come on-line with the Plan at the same time.

We are already seeing investor flight in many of the communities in the Murrumbidgee and Murray regions as a growing number of people show increasing reluctance to commit to new investment in agriculture and industry because of the uncertainty surrounding a future with less water. If NSW and Victoria commence the Plan at the same time it reduces the attractiveness of Victoria as a short-term investor location, at the expense of NSW communities.

NSW has already suffered the most significant losses with regard to water entitlements. Firstly through the NSW State Government's introduction of WSPs for every major water course in the State, which resulted in significant reductions to water entitlements as users were moved

[13] Ibid. at pg 151.
[14] Australian Water Reform 2009; Second Biennial Assessment of Progress in Implementation of the NWI, pg 198.

onto the new Access Licence regime. Secondly, as a result of the Commonwealth and State water buyback initiatives which have targeted NSW water users, statistics show that most of the water that has been purchased by the Commonwealth has been sourced from NSW. Finally through the introduction of caps on the Murray and Murrumbidgee rivers and the introduction of the Living Murray initiative all of which reduced the water available for productive use.

The staggered introduction of the Plan which will see the compulsory acquisition of groundwater entitlements in NSW, five years ahead of the rest of Australia and more buy-backs in order to meet the SDL requirements set by the Plan will see the State yet again making the big sacrifices for the national interest.

6. Lack of Community Consultation

REROC concurs with many of the other Basin communities that the consultation process for the development of the Plan has been inadequate. The content of the Guide bears witness to this fact as does the response that the MDBA received in the consultations that were held following the Guide's release.

REROC strongly supports calls by communities across the Basin that as the MDBA embarks on a new round of studies to determine the socio-economic impacts of its proposal that it chooses to talk to those that are most affected by the changes rather than simply relying on what the statistics may or may not provide.

It is only be taking the time to speak with communities and particularly to speak with local councils that the MDBA will truly understand the magnitude of the impacts the proposed changes to water availability will have on the 162 local government areas that make up the Basin communities.

7. The Issue of Food Security has not been Properly Addressed

It is of concern to REROC members that the Guide has failed to address the issue of food security, an issue that has worldwide implications. The Guide states that the Basin is a critical part of Australia's economy and its food security and recognises that it contributes 39% of national agricultural production.[15]

Yet alarmingly apart from the above statements in the Executive Summary, the Guide is silent as to the impact the proposed cuts to productive water will have of food security. This begs the following questions:

- Where does the MDBA believe the food that the region currently produces will come from?
- And at what cost?
- How indeed will Australia feed itself in the future?
- Will Australia become a net importer of food and pay the price accordingly?
- Has the price been factored into the costs associated with the introduction of the Plan? The costs being borne not just by rural and regional communities but by all Australian communities.

[15] Guide to the Plan, at page xv.

8. Conclusion

REROC welcomes the opportunity to provide further input to the consultative process for the development of the MDB Plan. We trust that the comments we have provided to the Inquiry will also form the basis of recommendations to the MDBA with regard to the formulation of the final Plan.

Our members understand and accept that more water needs to be made available to the environment; however we also believe that the MDBA and the Federal Government need to extend its considerations as to how this might be obtained beyond merely buying up what is needed. The continuing obsession about addressing overallocation ignores the sacrifices that Basin communities, particularly those in the Murray, Murrumbidgee and Lachlan valleys, have already made in relation to the loss of water entitlements through the introduction of Water Sharing Plans and the Living Murray initiatives.

The last decade has been about the Basin communities continually adapting to a world with less water, however it is time to recognise that further big sacrifices are likely to result in the demise of one of the Australia's, if not the world's, great food bowls. Such a result at time when the issue of food security is a very real worldwide problem seems untenable.

It is REROC's belief that the best course of action is for the MDBA to go back to the drawing board and prepare a Plan that achieves the right balance for regional communities, the environment, business and food production.