



**Government
of South Australia**

Ref: 10MRM0538

23 December 2010

Senator the Hon Bill Heffernan
Committee Chair
Senate Standing Committee on Rural Affairs and Transport
PO Box 6100
Parliament House
CANBERRA ACT 2600

Minister for Environment
and Conservation
Minister for the River Murray
Minister for Water
9th Floor, Chesser House
91-97 Grenfell Street
Adelaide SA 5000
GPO Box 1047
Adelaide SA 5001
DX 138
Tel 08 8463 5680
Fax 08 8463 5681
minister.caica@sa.gov.au

Dear Senator Heffernan

The Government of South Australia welcomes the opportunity to provide input into the Senate Standing Committee on Rural Affairs and Transport inquiry into the management of the Murray-Darling Basin.

The Government of South Australia has consistently supported a national approach to the management of the Murray-Darling Basin. We continue to support the Murray-Darling Basin Authority as an independent body that can take a 'no borders' approach to managing water resources, based on the best available science.

For decades the health of the Murray-Darling Basin system has suffered due to over-allocation of its waters. As the most downstream state, South Australia is acutely aware of the impacts of over-allocation, reduced flows and poor water quality on the environment and on water users.

The impact of the recent severe drought, in addition to the consequences of past decisions and practices, has highlighted new threats, particularly below Lock 1, where riverbanks have collapsed and levee banks have subsided and cracked, potentially threatening lives, property and livelihoods. Transport infrastructure, tourism, recreation and related industries have also suffered significantly as a result.

In Lakes Alexandrina and Albert (the Lower Lakes), low water levels resulted in difficulties in accessing water, and dramatically increased salinity levels meant that water was unsuitable for stock, domestic and irrigation uses. The widespread exposure of acid sulfate soils due to unprecedented low water levels threatened to completely destroy the ecology of this internationally recognised site.

A healthy river is critical to the long-term viability and productivity of Basin communities and industries. The quality and security of water for irrigation, industry, stock and domestic users can only be maintained through sound environmental management and sustainable water allocations.

I note from the terms of reference for the inquiry that the Committee is interested in a broad range of topics in regards to the management of the Murray-Darling Basin. The following points provide the Government of South Australia's perspectives on the development of the Basin Plan, the implications of the arrangements proposed in the Guide for the environment, businesses and communities, and approaches to achieve new sustainable diversion limits in the Murray-Darling Basin.

The Basin Plan

The Government of South Australia welcomed the release of the Guide to the proposed Basin Plan as a significant step in the development of a Basin Plan for the integrated management of the Basin's water resources.

The Plan's principal aim must be to rebalance the water resources of the Murray-Darling Basin to ensure a long-term environmentally sustainable future for the whole of the system. It is in the interests of all users of the Murray-Darling system that this is achieved. Only a healthy river system can sustain the livelihoods of those who depend on it.

We recognise that the development of a Murray-Darling Basin Plan is a highly complex task that will require a great deal of consultation and negotiation to ensure that the Plan meets the aspirations of governments and Basin communities.

While it is important that the Murray-Darling Basin Authority takes the time to finalise a robust Basin Plan, this should not result in inordinate delays and extended uncertainty for industries and communities. Water entitlement holders and communities need the clearest possible picture of the factors likely to affect their future to allow effective industry and community adjustment to occur.

Sustainable Diversion Limits

The Government of South Australia seeks a fair and equitable approach to determining sustainable diversion limits in the Basin Plan that addresses over-allocation and recognises responsible behaviour and management practices.

South Australia will make a fair contribution towards achieving a balance in the Murray-Darling Basin but the Plan should take account of the State's early actions to cap water extractions from the River Murray. South Australia has operated under a 'cap' since 1969. This was further reduced by the South Australian government, once in 1979, and again in 1991. During negotiations to establish the first Basin Cap on diversions in the 1990's, South Australia's All Other Purposes Cap was set at 90% of entitlements for pumped irrigation. Meanwhile, according to the Guide to the proposed Basin Plan, diversions in the rest of the Basin increased from 7,500 GL during the 1970's to a maximum in 1999 of 12,500 GL – or a further 5,000 GL.

South Australia would welcome the opportunity to work with the Commonwealth Government and the Murray-Darling Basin Authority to examine alternative

approaches to achieving a fair and equitable approach to sustainable diversion limits that takes account of these factors.

Implications for the environment

The Government of South Australia strongly supports the provision of sufficient and secure environmental flows to restore and maintain ecological health, function and processes across the Murray-Darling Basin.

Historically in the management of the Murray-Darling Basin, insufficient water has been provided to meet environmental needs. When there are water shortages, as with the recent severe drought, the effects of this are exacerbated. Sufficient water must be allocated to environmental assets within the Murray-Darling Basin to avoid compromising these assets in ways similar to those recently experienced with the rapidly deteriorating condition of the Ramsar-listed Coorong, Lower Lakes and Murray Mouth.

It is encouraging that the Guide to the proposed Basin Plan recognises the environment as a legitimate user of water. The provision of greater security to environmental water must be a major outcome of the Basin Plan and the definition of environmental water requirements is a positive step towards achieving the ecological objectives at key environmental sites.

The Guide proposes that an additional 3,000 – 4,000 GL per year be returned to the environment. It is very concerning that even a return of 4,000 GL per year would only restore the Murray catchment to a less than moderate health rating. The Government of South Australia does not believe that the Authority would be fulfilling its obligations to restore the Basin to an acceptable level of health if it were to accept an outcome that only returns parts of the system to a poor to moderate condition.

The Government of South Australia also believes that the development of end-of-Basin flow and salinity targets are critical to ensuring ecological and water quality objectives are achieved at all key ecological assets. The flow of water out of the Basin, through the Murray Mouth, underpins the productive base by ensuring the export of millions of tonnes salt and other pollutants from the system. An end-of system flow target is also important to help ensure that the Murray Mouth remains open without the need to continue to spend millions of dollars on a dredging program.

Agriculture and food production

The Plan should recognise South Australia's achievements in using water more efficiently. Our State's irrigators should not be required to bear an unfair burden under the Plan when they are among the most efficient in the Murray-Darling Basin.

Over the past 30 years, a majority of South Australian irrigation water delivery infrastructure has been upgraded, mostly to fully piped and pressurised systems, with a significant proportion of the water savings being returned to the environment. On-farm, South Australian irrigators have invested heavily in irrigation efficiency to maximise their water availability in the capped environment.

This must be recognised in setting final sustainable diversions limits to avoid a disproportionate impact on South Australia's irrigated production and associated flow-through impacts to dependent regional communities.

At the same time, Commonwealth programs to improve efficiency in over-allocated and over-used catchments can help to ensure that water is returned to the environment while still maintaining productive and profitable primary production.

Social and economic impacts

The irrigation sector and dependent regional communities in the Murray-Darling Basin are facing an unprecedented combination of challenges and change. It will be important that the Basin Plan, and associated Government policies and programs to assist transition, consider the social, cultural and economic impacts of change on Basin communities and find a balance between their needs and those of the environment.

Robust and transparent socio-economic analysis should underpin proposed sustainable diversion limits in the Basin Plan and instil confidence in the numbers, the impacts and the inherent trade-offs in optimising socio-economic and environmental outcomes.

The framework for setting sustainable diversion limits should take into account the net social benefits. This requires a socio-economic analysis that considers the balance between environmental water requirements and consumptive uses in a rigorous and transparent framework (i.e. a cost/benefit analysis), optimising economic, social and environmental outcomes. A pre-requisite of this is the establishment of a 'do nothing' baseline.

The impact of 'doing nothing' (no policy change) is a critical component of any robust socio-economic analysis and needs to be emphasised in support of the proposed Basin Plan initiatives. The long-term benefits of the introduction of new sustainable diversion limits can only be fully understood in the context of understanding the continuing decline in river health and the associated impacts on communities and industries that would ensue if continued over-allocation is not addressed.

The Basin Plan must also recognise the significance of the economic activity and social benefits generated by supplies to population and industry in cities and towns, including the many country towns for which water from the River Murray is the only source of supply.

Water for the Future

The Government of South Australia strongly supports the Commonwealth Government's actions to recover water for the environment, including the commitment to 'bridge the gap' between current diversion limits and proposed sustainable diversion limits through investment in irrigation efficiency and infrastructure and purchase from willing sellers.

The Government of South Australia also supports the continuation of measures that are complementary to the *Water for the Future* program such as the Small Block Irrigators Exit Grant, subject to modifications to reduce complexity, improve

timeliness and address inefficient land use consequences. It is understandable that mechanisms be put in place to ensure that grants are not abused. However, allowance should be made for the land and associated infrastructure to be put to productive use under a different business model, rather than not at all.

The Government of South Australia believes an enhancement of these programs is required to ensure relevance to all communities in conjunction with greater support for regional communities through other programs. The Government of South Australia would welcome the opportunity to work with the Commonwealth Government to provide input to revising the *Water for the Future* program.

Water purchase

A strategic approach to water buyback, along with a clearer and a more transparent purchase process is needed.

Feedback from the market has shown a number of concerns for entitlement holders in participating in the Commonwealth water purchase program, including:

- the stop-start nature of the program through use of tender processes;
- the time taken by the Commonwealth to respond to tender submissions and having accepted a tender submission, the time taken to complete a transaction; and
- an inability to make personal contact with those managing the purchases in order to discuss, clarify and enquire on progress.

Streamlining the purchase process and including market mechanisms that result in more timely settlement would improve the system. The advantages and disadvantages of different market mechanisms to acquire water for the environment have been well documented as part of the Living Murray Initiative, and through work undertaken by ABARE and the Productivity Commission.

It is essential that market distortions be removed to facilitate the movement of water to the highest value use, be that environmental, irrigation, industrial or critical human and stock needs. In particular, the four per cent limit on trade in entitlements in Victoria must be removed as soon as possible. These trade restrictions have the effect of reducing the supply of entitlements into the market and potentially reducing the amount of water that may be recovered by the Commonwealth to offset the impacts of implementing sustainable diversion limits.

South Australia notes that the Commonwealth Environmental Water Holder controls an increasingly significant proportion of water rights throughout the Basin. This being the case, rules should be established for water market dealings by the Commonwealth Environmental Water Holder to ensure that there is transparency and accountability. There is no reference to specific rules for the Commonwealth Environmental Water Holder in the Guide to the proposed Basin Plan nor has there been any advice provided by the Australian Competition and Consumer Commission (ACCC) on this issue. South Australia would welcome consideration of this matter by the ACCC for incorporation in the Basin Plan water trade rules.

Infrastructure investment

The South Australian Government supports a strategic approach to infrastructure upgrades and investment in irrigation efficiency. Where the long-term returns for irrigation-related infrastructure investment are high, the Commonwealth Government should invest in these projects to achieve water savings and offset the impact of reductions required to meet sustainable diversion limits.

It is necessary to ensure appropriate sequencing of investments in irrigation infrastructure to avoid potential adverse consequences. Clearly it is important that water purchase initiatives and investment in infrastructure are undertaken in a complementary manner.

Because of South Australia's early responsible actions there are few, if any, additional major opportunities to cost-effectively increase the water use efficiency of infrastructure in South Australia. The impacts of the State's high level of efficiency and the potential for South Australia to achieve further efficiencies must be recognised in setting final sustainable diversion limits to ensure that South Australia's productive industries are not unfairly impacted.

In addition in the spirit of a no borders approach, water recovered for the environment from investment across the Basin through *Water for the Future* programs must be shared across the Basin. To not do this would unfairly disadvantage irrigators such as those in South Australia who have already invested heavily in efficient irrigation infrastructure.

There is currently up to \$110 million available for investment in South Australia under the Private Irrigator Infrastructure Program for South Australia which is part of the *Water for the Future* program. To date, this program has had very poor uptake as relevant investment guidelines do not take account of the needs and circumstances of South Australian irrigators. The Government of South Australia would support a review of the investment guidelines of this program to ensure their relevance for South Australia.

Transitional issues

It is recognised that as communities adjust to economies based on less water use there may be impacts throughout each region, as the providers of goods and services to irrigators in turn respond to changes in demands from irrigators. Given the dependence of a number of South Australian Murray-Darling Basin regions on water availability the Government of South Australia is concerned about the potential flow-on effects to communities, industries and individuals.

Assistance will be needed at a community and an industry and small business level to address potential social and economic impacts that arise from implementation of the Basin Plan. While the Government of South Australia recognises the Commonwealth Government's intention to provide support in this area, it is clear that targeted assistance will be required. Support must acknowledge and respond to the differing sub-regional impacts of reform. Adjustment initiatives need to be socially inclusive and incorporate the welfare of regional families and communities.

Summary

The Government of South Australia is committed to working with the Murray-Darling Basin Authority and other jurisdictions in order to achieve a robust Basin Plan. However it is paramount that the Commonwealth Government and Parliament show strong leadership to progress this difficult, but necessary reform.

The Government of South Australia would be pleased to participate in any public hearings related to the Senate Standing Committee on Rural Affairs and Transport inquiry into the management of the Murray-Darling Basin. However, as the emphasis of hearings in regional areas should be on the regional community, I would be pleased to consider attendance at the hearing in Canberra.

In addition, should the Committee wish to visit South Australia at any time to inspect some of the irrigation and environmental assets in this State, I would be pleased to assist in ensuring a fruitful and informative visit.

I thank you for the opportunity to contribute to this inquiry.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul Caica', with a stylized flourish at the end.

**PAUL CAICA
MINISTER FOR ENVIRONMENT AND CONSERVATION
MINISTER FOR THE RIVER MURRAY
MINISTER FOR WATER**