

# Chapter 5

## Environmental water in the Murray-Darling Basin

### Introduction

5.1 The committee received extensive submissions and evidence on the Australian Government's policies in relation to the acquisition and provision of environmental water in the Murray-Darling Basin (MDB or Basin).

5.2 This information covered a broader range of issues than the supply of adequate environmental flows to Ramsar wetlands (Term of Reference 2(c)). For this reason the committee has decided to include an additional chapter in the report to discuss some of the issues raised in relation to environmental water in the MDB. The committee received a limited amount of evidence which related specifically to the provision of adequate environmental water to Ramsar wetlands sites. That issue is covered in Chapter 4 of the report.

5.3 The focus of the discussion in the inquiry was two aspects of the government's water policy, *Water for the Future: the Restoring the Balance in the Murray-Darling Basin* program, where water entitlements are purchased from willing sellers to use for environmental purposes; and the *Sustainable Rural Water Use and Infrastructure Program*, aimed at improving water use efficiency in rural Australia.

5.4 The chapter begins with an overview of *Restoring the Balance in the Murray-Darling Basin* and the *Sustainable Rural Water Use and Infrastructure* programs. The chapter then moves on to a discussion of the issues raised in the inquiry in relation to the acquisition and provision of environmental water in the Murray-Darling Basin.

### Water Entitlement Buyback

5.5 A key component of the Australian Government's water policy, *Water for the Future*, is the *Restoring the Balance in the Murray-Darling Basin* (Water Entitlement Buyback), which will invest \$3.1 billion over 10 years purchasing water for the environment:

The goal of Restoring the Balance in the Murray-Darling Basin is to acquire water entitlements from willing sellers that represent value for money, and use the water allocated to them for the environment. This will improve the health of the Basin's rivers, wetlands and floodplains.<sup>1</sup>

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1 Department of the Environment, Water, Heritage and the Arts (DEWHA), *Water for the Future: Restoring the Balance in the Murray-Darling Basin Program Factsheet*, March 2009. Available at: <http://www.environment.gov.au/water/publications/mdb/pubs/restoring-balance.pdf>.

5.6 The first round of purchases under the Water Entitlement Buyback was conducted in 2007-08. The Australian Government allocated \$50 million for entitlement purchases in the first round. The government is in the process of finalising purchases in the first round, but as at 1 June 2009, the Department of the Environment, Water, Heritage and the Arts' (DEWHA) website stated that approximately 26 gegalitres (GL) of water, worth \$37 million, had been purchased in the first round.<sup>2</sup>

5.7 The government is currently running tenders for the Water Entitlement Buyback in the northern and southern Basin which close on 30 June 2009.

5.8 On 28 May 2009, the Prime Minister and Minister for Climate Change and Water, announced that the Australian Government is buying almost 240 GL of water entitlements for \$303 million from the Twynam Agricultural Group. The water will be used exclusively for environmental flows.<sup>3</sup>

5.9 As part of the Water Entitlement Buyback, the government has also announced a new exit package to assist small block irrigators. The government will offer up to \$150,000 as a special exit payment, along with other transitional assistance, to eligible irrigators on 15 hectares or less who agree to sell all their water entitlements to the Commonwealth.<sup>4</sup>

5.10 During the inquiry, reference was also made to the Pilot Environmental Water Purchase project, conducted by the Murray-Darling Basin Commission (MDBC) as part of the Living Murray Initiative. In 2007-08, the MDBC purchased 13 GL of irrigation entitlements from sellers in the southern Basin, mostly New South Wales, for future environmental use.<sup>5</sup>

## **Infrastructure Program**

5.11 The Water Entitlement Buyback is only part of the Federal Government's *Water for the Future* policy which is aimed at improving environmental water flows. Under the *Sustainable Rural Water Use and Infrastructure Program* (Infrastructure

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2 DEWHA website, *Outcomes from 2007-08 Restoring the Balance in the Murray-Darling Basin Program (water entitlement purchasing)*, updated 1 June 2009. Available at: <http://www.environment.gov.au/water/policy-programs/entitlement-purchasing/2007-08.html>.

3 The Hon. Kevin Rudd MP, Prime Minister, and Senator the Hon. Penny Wong, Minister for Climate Change and Water, 'Historic purchase of water for the environment', Media Release, 28 May 2009.

4 DEWHA website, *Water entitlement buyback in the Murray-Darling Basin (water buybacks)*, updated 24 April 2009. Available at: <http://www.environment.gov.au/water/mdb/entitlement-purchasing/index.html>.

5 See: Murray-Darling Basin Commission, *Annual Report 2007-08*, p. 20, available at: [http://www.mdbc.gov.au/subs/annual\\_reports/AR\\_2007-08/pdf/MDBC-AR-0708.pdf](http://www.mdbc.gov.au/subs/annual_reports/AR_2007-08/pdf/MDBC-AR-0708.pdf). For general information on The Living Murray Initiative see: <http://www.mdba.gov.au/programs/tlm>.

Program) the government has committed \$5.8 billion to increase water use efficiency in rural Australia. Investment will be principally directed towards projects that: deliver substantial and lasting returns of water for the environment; secure a long-term future for irrigation communities, and deliver value for money in the context of the first two tests.<sup>6</sup>

5.12 Projects in the Infrastructure Program include:

- State priority projects: the Commonwealth will provide funding for significant state-based water infrastructure and reform projects in South Australia, New South Wales, Victoria, Queensland and the Australian Capital Territory;<sup>7</sup>
- Private Irrigator Infrastructure Operators Program: which is directed at assisting private irrigation infrastructure operators located in the Murray-Darling Basin to modernise their irrigation infrastructure to achieve water savings and improved water use efficiency. The program includes the Irrigation Modernisation Planning Assistance project which helps irrigation water providers to develop modernisation plans for their districts. These are plans to upgrade irrigation infrastructure and assess options to adapt to a future with less water.<sup>8</sup>

## Case Studies

5.13 There were two case studies that were often referred to in the inquiry: the purchase of Toorale station in September 2008 by the New South Wales Government, with the assistance of the Australian Government; and the Torrumbarry Reconfiguration and Asset Modernisation Strategy (TRAMS) being carried out in the Torrumbarry Irrigation Area (TIA) of northern Victoria.<sup>9</sup> A brief overview of each of these case studies is provided below, and the case studies are referred to in the discussion throughout this Chapter.

### *Purchase of Toorale Station*

5.14 In September 2008 the New South Wales government, with the assistance of the Australian Government, purchased Toorale station, a grazing and cropping property in western New South Wales, for \$23.75 million. Toorale station holds entitlements to extract 14 GL of water from the Warrego and Darling Rivers each year and the rights to harvest water from the floodplain. Under the agreement between New South Wales and the Commonwealth, the New South Wales government will be

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6 DEWHA website, *Sustainable Rural Water Use and Infrastructure*. Available at: <http://www.environment.gov.au/water/programs/srwui/index.html>.

7 See Intergovernmental Agreement on Murray-Darling Basin Reform (IGA), clause 4.11.

8 DEWHA website, *Sustainable Rural Water Use and Infrastructure*. Available at: <http://www.environment.gov.au/water/programs/srwui/index.html>.

9 The Torrumbarry Irrigation Area encompasses the Cohuna, Kerang and Swan Hill regions from the Torrumbarry Weir to Nyah.

responsible for the preservation of the land and transfer the water entitlements to the Commonwealth Environmental Water Holder.<sup>10</sup>

5.15 In March 2009, the Minister for Climate Change and Water announced that an extra 11.4 GL of water was flowing down the Darling River as a direct result of irrigation extractions having ceased at Toorale station.<sup>11</sup>

### ***Torrumbarry Reconfiguration and Asset Modernisation Strategy***

5.16 TRAMS is a community-driven strategy, developed in conjunction with Goulburn-Murray Water, to redesign the TIA. TRAMS envisages a future for the TIA involving a 30 per cent reduction in Goulburn-Murray Water assets; modernising 50 percent of the delivery system; and a 50 per cent reduction in water use over a period of five to 10 years.

5.17 Mr Geoff Williams, the chair of the TRAMS Working Group, provided the committee with an overview of the 'traffic light' concept which is being used as the basis for planning the reconfiguration of the TIA. 'Green' areas are targeted for investment in modernised irrigation infrastructure and future expansion of irrigation; 'orange' areas will focus on environmental outcomes and amenity living, including water purchases and ecological restoration; and 'red' areas will be encouraged to convert to dryland agriculture, and targeted for water purchases.<sup>12</sup>

5.18 Funding for TRAMS has come through a variety of sources. Initial funding was from the Victorian Government which, at the time that water rights were unbundled in northern Victoria, provided funding for infrastructure maintenance and reconfiguration planning in exchange for a low-reliability water right which was allocated to the environment. Much of the channel modernisation in the TIA, which formed part of TRAMS, is being carried out under the auspices of the Northern Victorian Irrigation Renewal Project (NVIRP), the Victorian Government's strategy to modernise irrigation infrastructure. Additional funding has also come from Goulburn-Murray Water, from the water charges levied on landholders. Mr Williams also

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10 The Hon. Carmel Tebbutt, NSW Minister for Climate Change and the Environment and Senator the Hon. Penny Wong, Minister for Climate Change and Water, 'Commonwealth and NSW purchase Toorale', Joint Media Release PW 175/08, 10 September 2008.

11 Senator the Hon. Penny Wong, Minister for Climate Change and Water, 'Toorale purchase delivers 11.4 billion extra litres of water for the Darling River', Media Release PW 57/09, 4 March 2009.

12 Mr Geoff Williams, *Senate Rural and Regional Affairs and Transport Committee – Murray Darling Basin inquiry, 12 March 2009 – Teleconference Link*, Powerpoint presentation, tabled 16 March 2009, pp 10-13. See also: Australian Conservation Foundation (ACF), *Land and water reform in the Murray-Darling Basin*, 16 October 2008, pp 4-5, tabled 10 March 2009.

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indicated that there have been discussions with the Commonwealth about a targeted buyback case study.<sup>13</sup>

### **Issues raised on environmental water in the Murray-Darling Basin**

5.19 The Water Entitlement Buyback and the Infrastructure Program were the subject of extensive discussion and examination during the course of this inquiry. The discussion in this Chapter is divided into three sections: the strategy underlying the acquisition of environmental water; concerns specific to the Water Entitlement Buyback and issues in relation to the Infrastructure Program.

#### *Strategic planning for the acquisition of environmental water*

5.20 In this section the committee focuses on the strategy underlying the acquisition of environmental water. In particular, the issues raised with the committee were:

- options for an integrated approach to water reform to deliver environmental water;
- the identification of key environmental assets in the Basin; and
- the socio-economic impact of water reforms which deliver environmental water.

#### *Integrated planning as a decision-making approach*

5.21 A number of witnesses raised with the committee concerns that acquisition and provision of environmental water across the Basin did not reflect a cohesive policy. For example, Ms Beverly Smiles of the Inland Rivers Network (IRN) described 'ad hoc' outcomes of current planning decisions:

There are decisions made around allocations and water rules and environmental flows, but what is ad hoc at the moment is the outcome of those current planning decisions. What is not happening is that there has been a decision by the community with some sort of process behind it...<sup>14</sup>

5.22 Mr Peter Cosier of the Wentworth Group explained to the committee what he believed were the risks of the current strategy:

...we have a compartmentalisation of the plan. So we have \$3 billion for water buy backs and \$6 billion for infrastructure. It may well be that you do spend \$6 billion on infrastructure, but if you go in and spend money on infrastructure without identifying where you need to make the adjustment, you may well be throwing a lot of infrastructure money that has been put

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13 See Mr Geoff Williams, *Committee Hansard*, 16 March 2009, pp 22, 25-27. For more information on the Northern Victorian Irrigation Renewal Project (NVIRP), see the NVIRP website: <http://www.nvirp.com.au/index.html>.

14 *Committee Hansard*, 13 March 2009, p. 50.

together by state agencies, not industry specialists. You might...be producing gold plated redundant infrastructure. In other words, building new pipes that will never be used because the water will not get there. So the current process is at risk with state agencies putting up infrastructure projects that are not economically viable whilst the Commonwealth is in the market purchasing water.<sup>15</sup>

5.23 In another example of this criticism, Mr Richard Anderson of the Victorian Farmers Federation, described the 'scattergun effect' of the Water Entitlement Buyback.<sup>16</sup> Mrs Deborah Kerr of the National Farmers' Federation (NFF), stated that while the approach to environmental water decision-making 'feels a little bit ad hoc', she noted that the Australian Government's acquisition of environmental water to date has been on a 'no-regrets' basis, during the preparation of the Basin Plan.<sup>17</sup>

5.24 The committee sought the opinion of Dr Bill Young of the CSIRO as to whether the government's approach to the acquisition and delivery of environmental water so far has been methodical:

I do not see it as methodical, but in the work that one would envisage being done as part of preparing the basin plan and looking at different ways of managing the system, I would think it reasonable that those issues around infrastructure that you were referring to be looked at as well. It comes to the point, too, where you say there is a lot of expenditure on purchasing water. There could also be expenditure in infrastructure for environmental water managing, but actually there is a trade off there. You may get a better bang for your buck in the water purchase if you invest some of your financial resources into infrastructure.<sup>18</sup>

5.25 Dr Hatton described decision-making at present as 'not as strategic' as the technical community and the Murray-Darling Basin Authority planned:

But there is in the river operations of the Murray River something more than an ad hoc process by which environmental water is managed along that river. The [Catchment Management Authorities] are involved, as is the River Murray operations.<sup>19</sup>

5.26 A number of witnesses described for the committee what they envisaged as more strategic approaches to the acquisition and delivery of environmental water as part of a broader policy on water. For example, The Australian Conservation Foundation (ACF) propose a geographically targeted land and water reform package that:

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15 *Committee Hansard*, 10 March 2009, p. 53. See also: Inland Rivers Network (IRN), *Submission 9*, p. 2.

16 *Committee Hansard*, 26 September 2008, p. 91.

17 *Committee Hansard*, 13 March 2009, p. 11.

18 *Committee Hansard*, 16 March 2009, p. 10.

19 *Committee Hansard*, 16 March 2009, p. 10.

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...would accelerate and integrate investment of the \$3.1 billion *Restoring the Balance* water buyback money with the \$5.8 billion *Sustainable Rural Water Use and Infrastructure* efficiency and structural adjustment funds.

...The package involves locally driven land and water capability assessments of irrigation districts, incorporating CSIRO *Sustainable Yields* predicted impacts of climate change on water availability over the next 30 years, along with all existing local and regional natural resource management (NRM) and environmental data.<sup>20</sup>

5.27 Dr Arlene Buchan, of the ACF, cited the work of TRAMS as an example of how this reform could work:

...TRAMS...have shown an incredible capacity to self-organise from the bottom up. They have sought the information and the tools, have done the planning and have looked at their entire irrigation district with a view to asking questions like: 'What is the best land and water reform that we can engage in in this area?' and 'What is the best use that our different land and water assets will have in 50 or 70 years, given climate predictions and so on?' Communities can organise and plan if they are given the resources and the opportunity to do so. We really support community planning—it is a great way to make sure that we reduce the amount of conflict and differences of opinion across the basin on how to do things, and, again, we commend the TRAMS group as a blueprint for that type of community based planning set out in the land and water reform paper previously presented to this committee.<sup>21</sup>

5.28 In contrast, some witnesses thought the purchase of Toorale station could have been better structured to take advantage of the land that was acquired in addition to the water entitlement. For example, Mrs Kerr, of the NFF, in discussing the Toorale purchase and particularly the acquisition of land for the national reserve system, stated that there is a 'smarter way of doing business':

It is a 93,000-hectare property with 14,000 megalitres of permanent entitlement that is traded. The rest of it is stock and domestic water that is not tradeable. It had significant sheep and cattle enterprises on the farm, with only 2,000 hectares of irrigation, so a very small area of irrigation on the property.

It is our belief that we could have been smarter in that acquisition. We could have left 2,000 megalitres on the farm for a high-value horticultural enterprise. We could have used the Environmental Stewardship Program under Caring for Country to enhance the management of the high-value ecological assets on that property. They would have been actively managed.

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20 ACF, *Land and water reform in the Murray-Darling Basin*, 16 October 2008, pp 1-2, tabled 10 March 2009.

21 *Committee Hansard*, 10 March 2009, p. 30.

We could have maintained the agricultural production enterprise that is on the property rather than transferring that to a national reserve system.<sup>22</sup>

5.29 The committee notes that other witnesses supported the Toorale station purchase:

At the time the government purchased Toorale it was ridiculed by some as a waste of money yet with the recent rains in the area we now have 11GL of water flowing into the Darling.

We would not have this water if the government has not acted quickly and purchased Toorale when it did.<sup>23</sup>

5.30 The committee sought DEWHA's advice as to its capacity to facilitate integrated planning, such as was described by Dr Buchan. Representatives for DEWHA indicated that no such planning was done on an individual irrigator scale, and nor could such planning be done under the tender process:

...because we have an open tender process and we are assessing the offers to sell water on their merits, with the key criteria being: is there an environmental asset that can benefit from this water? Can the water get there? And does the proposition represent value for money relative to the market price for water in that area of that reliability? That is a process that is applied to a suite of offers in an area and comparing them and selecting the ones to purchase. We do not then extend back out from that, because it is operating as a tender under full tender rules, I would say, in terms of the way the buyback works.<sup>24</sup>

5.31 However, if a group of irrigators were to approach DEWHA, then there are processes in place to assist with an integrated approach to the buyback of water entitlements and the implementation of infrastructure projects:

Firstly, yes, there are other proposals [aside from TRAMS] where groups of irrigators are considering moving out of irrigation together and selling their water to us as a group, and we have a program for that and guidelines for people to follow. If they do that together, we have made it clear in those guidelines that we are prepared to help with the costs of decommissioning infrastructure to convert that area from irrigation. There are various stages. The TRAMS is one, where there is an area that has been identified as potentially being able to move out of irrigation.

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22 *Committee Hansard*, 13 March 2009, p. 10. See also Ms Louise Burge, NSW Farmers Association, *Committee Hansard*, 26 September 2008, p. 15; Mr Trevor Randall, *Committee Hansard*, 16 March 2009, p.34.

23 The Wentworth Group of Concerned Scientists (Wentworth Group), Opening Statement, tabled 10 March 2009, p. 3. See also: Mrs Deborah Kaulder, Australian Floodplain Association, *Committee Hansard*, 26 September 2008, pp 48-49; Dr John Williams, Wentworth Group, *Committee Hansard*, 10 March 2009, p. 51; IRN, *Submission 69*, Part 1 of the inquiry, Attachment: IRN and ACF, *Opportunities to deliver immediate & ongoing water for the ecological crisis in the internationally significant Lower Lakes and Coorong*, p. 4.

24 Ms Mary Harwood, DEWHA, *Committee Hansard*, 13 March 2007, p. 18.



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More broadly, in the priority projects and the private irrigator infrastructure operator projects there is clear scope for doing integrated proposals – that is, for either a state or for an irrigation corporation to bring forward a proposal about an area and proposing an integrated approach which could include some shutdown and some refurbishment of areas that are more likely to be viable in the future. In fact, the process that we have been funding up to date, in a number of irrigation areas through the irrigation modernisation planning, is about just that: it is a deep and wide look at the irrigation district in question to see what is the best future for that district; where will it get its best return on investment, if it is going to upgrade irrigation infrastructure, and are there areas that would be better suited to coming out of irrigation.

The water purchase program operates independently for the individual sales, but there is also this stream of activity where groups of irrigators can approach us for a group sale and as well, through the infrastructure expenditure, that can include integrated proposals from the relevant areas.<sup>25</sup>

5.32 Another proposal was put forward by the Wentworth Group of Concerned Scientists (Wentworth Group) which advocates suspension of the Infrastructure Program and combining the funds with the Water Entitlement Buyback:

Whilst the list of [Infrastructure Program] projects might seem impressive, a cursory assessment suggests that the vast majority are likely to fail any cost benefit analysis, in terms of the environmental benefit achieved from the investment. Most of the large scale water efficiency measures that were sensible have already been done.

...Governments should not be spending money upgrading unviable irrigation infrastructure. The current investment in infrastructure should therefore be suspended, combined with the water buyback program and all investments subjected to a common cost benefit test to ensure value for the money invested...

The combined \$8.9 billion is likely to produce significantly more water for the longer term health of the rivers. If this program was then brought forward over the next 2 years, through an Interim Basin Plan, it would also provide an important social benefit by contributing a major stimulant to structural adjustment of the industry throughout the basin.<sup>26</sup>

#### *Identifying key environmental assets*

5.33 The committee also heard from a number of witnesses highlighting one of the underlying issues in the debate about environmental water, namely, that there may not be enough water to save all environmental assets in the Basin. These witnesses

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25 Ms Mary Harwood, DEWHA, *Committee Hansard*, 13 March 2009, pp 16-17.

26 *Submission 71*, Part 1 of the inquiry, pp 15-16. The Wentworth Group's proposal for an Interim Basin Plan is discussed in Chapter 3.

pointed out that at some stage a decision will need to be made as to which environmental assets will be saved. As Professor Mike Young put it to the committee:

....The biggest mistake we could make would be to spread the very limited and small amount of environmental water we have over everything, like vegemite. Nothing would live. We would actually kill all of our environmental assets trying to save them all.<sup>27</sup>

5.34 The committee considered this issue to some extent in relation to the first part of the inquiry, specifically that the acquisition of water upstream to send to the Coorong and Lower Lakes would be a case of 'robbing Peter to pay Paul'.<sup>28</sup>

5.35 Mr Terence Korn, of the Australian Floodplain Association, talked about a 'triage' approach as a means of decision-making as to which environmental assets would be saved:

We support a strategic approach ... You really need to think about 50 years ahead and factor in climate change and make a risk assessment and say that these are the areas that we think we can save. My personal view is that you should have a triage approach to this and say that that area has had it, so you are not going to waste any money on that. It will just have to go by the wayside. Another area we might be able to do something with through the strategic process. And another area is basically untouched ... We think it needs to be strategic and you need to work out which environmental elements you want to protect.<sup>29</sup>

5.36 Professor Mike Young called for a systematic audit of the Murray-Darling Basin, including an infrastructure review:

I think we do need to face the reality that there is a high probability that the river system is now operating permanently with much less water and I would recommend to you that the committee consider the case for running an independent audit where we look at which lakes, which billabongs and which environmental assets we would leave to fate and no longer put water in. It is an exercise from top to bottom.

Similarly, we look at every weir, every lock, every structure to see which ones you might leave open until we get more water. Somehow we have to find a way to manage the system more effectively.<sup>30</sup>

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27 *Committee Hansard*, 13 March 2009, p. 27. See also: National Farmers' Federation (NFF), *Submission 13*, p. 8.

28 See: The Senate Standing Committee on Rural and Regional Affairs and Transport, *Water management in the Coorong and Lower Lakes (including consideration of the Emergency Water (Murray-Darling Basin Rescue) Bill 2008)*, October 2008, pp 38-39.

29 *Committee Hansard*, 10 March 2009, p. 43.

30 *Committee Hansard*, 13 March 2009, p. 26. See also: Professor Mike Young, *Committee Hansard*, 13 March 2009, pp 27 and 31.

5.37 Professor Young stated that in parallel with an audit process, mechanisms need to be put in place to enable 'cleverer' river management through changing the river height and salinity:

We have become accustomed to running the river at one height. We could raise and lower it much more than we do. Similarly with salinity: we could let salinity go up in winter when not many people are using it, and down in summer when there is a lot more use.<sup>31</sup>

5.38 As Professor Richard Kingsford told the committee, one of the problems at present is that key environmental assets in the Basin have not been identified. Professor Kingsford indicated that he is overseeing work to establish a 'wise database' to bring together all water information and all the science that has been published in the MDB. This work has been done for all the northern catchments, and is now looking at producing something similar for the Murray river.<sup>32</sup>

5.39 The committee also questioned Mr Rob Freeman, Chief Executive of the Murray-Darling Basin Authority as to the work that was being done to identify key environmental assets as part of the Basin Plan:

We need to define the ecological, environmental and social assets of the basin...the environmental one is not only the most difficult and the most complex, it is the least developed. We are having bilateral discussions with all jurisdictions. Jurisdictions have got environmental datasets. It is fair to say that jurisdictions have tended to focus on slightly different things: some are very concerned about water quality, whilst others might be concerned about birds or invertebrates or other issues. We need to bring that to a common scale so that we can assess what are the key environmental assets.<sup>33</sup>

5.40 The committee sought the view of Dr Tom Hatton of the CSIRO on the identification of key environmental assets and the shutting down of other environmental assets if not enough environmental water could be found for them:

This is not a science answer, just my professional and personal view. With the amounts of money involved and with the analytical tools that are available to look at not just water flow scenarios but the ecological response of the key environmental assets in the basin and the economic implications of any scenario that would change how much water is left in the river, as a taxpayer I would be more comfortable if those analyses were brought to bear and to have an evidence based strategy for investing that money as opposed to the extreme alternative, which is purely opportunistic.<sup>34</sup>

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31 *Committee Hansard*, 13 March 2009, p. 26.

32 *Committee Hansard*, 13 March 2009, pp 19-20.

33 *Committee Hansard*, 16 March 2009, p. 54.

34 *Committee Hansard*, 16 March 2009, pp 6-7.

*Socio-economic impact of water reforms on communities*

5.41 The issue of the socio-economic impact on rural and regional communities of initiatives to acquire and provide environmental water was raised with the committee by a number of witnesses and in submissions. For example, Mr John Clements of Namoi Water emphasised to the committee the long-term impacts of these types of reforms on communities:

One of the messages we have for government is: you need to think very carefully about the 10-, 15-, 20- or 25-year scenarios. It is not the first two years of a reform...it is not the next two years we are so worried about, aside from the obvious losses of business and all the upset that that brings; it is what happens to our communities over a longer period of time. Has government considered exactly what the costs to government are?...Once you have had a 25-year breakdown, there is not a two-year fix, a five-year fix or even a 10-year fix.<sup>35</sup>

5.42 An example of these impacts was provided to the committee by the Bourke Shire Council in relation to the purchase of Toorale station:

The business community has difficulty in quantifying the impacts the loss of Toorale as a commercial property will have on their individual businesses, but a recent gathering of Business owners has expressed a view that a net 10% negative impact is a realistic estimate.

Importantly, there is grave concern that because all businesses in Bourke are currently operating at bottom line, skeleton staffing levels, any further reduction in their business may place them below a critical operating threshold. This has already occurred in Bourke in the last twelve months with the closure of two of the three supermarkets and of one fuel outlet. Further, the RSL Club and a tyre business have gone into liquidation.<sup>36</sup>

5.43 The Bourke Shire Council has outlined a number of strategies to offset the community impact of the sale of Toorale, including:

- re-establishing irrigation properties with permanent plantings around Bourke to generate employment;
- establishing an Aboriginal Cultural Heritage Centre to generate tourism and employment and to provide education;
- constructing a goat abattoir to generate employment;
- building a low care, aged care addition to the Bourke Multi Purpose Service Hospital; and

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35 *Committee Hansard*, 10 March 2009, p. 18. See also: Mr Bruce Brown, *Committee Hansard*, 10 March 2009, p. 20; Murray-Darling Basin Water Crisis Management Council, *Submission 61*, Part 1 of the inquiry, p. 5.

36 Mr Geoff Wise, General Manager, Bourke Shire Council, *Draft Report prepared by Bourke Shire Council for the property Toorale*, 21 September 2008. Tabled 16 March 2009.

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- upgrading the 'Corner Country Highway' by completing the sealing of the road from Bourke to Wanaaring and of the highway from Broken Hill to Tibooburra, to enhance tourism and address isolation of disadvantaged communities.<sup>37</sup>

5.44 Mr Geoff Wise, General Manager of the Bourke Shire Council, outlined for the committee what he believed the government's responsibilities were when it undertakes reforms in this way:

...if a commercial business sells to the government and the government decommissions that business then there is major impact on the regional community. That has really come forward in the experience that we have had in Bourke. What is obviously required when government is going to intervene and totally change an operation like this is an integrated regional strategy to address the economic, social, cultural and the environmental implications of any government reforms. It is my view that we need to consider intervention impacts of any government reform programs on the community.

...if government is going to be throwing lots of money around say water reform, as an ambit claim they should invest at least an equivalent number of dollars working with the local community such as the local government to address the fallout effect implementation of that water reform is going to have, because quite frankly the government will be paying those dollars indirectly anyway through all sorts of fallout social benefits and unemployment and the whole bit.<sup>38</sup>

5.45 In contrast with the experience of Bourke Shire Council, the committee also heard evidence from Mr Williams of the TRAMS Working Group about the importance of community involvement and ownership of environmental water projects to reduce the social and economic impacts of reform:

Right from the start we went out to the community and we have had a number of public meetings where we have actually got up there and explained what our vision is. We have tried to take the community along as best we can. I think one of the pluses for us is our committee. It is made up of both irrigators and non-irrigators. We have got local government CEOs on it. We have got local business leaders in it. We have got agency people. We have got a diverse group who are part of the actual committee...Sure, not everybody is going to be happy...

What we have tried to do is to have a pretty robust sort of framework by which you select an area. You are picking it on scientific data rather than: I do not like a particular area so we will shut it down. You look at things like salinity. You look at things like water traded out of an area and how much

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37 Mr Geoff Wise, General Manager, Bourke Shire Council, *Structural Adjustments for the Bourke community to deliver social, economic and cultural offsets to address land use change at Toorale*, 21 October 2008. Tabled 16 March 2009.

38 *Committee Hansard*, 16 March 2009, pp 32 and 37.

water is still left in an area. You look at natural resource type issues... We are pretty mindful of the fact that we need to remember that when we are having a look at outcomes. You look at other ideas for people. Maybe they can get into carbon credits. Maybe we can look at grasslands type projects tenders. You just have to look a bit outside the square as to what we actually do with the land. We are not saying it is going to be the end of the land. We do not want to walk away from it.<sup>39</sup>

5.46 The committee notes that DEHWA has engaged the Australian Bureau of Agricultural and Resource Economics (ABARE) to analyse the impacts of the Water Entitlement Buyback. Although the initial date for completion of this study was March 2009, the study was delayed to enable the inclusion of analysis on the recent announcement on increasing the scale of water buybacks over the next three years. That study is expected to be completed by the middle of this year.<sup>40</sup>

5.47 The committee notes that the basis on which the Basin Plan is to be developed involves some aspects of social, cultural, Indigenous and other public benefit issues.<sup>41</sup> Mr Rob Freeman, Chief Executive of the Murray-Darling Basin Authority, indicated that work had begun on identifying the social assets of the Basin and this would require more work in the future, but this would not hold up the setting of a sustainable diversion limit.<sup>42</sup>

5.48 A number of witnesses indicated that they felt that in the absence of more analysis on the social and economic impacts of water reform any acceleration of the Water Entitlement Buyback should be postponed. For example, Ms Louise Burge of the NSW Farmers Association believes that there is no clear strategy in relation to the buybacks and expressed concern at the continuation of buybacks without firstly receiving the findings of the ABARE report:

...I think there needs to be an overall master strategy and that needs to be clear, transparent and worked in consultation with the communities, who are going to be affected. I think we need to be very cautious that we are simply going at a pace of buyback with no regard to what our future needs are and to what the current impacts will be.<sup>43</sup>

5.49 The committee notes that there are some limited studies which have been conducted in relation to the social and economic impacts of water purchasing. The Social and Economic Reference Panel of the MDBC published a brief assessment of purchasing water entitlements in April 2008 based on the Pilot Environmental Water

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39 *Committee Hansard*, 16 March 2009, pp 23-24.

40 *Submission 1A*, Part 1 of the inquiry, p. 3; and DEHWA, Answers to questions on notice, 13 March 2009 (received 9 April 2009).

41 *Water Act 2007*, s. 21(4)(c)(v).

42 *Committee Hansard*, 13 March 2009, p. 54.

43 *Committee Hansard*, 26 September 2008, p. 11. See also: Mr John Clements, Namoi Water, *Committee Hansard*, 10 March 2009, pp 18-19.

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Purchase Project (see paragraph 5.10 above). That study was focussed on the merits of purchasing water entitlements during a time of low water availability. The study concluded that there was no reason to discontinue or delay the purchase of water entitlements for environmental purposes in periods of low-water availability.<sup>44</sup>

5.50 Mr Ken Trewin, of the Murray-Darling Basin Water Crisis Management Council, referred the committee to a case study of the social and economic impacts of water trading in Victoria's Murray Valley.<sup>45</sup> This study covers the impacts of water trading more generally and does not specifically address the issue of the social and economic impacts of the purchasing of water for environmental purposes.

5.51 Mr Clements indicated that work is being done in the Namoi region to develop a social and economic model to enable that community to respond to water reform:

One of the measures we are promoting and informing the committee of today is that we are going to corporately in our area seek to put up a social and economic model to make sure that we have an adequate response to reform. So that is something we will do at a community level: industry, [Catchment Management Authorities] and local government. We made a start to that today by talking to NATSEM, the National Centre for Social and Economic Modelling. We want to build a stress resilience model of where we live. We are not interested in whether we have a country music festival or what colour hats people wear; we want to know what the indicators of stress and resilience are. In a very dedicated way we want a social and economic model that looks at stress and resilience indicators: how resilient is your community? How stressed is it? If we can promote that model and get it owned corporately by the community – by [Catchment Management Authorities], by industry and by local government – that will become a reform tool for us.<sup>46</sup>

### Committee view

5.52 The committee is deeply concerned about the impact that water buybacks are having on regional communities as outlined in the case of the Bourke Shire Council. There is concern that the potential impact on regional communities of the

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44 Murray Darling Basin Commission, *Brief assessment of the merits of purchasing water entitlements during a time of low water availability*, April 2008. Available at: [http://www.thelivingmurray.mdbc.gov.au/data/page/1327/SERPAdvice\\_water\\_purchases.pdf](http://www.thelivingmurray.mdbc.gov.au/data/page/1327/SERPAdvice_water_purchases.pdf).

45 *Committee Hansard*, 10 March 2009, p. 11. See: Report for the Rural Industries Research and Development Corporation, National Water Commission and the Murray-Darling Basin Commission, *The Economic and Social Impacts of Water Trading: Case studies in the Victorian Murray Valley*, September 2007. Available at: <http://www.nwc.gov.au/resources/documents/Economic-Social-impacts-Water-Trading-PUB-1107.pdf>.

46 *Committee Hansard*, 10 March 2009, p. 17.

government's water buyback policy has not been determined prior to the commencement of the buyback programs.

5.53 The committee recommends that the implementation of an Environmental Watering Plan, or any measures to acquire and provide for environmental water, should not be considered in isolation of the potential socio-economic impacts of these plans.

#### **Recommendation 4**

**5.54 The committee recommends that the implementation of an Environmental Watering Plan, or any measures to acquire and provide for environmental water, should not be considered in isolation of the potential socio-economic impacts of these plans.**

#### *Issues in relation to the Water Entitlement Buyback*

5.55 The committee heard from a number of witnesses who were supportive of the Water Entitlement Buyback. For example, Mrs Deborah Kaluder, of the Australian Floodplain Association, outlined the environmental benefits that would come from the Water Entitlement Buyback for floodplain areas:

The environment, wetlands and floodplains all go hand in hand. You cannot just talk about the environment; you talk about floodplains. Western rivers are floodplains. They are not channel rivers, so to speak. They overflow their channels and they spread out across the land. They can be 40 kilometres wide. We have fences that have gone a metre underwater on our place and they are still standing. This is gentle, slow-flowing water.<sup>47</sup>

5.56 The committee also heard from organisations offering qualified support for the Water Entitlement Buyback. For example, Mrs Kerr, of the NFF, said:

We have supported the \$3.1 billion acquisition program on the basis that it was from willing sellers. To do otherwise would be to put pressures on farmers...we have also said that we support a run-out or an implementation of the infrastructure, both delivery system and farm, in conjunction with the acquisition. We have said that we **do not** support acquisition alone or an acceleration of acquisition without, likewise, the implementation of that other program.<sup>48</sup>

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47 *Committee Hansard*, 26 September 2008, p. 49. See also: Ms Amy Hankinson, IRN, *Committee Hansard*, 18 September 2008, p. 22; Ms Iona Millar, Wentworth Group, *Committee Hansard*, 19 September 2008, p. 26; Dr Arlene Buchan, ACF, *Committee Hansard*, 10 March 2009, p. 29; and Mr Terence Korn, Australian Floodplain Association, *Committee Hansard*, 10 March 2009, p. 40.

48 *Committee Hansard*, 13 March 2009, p. 3. Words in bold indicate a correction to the proof hansard received from the witness. See also: Mr Andrew Gregson, NSW Irrigators Council, *Committee Hansard*, 9 September 2008, p. 44.



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5.57 This section of the report considers specific issues raised in relation to the Water Entitlement Buyback:

- the impact of Victorian trading caps on the acquisition of water entitlements;
- the need for an acceleration of the Water Entitlement Buyback;
- the delivery of environmental water in unregulated systems;
- compulsory acquisition of water for the environment; and
- the nature of 'willing sellers' of water entitlements.

*The Victorian caps on trading water*

5.58 The committee were interested to find out the impact of Victoria's so-called 'trading caps' on the acquisition of water under the Water Entitlement Buyback. These trading caps refer to Victoria's four per cent annual cap on trading water out of irrigation areas (the four per cent cap) and 10 per cent cap on the amount of water shares in any water supply system that can be owned without being associated with land (the 10 per cent cap).

5.59 A number of witnesses indicated that they were concerned the caps would impede the acquisition of water for environmental purposes. For example, Ms Amy Hankinson, of the IRN told the committee she saw no valid justification for keeping the four per cent cap in place:

...issues such as that certainly need to be considered and removed particularly where they stand in the way of actually getting the job done in terms of positive and proper action on the ground.<sup>49</sup>

5.60 Professor Mike Young described how the 10 per cent cap would also impede the Commonwealth acquiring water for environmental purposes:

...Part of the process of unbundling in parts of Victoria is that there is a limit on the proportion of entitlement that can be separated from land. That is 10 per cent. The Commonwealth's environmental water holder would not want to own land. It would only want to hold entitlement. So, in fact, I think you will find it is not the four per cent [cap on trading out of certain irrigation areas] which is the problem. When you start the process, it will be the 10 per cent limit which will very, very quickly pull the system up.<sup>50</sup>

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49 *Committee Hansard*, 18 September 2008, p. 17. See also: Ms Ilona Millar, Wentworth Group, *Committee Hansard*, 19 September 2008, p. 30; Dr Arlene Buchan, ACF, *Committee Hansard*, 26 September 2008, p. 18; Australian Network of Environmental Defender's Officers, *Submission 11*, p. 3.

50 *Committee Hansard*, 19 September 2008, p. 30.

5.61 Mrs Kerr explained that the NFF's concern was not necessarily the four per cent cap in Victoria, but that all states were 'flouting' the principle of competitive neutrality.<sup>51</sup>

5.62 Mr Richard Anderson of the Victorian Farmers Federation defended the existence of the four per cent cap, explaining why it was introduced in the first place:

We have to remember why the cap was put in place in the first place – to try to slow down the process of water leaving individual districts, allowing those districts to adjust to water flowing out – because that has a longer term effect on those who are left who wish to stay in irrigated agriculture in those districts. It can have a devastating effect on the pricing regimes. So, until we get some sense around that, I would think that we would be holding our position. Nobody has really fair dinkumly addressed the rural and regional adjustment of water going out of districts.<sup>52</sup>

5.63 In contrast, Professor Mike Young described the four per cent cap as a 'mechanism that impedes the rate of structural adjustment in a district, and imposes higher rates of adjustment onto other districts than would be the case in the absence of such a restriction'.<sup>53</sup>

5.64 In providing the committee with information on notice, Dr Buchan noted that most irrigation districts in Victoria have exceeded or are very close to exceeding the four per cent cap, particularly in relation to high reliability water:

Under the 4% cap rule in Victoria 96,000 ML of water can be transferred and of that 88,000 ML has already been accounted for during the current water year, ie, *92 per cent of the existing capacity has already been accounted for under the cap.*<sup>54</sup>

5.65 Dr Buchan illustrated for the committee how quickly the four per cent caps could be reached in some irrigation districts:

...last year the water year began on the 1 July and by 4 July a number of areas within districts, if you know what I mean, were within a hair's-breadth of breaching that cap. So there is a backlog of applications which had been lodged just prior to the start of the water year. So by the time they were all taken care of, by four July, that four per cent cap had been breached.<sup>55</sup>

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51 *Committee Hansard*, 13 March 2009, p. 5.

52 *Committee Hansard*, 26 September 2008, pp 91-92.

53 Answers to questions on notice, 13 March 2009 (received 18 March 2009).

54 Answers to questions on notice, 10 March 2009 (received 23 March 2009). Emphasis in original.

55 *Committee Hansard*, 10 March 2009, p. 31.

5.66 Dr Buchan also provided the committee with an example of what she describes as the 'shenanigans' in Victoria which reduce the amount of water that can be traded under the four per cent cap:

...because an application to separate a water right from a land right is counted towards the 4% cap, considerably less than 88,000 ML of water has actually been traded and water which has actually been traded will have been counted twice in contributing to the total 4% cap. In Victoria during the 07/08 water year, 3.65% of the 4% limits reached were applications to separate a water right from a land right and only 0.35% of the 4% limits reached were applications to trade as such. Consequently, whilst a policy trade in theory increased the 2% limit on inter-district trade pre 1 July 2007 to a nominal 4% limit after this date, trade was in reality capped at 0.35%.<sup>56</sup>

5.67 Representatives of DEWHA explained that where people are seeking to sell water from an area where the four per cent cap has been reached, the Commonwealth enters into a contract for a deferred sale so that the sale 'folds through' until the following financial year. Representatives from DEWHA stated that the four per cent cap is affecting a large volume of offers for sale.<sup>57</sup>

5.68 In response to a question on notice DEWHA noted that two applications from sellers in Victoria were not settled in the first purchase round (2007-08) due to the four per cent cap. As at 31 March 2009, DEWHA has 18 signed and exchanged contracts for non-disassociated water entitlements in Victoria. The first of these trade approvals for these purchases have been lodged with Goulburn-Murray Water for approval. However, the Victorian Water Register indicates the four per cent limit on our of region trade has been reached in the relevant catchments. The contracts are for the purchase of 2,955 megalitres of entitlements worth \$6.14 million. DEWHA noted that the 'extent of this problem will grow as additional contracts are signed and exchanged'.<sup>58</sup>

5.69 Dr Buchan told the committee that, from her discussions with various organisations, in the event that an integrated reconfiguration and modernisation package for land and water reform was put forward for an area, there may be situations where the caps could be set aside or an exemption made to the caps:

...in my experience of discussing that and talking about it around the traps, where we are able to define particular irrigation districts and do the planning process which says, 'Well, this is the best land and water future we can have in this area, and we can integrate the investment from the various different funding streams,' everyone I have spoken to, irrespective of whether they want to get rid of the four per cent cap, whether they are the greatest defender of the four per cent cap or a proponent of the four per cent

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56 Answers to questions on notice, 10 March 2009 (received 23 March 2009). See also: *Committee Hansard*, 10 March 2009, p. 31.

57 Ms Mary Harwood, DEWHA, *Committee Hansard*, 13 March 2009, p. 16.

58 Answers to questions on notice, 13 March 2009 (received 9 April 2009).

cap and the 10 per cent investor cap, would be happy to see those set aside or exemptions granted to those caps provided that is done within the context of a planning framework that assesses the optimum land and water futures rather than solely having a buyback program or solely having an infrastructure program going on in an area.<sup>59</sup>

### *The acceleration of the Water Entitlement Buyback*

5.70 The committee received evidence and submissions encouraging the acceleration of the Water Entitlement Buyback. For example, Dr Buchan, of the ACF, noted that all the elements are in place for an acceleration of the policy to occur:

The most important thing that needs to be done to secure the future of the Murray-Darling Basin is to accelerate the reallocation of water from irrigation back to the environment. We already have the policy framework and the tools with which to do this. We have the full understanding and support of the public to do it. There is enough scientific understanding to understand what the problem is and how we can fix it. And, of course, there is \$9 billion of Commonwealth money alone which is there to buy back water and invest in infrastructure and structural adjustment to do the job. So, we need to get on with the job and do it.<sup>60</sup>

5.71 The Wentworth Group also support the acceleration of the Water Entitlement Buyback, by combining the funding for the Water Entitlement Buyback with the Infrastructure Program.<sup>61</sup>

5.72 To this end, the government's announcement on 14 August 2008 to accelerate the purchase of water entitlements was welcomed by members of the Wentworth Group.<sup>62</sup> However, the Wentworth Group noted that while the government had taken steps to bring forward the buyback:

...these reforms will not deliver the water savings that the science says is needed, nor will they deliver them quickly enough to avert an economic and environmental crisis.<sup>63</sup>

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59 *Committee Hansard*, 10 March 2009, pp 35-36. See also: Mr Geoff Williams, TRAMS Working Group, *Committee Hansard*, 16 March 2009, p. 26.

60 *Committee Hansard*, 10 March 2009, p. 29. Mr Kent Martin, South Australian Farmers Federation, *Committee Hansard*, 10 September 2008, p. 88; IRN, *Submission 69*, Part 1 of the inquiry, p. 3.

61 *Committee Hansard*, 19 September 2008, pp 19-20; and *Submission 71*, Part 1 of the inquiry, p. 15.

62 See for example: Mr Peter Cosier, *Committee Hansard*, 19 September 2008, p. 25; Ms Ilona Millar, *Committee Hansard*, 19 September 2008, p. 26. For more information on the acceleration of the Water Entitlement Buyback, see: The Hon. Kevin Rudd, Prime Minister of Australia, 'New measures to deal with the critical situation in the Murray-Darling Basin', Media Release, 14 August 2008,

63 *Submission 71*, Part 1 of the inquiry, p. 15.

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### The 'stimulus package' for acceleration of the Water Entitlement Buyback

5.73 During the course of this inquiry, negotiations between the Government and Senator Xenophon on the economic stimulus package resulted in the Government agreeing to bring forward \$500 million over the next four years for the Water Entitlement Buyback (referred to as the 'stimulus package'). Of this \$500 million, \$250 million has been appropriated for the 2008-09 year, which is the maximum pace of water recovery that the government considers can be pursued without causing unnecessary disruption to the water market and without compromising the amount of water that can be returned to the rivers over time.<sup>64</sup> This further acceleration of the Water Entitlement Buyback was the subject of discussion in the second part of the inquiry, in particular, the impact of the Victorian trading caps on the acquisition of water for the environment.

5.74 The committee sought the view of a number of witnesses as to whether, because of the trading caps in place in Victoria, the stimulus package would have a disproportionate impact in NSW and Queensland. Mr Clements of Namoi Water describe the stimulus package as 'ill-advised':

I think we are bringing forward an expenditure program that was appropriately set at a timetable that you could do it in a way that was reasonable and made some sense and within mind of the fact that we do not have an environmental watering plan yet. That is my understanding. I do not know about the current thinking today but, in structuring the Water Act 2007 and all the discussion that went with it, that was the thinking in terms of those timetables. Certainly the new government, the current government, has changed some of those timetables, but I think their timetables are still appropriate. So bringing \$500 million forward, I think, was ill-advised. Certainly without an environmental watering plan and without a social and economic study we are just down to the banalities of the market of who is under the most stress, who is going to let the most water go, and that is just too random to be what you would call an appropriate reform.<sup>65</sup>

5.75 Dr Buchan outlined concerns that the four per cent cap may mean that irrigators in the northern basin are disproportionately impacted by the Water Entitlement Buyback:

If those four per cent caps remain in place it will be very difficult for the Commonwealth to spread that money evenly or fairly across the whole

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64 See: Senator Nick Xenophon, *Senate Hansard*, 12 February 2009, p. 971; *Appropriation Act (No. 6) 2008-09*, Schedule 2; The Hon. Mr Gary Gray, Parliamentary Secretary for Regional Development and Northern Australia, *House of Representatives Main Committee Hansard*, 16 March 2009, p. 2765.

65 *Committee Hansard*, 10 March 2009, p. 21.

Murray-Darling Basin. You can understand the angst of irrigators in Queensland and New South Wales who think that is unfair.<sup>66</sup>

5.76 Professor Mike Young provided the committee with his analysis of the impact of accelerated water entitlement purchases on NSW and South Australia while the 10 per cent cap in Victoria continues to operate. Professor Young estimates that with the money available for the Water Entitlement Buyback over the next three years, it would be expected that the Commonwealth could purchase approximately 10 per cent of all water entitlements in the Southern Connected Murray System.<sup>67</sup> In order to hold 10 per cent of water entitlements in Victoria, the Commonwealth would need to purchase all the water that could be held by a non-water user (ie all water available under the 10 per cent cap).

5.77 Professor Young's analysis shows that the amount of water available for purchase by non-water users in Victoria, as at 13 March 2009, is less than 4.4 per cent of high reliability water entitlements and less than 3.7 per cent of low reliability water entitlements. Effectively, the 10 per cent cap means that less than half of the water that the Commonwealth would be aiming to purchase in Victoria is actually available for purchase. This means that the Commonwealth would need to either enter into arrangements to circumvent the 10 per cent cap, or purchase a large proportion of water from NSW and SA:

Ways to circumvent the 10% restriction exist but they are administratively cumbersome and expensive and not the way that governments normally choose to operate. That is, unless the Victorian 10% limit on Non Water User ownership is changed, and if all the allocated budget is to be spent, a much larger proportion of water entitlements will need to be purchased from NSW and South Australia than otherwise would be the case. Moreover, if this approach was taken, the Commonwealth Environmental Water Holder would be left with an unbalanced portfolio of entitlements which may make it difficult for it to deliver Basin Plan objectives in [the] Southern Connected River Murray System.<sup>68</sup>

5.78 Another aspect of the stimulus package is a Productivity Commission inquiry into most effective way to run a water buyback. Dr Buchan welcomed such an inquiry:

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66 *Committee Hansard*, 10 September 2008, p. 32. See also: Mr John Clements, Namoi Water, *Committee Hansard*, 10 March 2009, p. 21, who indicated that a four per cent cap may not be inappropriate if all States had a similar cap. The fact that the cap did not exist in New South Wales meant that the obvious outcome is that more water entitlements will be purchased by the Commonwealth in New South Wales compared to Victoria.

67 Professor Young notes that analysis suggests that in order to secure a low chance of restoring health to the Southern Connected Murray System, at least 15 per cent of all entitlements need to be held by environmental water holders. However, it also needs to be taken into account that some contribution to environmental water supplies will be made by programs such as the Living Murray Initiative and water efficiency improvements from the Infrastructure Program.

68 Answers to questions on notice, 13 March 2009 (received 18 March 2009).

...personally I think that almost more important is the Productivity Commission inquiry, through which the government has committed to looking at the best way...to recover water in the Murray-Darling Basin. I think that is really important because, currently, the buyback is far too slow to match the scale of the problem and too slow and too cumbersome to enable us to efficiently and effectively spend all the money which has been made available to fix the problem.<sup>69</sup>

5.79 Dr Buchan told the committee that she believes that the two key questions that the Productivity Commission inquiry will need to look at are: the best way to acquire water, and the optimal rate of change.<sup>70</sup>

5.80 There have been no announcements by the Australian Government regarding the Productivity Commission inquiry.

#### Committee view

5.81 The committee acknowledges the comments by Dr Arlene Buchan that the acceleration of the buybacks may have a significant affect on the ability of the Commonwealth to spread money evenly or fairly across the whole MDB.

5.82 The committee also notes that in response to the Australian Government's purchase of 240 GL of environmental water on 28 May 2009, the NSW Government has announced its intention to 'act swiftly to balance water buyback across Murray-Darling Basin States, including an embargo on future trades of environmental water until a better balance can be struck'.<sup>71</sup>

#### **Recommendation 5**

**5.83 The committee recommends that the Commonwealth work towards achieving a nationally uniform system of water trading and licensing arrangements that ensures fair treatment across all regions and states.**

#### *Delivery of environmental water in unregulated systems*

5.84 Another issue raised with the committee in relation to the supply of environmental water to the Basin was the problem of 'shepherding' environmental water through unregulated river systems, as Professor Young explained to the committee:

In unregulated systems, the licences that are used in the River Murray - actually, more in the Darling system - are a function of flows either past a point or past the point of offtake. What happens if you acquire water in that

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69 *Committee Hansard*, 10 March 2009, p. 29.

70 *Committee Hansard*, 10 March 2009, p. 29.

71 The Hon. Phillip Costa, NSW Minister for Water and Regional Development, 'NSW Government to guarantee environmental water purchasing is fair', Media Release, 28 May 2009.

area is that you would leave water in the river. When you leave water in the river, then everybody's entitlement downstream goes up. It is the same volume, but the opportunity is greater because their licence is a function of flow rate in the river...Almost all of the benefits remain as local benefits, and very quickly they are harvested downstream.<sup>72</sup>

5.85 Professor Young provided the following example of the difficulties if South Australia purchased in Queensland:

You could shepherd it from the Condamine through to the border, because the rules say that harvesting opportunities are a function of the flow rate at St George, which is above all the licences. But as soon as it goes over the border, all of the irrigators in New South Wales would then be entitled to pump more water because the flow rate is higher.

When you go down as far as the Menindee Lakes, water that gets into the lakes becomes New South Wales's water as part of the agreement, until the lakes get to 640 gigalitres. So it would be very hard for South Australia in fact to get water through, if it wanted to, if not impossible.<sup>73</sup>

5.86 In relation to the water acquired through the purchase of Toorale station, Professor Young indicated that 'with some caveats', current arrangements mean it is highly unlikely that water returned to the Darling River as a result of the Toorale purchase would make it to South Australia. However, Professor Young did note that there would be 'massive' local environmental benefits.<sup>74</sup>

5.87 Professor Young highlighted to the committee that a solution to this issue would require an amendment the *Water Act 2007* and water sharing plans.<sup>75</sup>

5.88 The committee sought the view of the Chief Executive of the Murray-Darling Basin Authority, Mr Rob Freeman, on this issue:

...it is fair to say we have not formed an opinion on it. Clearly it is an issue that will have to be confronted in the basin plan, because the basin plan is about basin scale issues – how do you move water from one jurisdiction through to another jurisdiction to achieve something that is in the national interest?

...I had not really considered whether we would do a review of legislative barriers, but we probably would. I think the more important thing will be defining in the basin plan the requirements of water resource plans in order to be compliant with the basin plan. That would determine that you must allow this water, as we are talking about, to move through in a way that is

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72 *Committee Hansard*, 13 March 2009, p. 28

73 *Committee Hansard*, 13 March 2009, p. 29, See also: Ms Beverly Smiles, IRN, *Committee Hansard*, 13 March 2009, p. 45, who provided an example of shepherding environmental water through the Macquarie Valley.

74 *Committee Hansard*, 13 March 2009, pp 30- 31.

75 *Committee Hansard*, 13 March 2009, p. 29



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unencumbered. So, rather than being a legislative review, it will be a requirement of the basin plan that, to be a compliant water resource plan, it must make provision for this to occur...the way we are approaching it is determining what you will have to have in your water resource plan in order to be compliant. If a jurisdiction does not produce a compliant water resource plan, that then allows us to produce one that does, to have effect until they bring in a compliant one.<sup>76</sup>

### Committee view

5.89 The committee is in agreement with Mr Freeman that this is an issue that will have to be dealt with as part of the Basin Plan.

### *Compulsory acquisition of water for the environment*

5.90 The committee also sought the opinion of a number of witnesses on whether it was necessary for the Commonwealth to compulsorily acquire water for environmental purposes.

5.91 Dr Buchan stated that she did not see any reason at this point in time for there to be compulsory acquisition of water from people.<sup>77</sup>

5.92 Mr Stewart Ellis from Murray Irrigation Ltd indicated his organisation's opposition to the compulsory acquisition of water for environmental purposes, referring to the 'devastation' that government intervention causes in the water market:

We are certainly opposed to compulsory acquisition. Irrigators have a property right to water entitlements. There is a market and trade there. The devastation of having carryover water suspended in New South Wales – it was 52 per cent of our carryover water in 2006 – was caused by government interference in the market. That water was carried over water or water that people had gone out in the market and bought to set up their own drought management strategy. To have the government then pull the rug out from under them really did interfere with that market and the confidence people had that they could manage their own risk and security by entering the market.<sup>78</sup>

5.93 Ms Burge from the NSW Farmers Association indicated that compulsory acquisition of water should not take place in the absence of an overarching plan:

We need to really evaluate what we are trying to achieve with the multitude of players in the market buying water. We have a whole range of players. Whether it is waters for rivers such as the Living Murray Initiative, we have a range of other water schemes, Water for the Future et cetera, what is

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76 *Committee Hansard*, 13 March 2009, p. 56.

77 *Committee Hansard*, 26 September 2008, p. 26.

78 *Committee Hansard*, 19 September 2008, p. 15. See also: Mr Dick Thompson, Murrumbidgee Irrigation Ltd, *Committee Hansard*, 26 September 2008, p. 29.

lacking in this is an overarching plan on how much water is to be purchased, how much water is to be taken out of individual regions and where that water is going in terms of environmental improvements and the transparency of both the purchase and use of that water.<sup>79</sup>

5.94 Ms Julie Pettett of the Conservation Council of South Australia indicated that organisation would support compulsory acquisition in some circumstances:

At the Conservation Council we advocate quite firmly that, wherever possible, incentives be offered to support people making the decision for themselves. Should that not be fast enough, then we would most definitely support acquisition. In relation to the buyback period, it is way too long and it needs to be done now.<sup>80</sup>

5.95 Representatives from DEWHA confirmed to the committee that the government policy was for voluntary acquisition of water for environmental purposes.<sup>81</sup>

#### Committee view

5.96 The committee recommends that there be no compulsory acquisition of water entitlements.

### **Recommendation 6**

**5.97 The committee recommends that there be no compulsory acquisition of water entitlements.**

#### *'Willing sellers' of water entitlements*

5.98 The Australian government refers to the purchase of water entitlements for environmental purposes from 'willing sellers'.<sup>82</sup> A number of witnesses also referred to 'willing sellers'.<sup>83</sup>

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79 *Committee Hansard*, 26 September 2008, p.10.

80 *Committee Hansard*, 10 September 2008, p. 6.

81 Mr Tony Slatyer, DEWHA, *Committee Hansard*, 19 September 2008, p. 87.

82 See for example: Senator the Hon. Penny Wong, Minister for Climate Change and Water, 'Next water buyback tender to open 15 September', Media Release PW 167/08, 8 September 2008; DEWHA, *Water for the Future: Restoring the Balance in the Basin Factsheet*, March 2009. Available at: <http://www.environment.gov.au/water/publications/mdb/pubs/restoring-balance.pdf>.

83 See for example: Ms Jenni Matilla, Bondi Group and National Irrigation Corporation Water Entitlements Register, *Committee Hansard*, 19 September 2008, p. 65; Dr Arlene Buchan, ACF, *Committee Hansard*, 26 September 2008, p. 20; Mr Richard Anderson, Victorian Farmers Federation, *Committee Hansard*, 26 September 2008, p. 93; and Mr Terence Korn, Australian Floodplain Association, *Committee Hansard*, 10 March 2009, p. 41.

5.99 However, the committee has some concern in using this terminology. Mrs Kerr of the NFF explained:

I think most of it will have been from distressed sellers. There will be a few people who are retiring and looking to realise their asset. There are some cases that I have been told about of farmers who are really quite affected by the reform process and have decided to opt out of irrigation altogether because of the continuing and ongoing reforms. They are not having the security underpinning their farm business so they have decided to opt out of irrigation. But primarily the sellers will be people who are distressed.<sup>84</sup>

5.100 On this point, the committee also received evidence that the tender process for the purchase of water entitlements, in addition to other measures, often made an attractive package to people wanting to leave irrigation. Mr Williams, of the TRAMS Working Group, told the committee:

...once you start adding \$150,000 and then the price of the water on the block and then you add some of the losses in the channel – Goulburn-Murray Water will have some infrastructure that will not be replaced so there will be some money there. All these sorts of things add up. It will be a substantial nest egg that the people could very well say, 'Look, we are out of here. We will sell out.'<sup>85</sup>

5.101 The committee recognises that the decision to sell a water entitlement will be a very difficult one for some people, but also recognises that there are sellers out there who welcome the opportunity to sell their water entitlement and move on from irrigation. In respect of this, the committee has endeavoured to be careful in its use of the term 'willing sellers' and appreciates that in some cases the purchase of water has been from 'distressed sellers' as described by NFF.

### *Issues in relation to the Infrastructure Program*

5.102 As was detailed in the earlier part of the Chapter, a number of witnesses and submissions raised with the committee concerns that they had about the integration of the Infrastructure Program with the Water Entitlement Buyback. The NFF also raised with the committee specific concerns in relation to the Infrastructure Program, namely the time delay in the delivery of the Infrastructure Programs and the apparent lack of investment in the Program for on-farm efficiency improvements.

#### *Time delay in the delivery of the Infrastructure Program*

5.103 In evidence to the committee, Mrs Kerr raised concerns about the rollout of projects that formed part of the Infrastructure Program, particularly those projects relating to improvements in on-farm efficiencies. Mrs Kerr noted that although the

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84 *Committee Hansard*, 13 March 2009, p. 12. See also: Mr Kenneth Pattison, Plug the Pipe, *Committee Hansard*, 26 September 2008, p. 41.

85 *Committee Hansard*, 16 March 2009, p. 26.

Water Entitlement Buyback has been accelerated, the Infrastructure Program is lagging behind.<sup>86</sup>

5.104 Mrs Kerr acknowledged that the Infrastructure Program represented a significant investment by the government. However, Mrs Kerr expressed concern that the money is 'literally running out quite quickly'. Mrs Kerr provided the committee with a 'guesstimate' that of the \$5.8 billion the government has committed to the Infrastructure Program, there is approximately \$800 million left unallocated.<sup>87</sup>

5.105 The NFF gave the committee a summary on the delivery of the Infrastructure Program.<sup>88</sup>

#### State Priority Projects

5.106 The NFF notes that the Australian Government agreed to in-principle funding for a number of specific State Priority Projects in the Intergovernmental Agreement on Murray-Darling Basin Reform (IGA).<sup>89</sup> The IGA also provides for bilateral Commonwealth-State Water Management Agreements to cover the State Priority Projects, including the scope and conditions for funding and timing of progress payments.<sup>90</sup>

5.107 The NFF understands that no bilateral agreement has been signed yet, and negotiations are continuing on the text.

5.108 Once these bilateral agreements are in place funding for the State Priority Projects will occur on a progress payment basis.<sup>91</sup> However, the NFF notes the Australian Government appears to be encouraging early implementation of projects.<sup>92</sup>

#### Irrigator Modernisation Planning Assistance

5.109 In terms of the irrigator infrastructure modernisation plans, the NFF's understanding is that while some plans are nearing completion, it is unlikely that on-ground actions will be implemented inside 2 years, that is, around 2011, let alone completed. The NFF expects that a proposed second round of modernisation plans is unlikely to be complete before 2010, and then on-ground implementation is unlikely to commence before 2012:

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86 *Committee Hansard*, 13 March 2009, pp 3-4

87 *Committee Hansard*, 13 March 2009, p. 3.

88 Answers to questions on notice, 13 March 2009 (received 31 March 2009).

89 Clause 4.11.2

90 Clause 4.5.3

91 Clause 4.13

92 Answers to questions on notice, 13 March 2009 (received 31 March 2009).

Given the expedition of the Commonwealth Government's \$3.1 billion acquisition package, the appropriations profile is likely to see around \$2.1 billion in water entitlement acquisitions by June 2013. In other words, a significant acquisition program would be nearly 70% complete before infrastructure investment is completed.

If the above occurs, there would be recovery of 1.5 million megalitres of water, albeit from willing sellers, prior to the modernisation plans and state priority projects infrastructure projects being completed.<sup>93</sup>

*Funding for improvements to on-farm water efficiency projects*

5.110 In terms of the availability of assistance for on-farm efficiency improvements, Mrs Kerr told the committee that, despite the provision for such projects in both the State Priority Projects and the modernisation plans, the NFF were very concerned about whether these projects were actually being funded:

...our concern is that farmers are not going to be accessing funds to assist in implementing best management practice on-farm, to be able to be more efficient on-farm, to produce more food with less water right across the basin, ...Governments are not very supportive of investing in what are seen to be private assets, but this is not private investment. There is a return on water to the environment as part of that investment, and there are significant social and economic flow-on benefits to rural communities.<sup>94</sup>

5.111 The NFF believe that the modernisation plans will largely target investment in delivery system infrastructure, and the NFF's analysis of proposed activity confirms this view.

5.112 The NFF summarised its concerns in relation to a lack of delivery of on-farm infrastructure investment:

...it is the belief of NFF that projects will be funded under the IGA and other processes, but it is likely that these will target delivery systems and meters ...It is very unlikely that on-farm infrastructure will be included, and if this does occur, it is very likely to form only a small part of a small number of projects.

The end result, with increased acquisitions and delivery system improvements, is that the farm infrastructure investment will not occur and will leave irrigators in a worse position and unable to maintain current production levels.

...The most perverse outcome likely is irrigators will have a modern delivery system, and antiquated on-farm infrastructure unlikely to cope with the modern system.<sup>95</sup>

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93 Answers to questions on notice, 13 March 2009 (received 31 March 2009).

94 *Committee Hansard*, 13 March 2009, p. 3. See also: Mr Richard Anderson, Victorian Farmers Federation, *Committee Hansard*, 26 September 2008, p. 93.

95 Answers to questions on notice, 13 March 2009 (received 31 March 2009).

### Committee view

5.113 The committee appreciates the complications caused by the integration of the Infrastructure Program with the Water Entitlement Buyback particularly with respect to the acceleration of the buybacks and the lack of delivery of on-farm infrastructure investment.

5.114 The committee recommends that careful consideration is given to the impact of the acceleration of the water buybacks when infrastructure projects are yet to be commenced or completed for example, the impact of a modern delivery system on on-farm infrastructure that has not been upgraded.

### **Recommendation 7**

**5.115 The committee recommends that careful consideration is given to the impact of the acceleration of the water buybacks when infrastructure projects are yet to be commenced or completed for example, the impact of a modern delivery system on on-farm infrastructure that has not been upgraded.**

### **Recommendation 8**

**5.116 The committee recommends that a higher priority be placed on the re-plumbing of rural Australia through the urgent implementation of both on-farm and off-farm infrastructure projects.**

### ***Environmental Watering Plan***

5.117 The Murray-Darling Basin Authority is currently preparing an Environmental Watering Plan as part of the preparation of the Basin Plan. Section 28 of the *Water Act 2007* sets out the purposes of the Environmental Watering Plan as:

- (a) to safeguard existing environmental water; and
- (b) to plan for the recovery of additional environmental water; and
- (c) to coordinate the management of:
  - (i) existing environmental water; and
  - (ii) the additional environmental water that is recovered;

in order to:

- (d) protect and restore the wetlands and other environmental assets of the Murray-Darling Basin; and
- (e) protect biodiversity dependent on the Basin water resources and achieve other environmental outcomes for the Murray-Darling Basin.

### *Committee view*

5.118 The committee believes that the preparation and implementation of the Environmental Watering Plan as part of the Basin Plan addresses many of the

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concerns expressed through this inquiry about the strategy of acquiring and providing environmental water in the Murray-Darling Basin.

5.119 The committee's view is that the more important issue is, in the interim, how is a lack of environmental water in the Basin to be dealt with. As the committee was told during the hearing, water entitlements only deliver water when there has been rain.<sup>96</sup>

5.120 The committee recommends that if the Commonwealth Environmental Water Holder has not already implemented any plans for the delivering environmental water to key environmental assets to date, this process should be immediately undertaken.

### **Recommendation 9**

**5.121 The committee recommends that if the Commonwealth Environmental Water Holder has not already implemented any plans for the delivering environmental water to key environmental assets to date, this process should be immediately undertaken.**

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96 See: Mr Stewart Ellis, *Committee Hansard*, 19 September 2008, pp 15-16.

