

**SUBMISSION TO PRODUCTIVITY COMMISSION -
DRAFT RESEARCH REPORT ON MARKET
MECHANISMS FOR RECOVERING WATER IN THE
MURRAY-DARLING BASIN
MARCH 2010**

Queensland Farmers' Federation (QFF) is the peak body representing and uniting 16 of Queensland's rural industry organisations who work on behalf of primary producers across the state. QFF's mission is to secure a sustainable future for Queensland primary producers within a favourable social, economic and political environment by representing the common interests of its member organisations'. QFF's core business centres on resource security; water resources; environment and natural resources; industry development; economics; quarantine and trade.

Our goal is to secure a sustainable and profitable future for our members, as a core growth sector of the economy. Our members include:

- Australian Prawn Farmers' Association,
- CANEGROWERS,
- Cotton Australia,
- Growcom,
- Nursery and Garden Industry Queensland,
- Queensland Chicken Growers Association,
- Queensland Dairyfarmer's Organisation,
- Queensland Chicken Meat Council,
- Flower Association of Queensland Inc.,
- Pork Queensland Inc.,
- Biological Farmers of Australia
- Fitzroy Food and Fibre Association,
- Pioneer Valley Water Co-operative Limited,
- Central Downs Irrigators Limited, and
- Burdekin River Irrigators Association

The following submission addresses the identified draft findings and recommendations outlined in the Productivity Commission's report

Water use in the Murray-Darling Basin

Draft Finding 2.1

Current planning arrangements tend to assign a more than proportional cut to environmental water during dry periods. With climate change expected to increase the prevalence of dry conditions (particularly in the southern Basin), the environmental consequences of this could become increasingly significant. Accordingly, the prospect of climate change adds to the imperative to reconsider the balance between environmental and consumptive uses of water.

Comment

The QFF pointed out during the drafting of the Water Act 2007 (the Act) that the draft legislation 'failed to duly acknowledge and afford weight to the economic and social assets of the Murray-Darling Basin, particularly at the level of local Basin communities.' (p 29 Queensland Farmers' Federation Submission on draft Water Bill 2007 (Cwlth) 27 July 2007). The objects of the Act refer to optimising economic, social and environmental outcomes in the Basin water resources but there is no reference to enhancement of the economic and social development opportunities for local Basin communities. Within the Act there was also no requirement in the section on the purposes and mandatory content of the Basin Plan for the impacts of the Plan on regional communities to be addressed.

The Basin Plan including the environmental watering plan must consider the balance between environmental and consumptive use of water and not just address environmental concerns. The QFF believes that as it stands the Water Act 2007 has enough weighting towards achieving planning arrangements to protect environmental watering objectives particular in proportion to climate change risks. Further adjustments in order to more finely tune water plans to modelled future

climate scenarios would only serve to further exacerbate the existing deficiencies in the way which Act provides for assets at the local Basin community level.

Development of water markets

Draft Finding 3.1

Water markets are well developed and active in the southern-connected Basin, but not in parts of the northern Basin. This has implications for the buyback — market-based water recovery is more difficult where markets are not well developed.

Draft Finding 3.2

Market intermediaries, including brokers and exchanges, have developed alongside the market to facilitate increased trade, with lower transaction costs.

Comment

Markets are not well developed in the Qld Murray Darling catchments for the reasons that were outlined in the draft report. The ongoing delay in the finalisation of the resource operations plan for the Lower Balonne is an additional impediment to trade in this catchment. The QFF submission to the Inquiry highlighted industry and irrigator concerns about the limited purchasing by the Commonwealth in the Qld catchments and the fact that there had been no purchases of unsupplemented entitlements to date.

As it is difficult to see how these market impediments will change in the short to medium term, it would be useful if the Commission could provide guidance about how purchasing of unsupplemented entitlements in the Qld catchments could be facilitated. For example, a comparative analysis of the availability and reliability of unsupplemented water in different subcatchments in the Northern Basin may provide some guidance to the participants in the purchasing program. It would also be useful if the Department of the Environment, Water, Heritage and the Arts (DEWHA) could provide more explanation of their approach to 'no regrets' purchasing and the implications of that approach to the purchasing of unsupplemented entitlements prior to the release of the Basin plan. The QFF believes that given the poor development of the market in these catchments, an alternative to a market based approach should be considered to address the recovery of unsupplemented entitlements in these catchments?

Allocating environmental water

Draft Finding 4.1

Water recovered in the northern Basin will usually result in limited environmental benefit for the southern parts of the Basin, given hydrological constraints. Water recovery within the northern catchments that are effectively disconnected should be driven primarily by environmental priorities within those catchments. Conversely, the southern Basin — including the Murrumbidgee, the Murray and the Goulburn rivers — is highly interconnected, allowing considerable flexibility in sourcing and delivering water for environmental purposes.

Draft Finding 4.2

Decisions on allocating water between competing uses in the Basin should be based on good science. But this is not a sufficient basis for achieving the best outcome for the community. Community preferences should be considered where tradeoffs are required between different environmental outcomes, and between environmental and consumptive outcomes.

Comment

These findings are supported. It is important that buy-back programs take into account the characteristics of entitlements in the Qld catchments particularly unsupplemented entitlements to assess the flows that can be enhanced to deliver on environmental outcomes. Accordingly, it is imperative that there is a very transparent process implemented that can account for the type of

entitlements held and how these entitlements can be best used in addressing environmental needs. The Commonwealth Environmental Water Holder will face some difficulties managing its water entitlements to provide the best environmental outcomes in the northern part of the Basin. Whatever approach is adopted it must be supported by a robust monitoring and evaluation program to ensure that the community is well informed about purchasing activities and how this water will be used to address environmental needs.

Recovering water through non-market means

Draft Finding 6.1

Under the Water Act 2007 (Cwlth), the Murray-Darling Basin Authority is required to determine environmental watering needs based on scientific information and to consider least cost ways of meeting these needs in setting sustainable diversion limits. This way of allocating water between environmental and consumptive uses does not take into account community preferences, the opportunity cost of water or the role of other inputs such as land management. As the sustainable diversion limits will be used to guide future water purchasing under Restoring the Balance, the effectiveness and efficiency of this program are likely to be compromised.

Comment

Supported – see comment in Draft Finding 2.1

Draft Finding 6.2

Considerable uncertainty exists about the application of the risk assignment provisions set out in the National Water Initiative, as amended by the Water Act 2007 (Cwlth), in respect of compensation that might be payable to irrigators upon the implementation of the Basin Plan. This is impeding the ability of irrigators to plan for the future and is affecting the efficient conduct of the buyback.

Draft Recommendation 6.1

All Basin jurisdictions should clarify how the risk assignment provisions set out in the National Water Initiative, as amended in the Water Act 2007 (Cwlth), will apply to the reductions in water availability that are likely under the Basin Plan. This should occur as soon as possible.

Comment

Supported – The risk assignment provisions as defined in the Commonwealth Water Act are complex and require urgent clarification in regard to issues such as:

- What constitutes changes due to policy and new knowledge?
- Will Commonwealth purchases and other measures fully account for government share of these risks?
- What adjustments to entitlements will irrigators be responsible for?
- What base level will be used to assess reductions over the initial and subsequent Basin Plans and how will this base level take into account reductions in take brought about by the buyback and water use efficiency programs
- How will the value of compensation under the Water Act be determined?

Draft Finding 6.3

Purchasing water products from willing sellers is generally the most effective and efficient means of acquiring water, where governments are liable for the cost of recovering water for the environment.

Draft Finding 6.4

Funding infrastructure upgrades is generally not a cost-effective way for governments to recover water for the environment. It is also unlikely to be an effective or efficient means of sustaining irrigation communities.

Draft Recommendation 6.2

Rigorous approval processes should be applied to all projects under the Sustainable Rural Water Use and Infrastructure program. In particular, projects should generally only be approved where the cost per megalitre for water entitlements recovered is similar to the market price. Premiums above this price should only be paid in exceptional circumstances.

Comment

Irrigators are seeking a choice of buyback and water use efficiency programs to recover water to meet environmental needs and to help them adjust to reduced water availability into the future. Irrigators are also seeking integration of these programs to allow them to sell some water entitlements to the Commonwealth to finance on-farm water use efficiency projects and share the gains with the environment. Conditions can vary from catchment to catchment and for different farm enterprises which affect the irrigator's preference for alternative or integrated programs. In this instance, premiums above a market price could be justified as they would address the risk farmers face in planning and implementing water use efficiency works to deliver a share of water savings to the Commonwealth Government while recognizing the additional value received through overall combined impact of the programs.

Designing a portfolio of water products

Draft Finding 7.1

Purchasing unregulated water entitlements can provide environmental managers with different environmental watering possibilities to holding storage-backed entitlements. Although less reliable, holding unregulated entitlements can help managers to restore natural flows in river systems. However, their effectiveness and efficiency can be compromised by complexities involved in shepherding environmental water downstream. These third-party effects may need to be addressed through negotiating with groups of irrigators, or through administrative changes to environmental flow rules.

Draft Recommendation 7.1

The Australian Government should adopt a portfolio approach to purchasing water products, and not focus solely on water entitlements. Other products, such as seasonal allocations, leases on entitlements, options contracts and contracts for environmental services, have advantages in specific contexts and should be considered.

Comment

Supported – In addition, there would be value in allowing irrigators in unregulated areas to submit grouped proposals that would allow better evaluation of environmental benefits and arrangements for shepherding. Refer also to comments above regarding 'allocating environmental water'.

Mechanics of the buyback

Draft Finding 8.1

Where active markets for water entitlements exist, acquiring water entitlements directly from those markets is likely to be more efficient than utilising alternative purchase mechanisms.

Draft Finding 8.2

Allowing irrigators to bid several combinations of entitlements and prices as part of a single bid could improve the efficiency of the tender.

Draft Finding 8.3

The effectiveness and efficiency of the tender process would be improved by making the offers to sell binding on potential sellers.

Draft Finding 8.4

The efficiency of the conveyancing process could be improved by:

- *exchanging the contracts of sale before the due diligence process commences*
- *assessing the current due diligence process for potential duplication with*
- *current state approval processes and removing the sources of duplication*
- *introducing a formal requirement on the Department of the Environment, Water, Heritage and the Arts to notify tender participants of any delays in the process and the reasons for the delays.*

Draft Finding 8.5

Using the buyback to address indirect objectives, such as achieving distributional goals, system rationalisation, and reducing the salinity impacts of water use is likely to compromise its effectiveness and efficiency. Other more direct instruments would generally achieve those objectives at lower cost.

Comment

These findings are generally supported.

Governance and institutional issues

Draft Finding 9.1

Transparency in environmental water recovery by the Commonwealth would be improved by providing clear and public information summarising the existing and planned holdings of environmental water across the Basin, and explicitly explaining how Commonwealth water recovery is being coordinated between the two Commonwealth water recovery programs (Restoring the Balance and Sustainable Rural Water Use and Infrastructure), and with other environmental water holdings.

Comment

Supported

Draft Finding 9.2

Current governance arrangements for the management of environmental water in the Basin are fragmented between various state and local environmental water managers and the Commonwealth Environmental Water Holder. Governance arrangements for coordinating environmental watering activities are unclear.

Comment

To date there has been insufficient progress made on the recovery of environmental water in the Qld Murray Darling catchments to raise any significant difficulties with coordination of program delivery. With the release of the Basin Plan, governance arrangements for environmental water must ensure that buy-back and infrastructure investment programs are coordinated address the catchment identified risk priorities outlined in the Basin Plan. To achieve this outcome, it will be essential that the MDBA work closely with the Qld Department of Environment and Resource Management to provide coordinated advice to DEWHA and CEWH regarding the recovery and management of environmental water to achieve environmental outcomes defined in the Basin Plan. As outlined above, QFF's concerns focus on the best methods that can be applied to managing purchases of unsupplemented entitlements to deliver on outcomes in the Qld MDB.

Draft Finding 9.3

Recovering water is necessary in most cases, but is not always sufficient to achieve desired environmental outcomes in the Basin. Other inputs, such as capital works to manage and direct environmental flows, and changes to land management practices, may also be required. Yet the focus of the Basin Plan, and the Australian Government's buyback and infrastructure programs is solely on recovering water, without regard for the role of these other inputs. Better systems are needed to

coordinate the mix of water purchases with other actions and inputs to achieve the desired environmental results.

Comment

In unregulated systems in the Qld Murray Darling catchments there are no remaining opportunities to undertake capital works that will significantly assist with the management and direction of environmental flows. The best outcome will be contributing additional flows to existing environmental flows provided for under State water resource plans. In addition, the Qld Water Act does not specifically address the issue of improvement of land management practices. In other words, the review of catchment water resource plans to implement the Basin Plan requirements in 2014 will focus on issues relating to the take of water from surface and groundwater sources not the use of water on farm.