Productivity Commission

Response on Market mechanism for the recovery of water in the Murray-Darling Basin.

Barossa Infrastructure Ltd (BIL) is an unlisted public company with capacity to supply 10,000 Megalitres per annum of supplementary irrigation water to viticulture in the Barossa Valley. The current environmental approval is for the supply of up to 7,000 Megalitres per annum. SA Water provides the connection to the Warren Reservoir, supplemented with water supplied via the Mannum Adelaide Pipeline and Warren Transfer Main, from the River Murray.

SA Water is provided with irrigation water rights sourced from the River Murray for the amount of water supplied to Barossa Infrastructure. This water comes from Water Access Entitlements either purchased or in the form of long term leases and annual Water Allocations purchased on the market.

It is the objective of the company to achieve the ownership of about 60% of demand in the form of High Security Water Access Entitlements (or equivalent). BIL has also been active in seeking alternative water sources in the interests of sustainability of viticulture in the Barossa Valley. Late this year in cooperation with the Barossa Council a scheme to reuse treated effluent from Nuriootpa Community Waster water Management Scheme will be commissioned. This will represent about 4% of demand.

BIL's customers are the shareholders in proportion to their contracted volume. The scheme cost in 2000 was approximately $30 million, funded about 1/3 by shares and 2/3 by a long term bank loan. Current debt is about $10 million. In addition to usage charges customers pay an annual infrastructure levy. There was no Government funding although considerable assistance was provided in negotiation of the necessary permits for the scheme.

Prior to the start of the water rationing associated with the current drought and the Government's water purchase BIL had purchase Water Access Entitlement representing about 25% of demand. The average price was $1500 per Megalitre. This was also impacted by water purchases for "The Living Murray"

The purpose of this submission is to highlight the impact the Government's mechanism is having on BIL. The questions relevant to BIL are addressed.

Essentially the Government with its program has entered a small and relatively new market and using its purchasing power made a significant distortion to the market with the impact on productive business enterprises. While BIL supports the long term objectives of improving environmental flows and adjusting for over allocation and climate change other mechanisms could have achieved the desired objectives.

In response to the questions raised in restoring the balance:

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

The current method of acquiring rights both during a drought and before substantial infrastructure investment and the resulting savings has achieved very little water for the environment in the short term and had a dramatic effect on water prices. This environmental benefit could have been achieved at lower costs with targeted purchases on the temporary market.

What are the arguments for continuing the buyback after the new Basin Plan is implemented in 2011, and associated state water sharing plans start to be implemented in 2014?

The buyback should be in parallel with the basin plan and the construction of new more efficient infrastructure. The basin plan would indicate the priorities and additional water should be available with the construction of improved infrastructure. This would have a less impact on new businesses and existing businesses seeking to expand.

Should the buybacks be designed so as to reduce structural adjustment costs or should adjustment be addressed separately? If the former, are there particular buyback mechanisms that should be used to do this? If the latter, what approach should be used?

No, they should not be designed to assist structural adjustment. Once the basin plan and infrastructure upgrades are agreed they may be part of the process. If buybacks are used in the short term to assist lower productive producers leave their businesses they may also create a barrier to new more productive uses of water by artificially raising the entry prices. This may have the reverse impact by stopping the creation of new businesses and assisting the departure of others to the detriment of rural communities and their structural adjustment.

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

The price of high security water entitlements has increased by up to $1,000 per Megalitre or even more if other earlier purchases by Government are considered.

What are the advantages and disadvantages of the different market mechanisms that could be used to obtain water for the environment? In particular, how do they compare in terms of compliance and transactions costs and the ability to meet the different watering needs of environmental assets?

The existing mechanisms appear to offer few benefits. Water savings with more efficient infrastructure would provide a dual benefit in both saving water and providing employment opportunities in parallel that would assist in the adjustment of rural communities. Additional water saved and belonging to irrigators could be purchased in parallel with the construction and reorganisation of the infrastructure.

The tender process could thus include water savings, infrastructure requirements and assistance with structural adjustment for small inefficient irrigators.

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

how?

See earlier response. Design of new infrastructure should be coordinated with communities to achieve target savings and amounts for purchase once environmental objectives are known. Local industry development bodies would assist in looking for new industries.

To what extent are irrigators who wish to sell their entitlement being disadvantaged by the limit?
Is a limit on outwards trade the best way to address concerns over possible socio-economic impacts on particular irrigation areas?

The answer appears self evident and reflects purchases exceeding the ability of a community to adjust to both the drought and lower future water availability. The current high price attracts sellers and deters new entrants. It is almost in the form of drought assistance and assistance for retirees and people who wish to leave the industry. Those who are most disadvantaged are new entrants or those who may wish to expand their business. This most affects new or expanding businesses that need to purchase water acess entitlements as part of their business model or to manage risk.

A more productive model is likely to be available once the basin plan is complete and designs completed for infrastructure upgrades or rearrangements. As discussed previously water could be purchased in parallel with upgrades by tender that included the upgrade as well as from identified inefficient areas where buyback and rural assistance would encourage sale of water. The most important issue is productive food and fibre producing enterprises with the most efficient systems sold be encouraged and not disadvantaged.