Northern Victoria Irrigation Renewal Project

NVIRP

4th February 2010

Recovering Water in the MDB
Productivity Commission
LB2 Collins Street East
Melbourne VIC 8003

Thank you for the opportunity to provide comment on the Productivity Commission's *Draft Research Report on Market Mechanisms for recovering Water in the Murray-Darling Basin* (December 2009).

Firstly it needs to be recognised that the irrigation sector (particularly in the Southern connected M-DB) is currently facing extensive reforms with a wide range of Government based initiatives impacting on their current and future operations. This is creating a complex environment and consequential investment and management uncertainty.

It is noted that market failures in a number of areas exacerbated by continuing record drought has led to the current situation confronting irrigators and the communities of the Goulburn Murray Irrigation District (GMID). This necessitates a significant level of investment to achieve multiple objectives by modernising public irrigation infrastructure that is no longer fit for purpose and is unsustainable.

The Draft Report indicates that investment in modernising irrigation infrastructure is an inefficient means of achieving water savings for the environment. This broad assertion and singular focus on water savings fails to recognise the multiple objectives of the NVIRP irrigation modernisation project which include the following in addition to water savings:

- improved on-farm irrigated cropping productivity and water use efficiency;
- enhanced environmental water delivery (many of the wetlands and streams within the GMID are supplied from irrigation infrastructure, indeed the only wetlands and streams that still retain water for drought refuge and other environmental functions do so as a direct result of the irrigation infrastructure);
- savings in operating and maintenance cost of the channel system;
- reduced OH&S and public safety risk;
- reduced footprint of irrigation in areas of high salinity and environmental risk;
- minimised social disruption to communities arising from uncoordinated buyback; and
- providing the region's food processing industry with greater certainty of future raw material supply
- accurate measurement and monitoring of water use and water balances.

By integrating the various programs of Government, economic modelling of the NVIRP Project indicates that:

> *Real value added in irrigated production in GMID is projected to increase by $308 million per year (after full adoption* [of NVIRP]*) relative to the baseline. Accounting for flow on effects within the region, total GMID income (the regional equivalent of GDP) is estimated to increase by $475 million per year (after full adoption). Some of this increase, however, is at the expense of production elsewhere in Victoria and Australia. Victorian GSP increases by $465 million per year*

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(after full adoption), while Australian GDP increases by $403 million (per year, after full adoption).[1]

PC Draft Report should acknowledge the:

- **multiple objectives of investment in irrigation infrastructure modernsiation**
- **key role played by irrigation infrastructure in delivering environmental water.**

The Commission states that:

Targeting the buyback to rationalise irrigation systems can create significant inefficiencies and inequities and should be avoided. Irrigators denied the opportunity of entering the buyback may be less efficient than those in targeted, low productivity areas, or face greater hardship. Equally, it does not follow that farmers in low productivity areas should have any additional pressure or incentive to exit.

NVIRP seeks to avoid overinvestment in infrastructure through a planned, coordinated approach to modernisation and buyback.

The Draft Report goes on to state that:

targeted purchasing would be an ineffective[to address environmental externalities]*'second best' approach, unless rules were put in place to prevent water being traded back to the area after the buyback.*

It is highlighted that the NVIRP approach to irrigation modernisation encourages the retirement of irrigation from environmentally high risk zones by providing incentives to irrigators to physically decommission their irrigation supply in these areas thus eliminating any possibility of water moving back to these zones. Moreover NVIRP proposes rules to prevent water trading back into environmental risk zones where irrigation infrastructure is not retired.

It is suggested that the PC carry out an analysis of targeted versus untargeted irrigation modernisation projects to assess the relative efficiencies based on actual as against theoretical outcomes to gauge the merits of the alternative approaches.

The PC should provide more detailed supporting information to justify its claim that, "*A neutral, independent buyback actually assists (rather than impedes) adjustment processes by giving irrigators the opportunity to sell some or all of their water, and restructure their business.*" This appears at odds with what is actually occurring.

The Draft Report suggests that:

For example, the buyback has obtained high reliability entitlements in Victoria for approximately $2400 per megalitre (ML). In comparison, an investment of $1 billion planned for the Stage Two Food Bowl project in Victoria is expected to yield water for the environment at a cost of up to $10 000 per ML.

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[1] CIE (2010) *Economywide analysis of NVIRP investments,* Centre for International Economics, Canberra.

This statement by the PC is misleading as the investment of $1 billion by the Commonwealth Government will generate up to 200 GL to be shared 50/50 between the environment and irrigators. The unit cost of water savings generated by the NVIRP is therefore $5,000/ML. While this is above the market price of water, the additional cost is more than offset by the multiple benefits generated by the NVIRP project. Indeed, economic analysis commissioned by NVIRP demonstrates a benefit cost ratio of 1.54 for the Stage 2 of the project with water savings valued at the current market price of $2,000/ML[2].

As recognised in the PC report, the Commonwealth has indentified multiple objectives for Priority Projects such as the NVIRP project in addition to water savings. These include some of the broad economic benefits mentioned above and importantly a reduced infrastructure environmental footprint.

Other Miscellaneous Issues

It is noted that the ACCC supports *incentives for rationalisation (P213)*. The NVIRP project provides such incentives. It is also noted that NVIRP supports cost reflective infrastructure pricing as an important incentive to promote rationalisation of under-utilised channel assets.

It is noted that the Draft Report quotes volumes which are in effect for a range of water entitlement products (with different reliabilities); this makes it very difficult to draw comparisons and allows the report to be quoted inappropriately.

PC Draft Report should convert volumes to a consistent 'currency' i.e. Long Term Cap Equivalent such that relative dollars and volumes can be validly compared.

It would also be useful for the Report to define 'higher value use' and incorporate the Commonwealth buyback within this term. I suspect many communities may dispute the validity of its incorporation, but clearly the Commission has made this fundamental assessment.

I trust this assists in finalising your report.

Yours sincerely

Murray Smith
Chief Executive Officer

[2] RMCG (2010) *Cost Benefit Analysis of Stage 2 of the NVIRP Project,* Report prepared for NVIRP, January.