Sunraysia Irrigators Council Inc.

No.

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Water Study
Productivity Commission
LB2 Collins St East
MELBOURNE VIC 8003

Issues Paper Submission: The Role of Market Mechanisms – Rural Water Use and the Environment

Dear Sir,

The Sunraysia Irrigators Council (SIC) was formed 3 years ago to give a regional voice to irrigators in the Sunraysia area. It is made up of members from the Merbein District Irrigators Council, Red Cliffs Irrigators Council and the First Mildura Irrigation Trust (FMIT) Growers Action Group. Merbein and Red Cliffs are pumped irrigation districts administered by Lower Murray Water (LMW). An irrigator elected board administers the First Midura Irrigation Trust (all board members being irrigators).

This submission is written at a time when prices for the 4 main crops produced in Sunraysia, wine grapes, citrus, table grapes and dried grapes are at an all time low after trending down for several years. This is an intolerable situation and cannot be sustained in the pumped irrigation districts.

Commodity prices have a direct influence on where water is used and water trading to date has seen water shift (in an economic sense) from lower value crops such as pasture to wine grapes for example. Because of virtually

uncontrolled wine grape development, and in fact “encouraged” by generous tax concessions, irrigated wine grapes are currently over supplied, and prices at the farm gate have in some cases decreased 10 fold. This makes the concept of economic water use efficiency somewhat meaningless. We as irrigators often hear the mantra that freeing up water trade will move water to higher value crops. Irrigators with wine grapes would certainly argue about the high value of their crops!

Another casualty of the freeing up of water trade has been the dried grape industry. Traditionally the pumped irrigation districts of FMIT and LMW had a majority of plantings of grapes for drying, with a smaller area of citrus and a few wine grapes. In 1992 Sunraysia produced 90,000 tonnes of dried grapes, a record crop. Today the industry produces 30,000 tonnes, the decline mainly due to the diversion of sultanas to wineries and replacement of sultanas with wine grapes. 1992 was when the wine grape “boom” was under way.

Currently there is a boom in almond plantings in the Robinvale, Boundary Bend and Wemen area. Virtually all the developments are corporate driven and aided by special tax rulings which enable investors to write off 100% of their investment in that year. This artificial investment environment is leading to many thousands of hectares of farming land being developed to almonds and also entails tens of thousands of megalitres of water to be traded in to the developments. Table below shows actual permanent trade into the LMW district. (LMW Annual report)

99/00	00/01	01 /02	02/03	03 /04	04/05	
5758	818	7198	3129	24486	20848	(ML)

(Total water delivered by LMW 2004/2005 was 284,437 ML)

Almond prices are high at the moment, but history shows that this will not remain the case, and while it may not significantly affect investors (no guarantees on returns are given by the developers), it will affect a number of private irrigators who are replanting to almonds at their own expense.

Of significant concern to irrigators in the Sunraysia pumped irrigation districts, who are all downstream of the almond developments, is the ability of the Murray to supply the water required when it is required.

Water traded in may not have been in use (so called “sleeper” license water) and will add to the volume that has to be transported downstream. It may have had a different regime of use i.e. water used for pasture may be

used over a 6 month period whereas for almonds and vines it would be used over 4 months, increasing the peak river flow. Water traded to the Sunraysia region would generally come from upstream and therefore have to travel a greater distance to its destination, increasing transport losses.

Sunraysia irrigators have already had a period of water restriction in February 2003 and almost had restrictions in January this year. At the current rate of water trade into Sunraysia we feel that our security of supply will be significantly degraded.

Low commodity prices and poor profitability of farms in the pumped irrigation districts has lead to water being permanently traded out, leaving a smaller rating base for authorities to recoup operating costs. Another factor, which is accelerating this trend, is the high cost of water in the pumped districts. Large corporate developments using investors' funds are able to install large low maintenance water delivery systems enabling them to deliver water to their property boundaries at a significantly lower cost compared to government run systems designed at the turn of the last century.

Ironically the poor state of the pumped irrigation districts infrastructure has not stopped irrigators installing more efficient on farm irrigation systems, both for labour saving and increased water use efficiency. This has not necessarily resulted in less water use per hectare, but has seen an increase in production for the same amount of water applied more efficiently. One constraint of the old infrastructure is the ability to deliver water when it is needed, as this becomes more critical as precise amounts of water are applied at the right time. This also harks back to the ability of the river to deliver the water as increased amounts of water are traded into Sunraysia, as any interruption of supply during the peak irrigation period would have disastrous results.

One of the reasons we have environmental problems in the Murray/Darling basin is that the Darling has made virtually no contribution in the last few years to flows into South Australia. The Anabranch between the Darling and the Murray has been abandoned and properties on the Anabranch are to be supplied from a pipeline from the Murray The Murray has to also supply the required flow to South Australia. (It is interesting to note that although the Murray is supplementing the Darling, one measure of the environmental health of a river, salinity, has been declining and is presently at a 20 year low.)

Trading of water for environmental gains by organisations responsible for river management could hold the same dangers as commercial water trading i.e. increasing flows, inappropriate timing etc. A better solution

would be for the authorities to purchase a percentage of each water trade and retire that water to the environment, thereby effectively reducing the “cap”.

While freeing up water trade seems like a good idea to move water from low value crops to higher value crops and benefit from increased economic activity, thought must be given to the communities that lose the water for a short term gain. We have also seen that higher value crops can very quickly drop in value, once again to the detriment of the communities involved.

Higher value crops generally need permanent, high security water as established growers in the Sunraysia pumped irrigation districts have benefited from for the last 100 years. Permanent plantings take many years to establish at high establishment cost. At the moment our properties are virtually only worth the value of the water held. In the past, downturns in the various industries were ridden out, whereas now, irrigators will entertain the option of selling off their water and abandon the property. Irrigated agricultural overproduction is a serious problem exacerbated by liberal water trading policies. Two billion litres of unsold wine in storage tanks all over Australia attest to that.