



Independent Assessment of Social and Economic Conditions in the Basin

Victorian Farmers Federation Submission

April 2020

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The Victorian Farmers Federation

The Victorian Farmers Federation (VFF) is the only recognised consistent voice on issues affecting rural Victoria and we welcome the opportunity to comment on the Independent Assessment of Social and Economic Conditions in the Basin.

Victoria is home to 25 per cent of the nation's farms. They attract neither government export subsidies nor tariff support. Despite farming on only three per cent of Australia's available agricultural land, Victorians produce 30 per cent of the nation's agricultural product. The VFF represents the interests of our state's dairy, livestock, grains, horticulture, flowers, chicken meat, pigs and egg producers.

The VFF consists of a nine person Board of Directors, with seven elected members and two appointed directors, a member representative General Council to set policy and eight commodity groups representing dairy, grains, livestock, horticulture, chicken meat, pigs, flowers and egg industries.

Farmers are elected by their peers to direct each of the commodity groups and are supported by Melbourne-based and regionally located staff.

Each VFF member is represented locally by one of the 200 VFF branches across the state and through their commodity representatives at local, district, state and national levels. The VFF also represents farmers' views on hundreds of industry and government forums.



David Jochinke
President

Summary of Recommendations:

Recommendation 1: That the Independent Panel explicitly document the impacts of the Basin Plan, rather than grouping commentary of impacts under the catch all of 'water reform'.

Recommendation 2: That the Independent Panel recommend that the recovery of the 450 GL of upwater does not proceed based on existing evidence of the socio-economic impacts and deliverability constraints they have provided.

Recommendation 3: That the Independent Panel amend its position on water buybacks consistent with the evidence they have provided and recommend that buybacks should no longer be pursued in the Southern Basin due to the regional socio-economic costs.

Recommendation 4: That the Independent Panel clarify its support for addressing deliverability issues during the irrigation season and opposition to relaxing constraints to provide over bank environmental flows in the spring in response to the widespread community opposition, third party impacts and negative socio-economic impacts.

Recommendation 5: That the Panel provides a clear statement about what elements of the Basin Plan should continue to be implemented with its reasons and tangible evidence that effective adjustment measures can be implemented to offset the socioeconomic impacts it has identified.

Recommendation 6: The Panel expand the focus of river health to include physical form, streamside zone, water quality and aquatic life of our river system.

Recommendation 7: The Panel explicitly describe the negative impacts associated with on-farm projects.

Recommendation 8: The Panel review draft finding 29 and acknowledge the adaption of farmers through off-farm projects. acknowledge the negative impacts associated with on-farm projects.

Recommendation 9: The Panel review draft finding 11 and acknowledge the implementation of the Basin Plan is increasing water prices.

Recommendation 10: The Panel recommend the Basin Plan be completed in 2026 at which time it is substantially amended to only focus on compliance beyond 2026.

Introduction:

The Victorian Farmers Federation (VFF) welcomes the opportunity to provide comment to the Independent Assessment of Social and Economic Conditions in the Basin.

Northern Victoria is the Foodbowl of Australia producing much of the nation's food and exports. Northern Victoria alone produces:

- 25% of the Nation's milk with 9 major milk processing factories and over 8000 jobs on farm and in processing
- 90% of Australia's pears
- 81% Australia's dried fruit
- 15% Australia's citrus production
- 75% Australia's table grape production
- 40% of Australia's apples
- 40% of Australia's stonefruit
- 68% of Australia's almonds
- 99% of Australia's tomatoes for processing
- Significant cropping and livestock

This agricultural production is being badly impacted by the implementation of the Basin Plan.

While the VFF welcomes comments by the Independent Panel stating:

“water reform is a bundle of many reforms – some delivered wins to irrigators and other water users and to the broader community. But significant transfers of wealth and opportunity across industries and regions have taken place – some communities have watched jobs dwindle away, communities decline, and in some cases nearly disappear ...

We heard from people living in the Basin who have a deep distrust in governments – local, state and federal. They feel abandoned by all levels of Government” (Pg viii)

Use of Language on Basin Plan:

The VFF believe the Panel need to be more explicit in their discussion about the impacts of the Basin Plan. Much of the language throughout the report bundles the term 'water reform', rather than calling out the key impacts and problems with the Basin Plan.

The VFF believe the Panel's Terms of Reference (ToR) requires the Panel to be explicit about the impacts of the Basin Plan. The ToR states:

“The review will assess (positive and negative) of water reforms including the Basin Plan”.

The Panel often fails to describe the details of the 'water reforms' they are discussing and there are many water reforms in the National Water Initiative that have not been implemented.

Recommendation 1: That the Independent Panel explicitly document the impacts of the Basin Plan, rather than grouping commentary of impacts under the catch all of ‘water reform’.

450 GL Up Water:

The report states:

“Research commissioned by the Panel found future water recovery is likely to lead to significant falls in water use and production by irrigated cropping, pastures, rice and dairy sectors. While increasing dryland production will offset some of these falls, towns and communities in these regions will still be impacted negatively, especially under drought conditions.” (page 3)

“In addition, there is growing recognition that the overall target for water recovery of 2,750 GL per year plus 450 GL per year of efficiency measures cannot be achieved by 2024 without significant cost to the Australian taxpayer, and significant Basin community disruption. Rather than a relentless pursuit of targets, the Panel considers that matching the pace of recovery with the capacity of the delivery systems would lead to a better outcome for all.” (page 3)

“Without clear evidence of the environmental, social and working river benefits of achieving the 2024 recovery targets, the potential costs imposed on irrigation communities are not justifiable.” (page 3).

Unfortunately, the report fails to clearly state the 450GL upwater should be abandoned because of the observed impacts of water recovery to date. Rather the Panel is suggesting that more time is required which only extends uncertainty and undermines confidence. The VFF firmly believe the 450GL must be abandoned.

Recommendation 2: That the Independent Panel recommend that the recovery of the 450 GL of upwater does not proceed based on existing evidence of the socio-economic impacts and deliverability constraints they have provided.

Water Buybacks:

The VFF does not support any more water buybacks in the Southern Basin. The Panel report identified that water buybacks lead to:

Unviable Irrigation Systems

Buyback results in a Swiss cheese effect of de-watered properties within an irrigation district. This scattering of properties makes it difficult to generate efficiencies in the irrigation system operation and design.

Local Community Cost

Buyback takes water directly out of production, thereby pushing most of the costs of adjustment onto regional communities and tax payers.

Drives up the price of water

With the pool of water available for irrigation declining, the price of allocation water is increasing, particularly in dry times. This increase in water price is threatening the viability of some industries.

The Panel's report provides a conflicting response to water buybacks. Drafting finding 31 states:

"Buybacks have contributed to downside impacts in some irrigation dependent communities, particularly when they have been strategic purchases that removed a large proportion of water from a region's consumptive pool. (Pg 55)

Yet this conflicts with the comment on Page 55, which also states:

"Buybacks helped participants in buyback programs and contributed to productivity and efficiency improvement." (Pg 55)

The VFF can find no evidence that buybacks have contributed to productivity and efficiency and believe this comment should be removed from the report.

Recommendation 3: That the Independent Panel amend its position on water buybacks consistent with the evidence they have provided and recommend that buybacks should no longer be pursued in the Southern Basin due to the regional socio-economic costs.

Deliverability and Constraints:

The report has conflicting views regarding deliverability and constraint relaxation in recommendations 2 and 6.

Recommendation 2 states:

"The Australian government should time further water recovery to match the capacity to deliver water to where needed to achieve enhanced environmental, social and working river outcomes. This approach means slowing further recovery in the Basin, and accelerating efforts to relax delivery constraints". (Pg x)

The Report identifies the negative social effects of water recovery. Which is at odds with recommendation 6 which states:

"Continue addressing deliverability constraints as a priority, reflecting community concerns" (Pg x)

This view is further supported with comments on Page 6 that state:

"The December 2019 Commonwealth and state water ministers meeting in Brisbane agreed there are real delivery risks in the southern Basin. We consider there remains an urgent requirement to not worsen binding river constraints that impact upstream and downstream irrigators and the environment"

The Report appears to be confusing the current difficulties delivering water to irrigators and the environment in the Mallee during the irrigation season with the issues of providing overbank flows that impact private landholders to deliver environmental flows in the spring.

The VFF supports the Panel's view that within channel deliverability issues must be addressed and believes that the original 2015 MDBA Constraints Management Strategy and subsequent regional strategies must be abandoned. Under no circumstances should the expected Sustainable Diversion Limit offsets from the Constraints Strategy be replaced by Commonwealth water purchases because it is clear that existing environmental water holdings cannot be effectively delivered.

The Panel seems to have failed to agree on this issue, relaxing constraints will lead to deliverability issues and third party impacts.

Recommendation 4: That the Independent Panel clarify its **support** for addressing deliverability issues during the irrigation season and **opposition** to relaxing constraints to provide over bank environmental flows in the spring in response to the widespread community opposition, third party impacts and negative socio-economic impacts.

Murray Darling Basin Economic Development Program:

Recommendation 4 states:

The Australian Government should prioritise future investment in the Murray–Darling Basin Economic Development Program in vulnerable and disadvantaged communities most negatively impacted by Basin water reforms. The Panel's assessment shows these communities include:

- *Basin regions where more water has been recovered through open tender buybacks, and less through on-farm irrigation investments*
- *dairy and annual cropping regions and towns in the southern Basin that have benefitted less from past water reforms and will decline with future water recovery*
- *smaller Basin communities that have poor socioeconomic conditions and rely heavily on irrigated agriculture, and/or where water recovery and other reforms proceeded quickly (such as through single 'strategic' purchases). (page 5)*

This recommendation seems to suggest that despite severe negative impacts in some areas, the Panel is proposing the Basin Plan (2,145 GL water recover, 605 GL of SDL Offsets and 450 GL of Upwater) despite the community concern and social and economic impacts it has identified and that social adjustment programs should be implemented to offset the negative impacts.

The Panel's justification for this position is not provided.

The VFF believe no further water recovery can continue in the Southern Basin without negative socio-economic impacts. Effective economic development packages are required now, based on the water recovered to date, but the Panel has failed to identify practical and meaningful adjustment projects.

Recommendation 5: That the Panel provides a clear statement about what elements of the Basin Plan should continue to be implemented with its reasons and tangible evidence that effective adjustment measures can be implemented to offset the socioeconomic impacts it has identified.

Environmental Outcomes:

The Panel commissioned Victoria University to examine the impacts of water recovery and environmental outcomes. The University found that:

“investing \$4 billion to recover water through on- farm irrigation infrastructure would provide economic benefits equivalent to \$2.9 billion to the Australian economy over the period assessed. Victoria University’s scenario modelling looks at impacts of recovery across the southern and northern Basins.

The scenario results suggest that the long term benefits of managed environmental water, such as improved amenity, recreation and tourism outcomes, would need to provide at least \$1.1 billion in long term value to communities inside and outside the Basin in order to deliver a net benefit nationally. (Pg 75)

The VFF is alarmed that despite no evidence of a \$1.1 billion increase in value to the nation, the Panel is still proposing the Basin Plan proceed in its current form, albeit with extended timeframes. The VFF believe there needs to be a much greater focus on real environmental outcomes and a far greater effort to use complimentary measures for the environment.

There has been an over-emphasis in the Basin Plan on recovering water as the only driver to improve environmental outcomes.

There is little to no acknowledgement of other factors that contribute to the health of the environment. There is no transparent and authoritative assessment of the environmental outcomes that have been achieved. Instead irrigators are told that improved environmental outcomes may be known in 20 years time.

Victoria developed an Index of Stream Condition (ISC) over a decade ago, which identified five areas of environmental health.

- 1) **Hydrology** (flow volume and seasonality of flow)
- 2) **Physical Form** (stream bank and bed condition, presence of and access to physical habitat)
- 3) **Streamside zone** (quality and quantity of streamside vegetation and condition of billabongs)
- 4) **Water Quality** (nutrient concentration, turbidity, salinity and acidity); and
- 5) **Aquatic Life** (diversity of macroinvertebrates)

The Basin Plan is only focussed on one element of environmental health, the hydrology and its lazy proxy of volume of recovered water. The VFF believe the focus must be extended to examine the physical form, stream side zone, water quality and aquatic life of our river system.

Recommendation 6: The Panel expand the focus of river health to include physical form, streamside zone, water quality and aquatic life of our river system.

On- Farm Projects:

Draft finding 38 states:

“On-farm infrastructure modernisation programs have supported transitions and economic development in regions receiving them. They have done so by recovering water at prices well above market rates, by stimulating local economies through infrastructure investment, and by increasing competitiveness and water use on farms participating in the programs” (Pg 60)

The VFF does not support on-farm projects that require farmers to give up water, thereby reducing the amount of water available for agricultural use. The VFF believe the comments provided by the Panel are ill-founded.

In the Goulburn Murray Irrigation District there is now 1000GL less going through the irrigation system compared to the early 2000's. Infrastructure costs in the GMID are largely fixed. With the GMID delivering less than half the water that was delivered in the early 2000's these fixed costs have to be paid by the remaining irrigators whose water bills have increased.

This view is also supported by the Victorian Government in the “Socio-economic impacts in the southern Murray Darling Basin – Implications for additional Basin Plan water recovery” stated:

“Because the changes in GMID irrigators’ water demands are spread throughout the infrastructure network, opportunities to rationalise the network are hard to identify and achieve. This means that the fixed costs of running the must be maintained by a smaller customer base”

Victorian Government, “Socio-economic impacts in the southern Murray Darling Basin – Implications for additional Basin Plan water recovery, Pg 3

Furthermore, a reduction in water available for productive use means there is less for industry growth in future years.

The VFF believes there is an opportunity for Government investment in irrigation farms that doesn't require farmers giving up water entitlements to make up for the economic damage the Basin Plan has already inflicted.

There are numerous reports that highlight the negative impacts of on farm works, excerpts are detailed below.

“Transferring water entitlements to the Commonwealth reduced the total volume of water that can be delivered through networks across the Basin. This can impact a network as network pricing structures are determined either wholly or at least partially against water delivery rights” “The adverse impact may be worse in a dry year” (Pg 88)

Ernst and Young: “Analysis of efficiency measures in the Murray Darling Basin” 19th January 2018

This adverse impact identified by Ernst and Young in January 2018 was also identified by Tim Cummins and Associates when commissioned by the Victorian Government to examine the Social and Economic Impacts of the Basin Plan in Victoria in 2017.

“On farm water savings have effects similar to delivery system water savings in wet-to-average years, but the effects of on-farm water savings projects are closer to buyback when conditions are drier” (Pg 161)

TC&A and Frontier Economics: “Social and Economic impacts of the Basin Plan in Victoria”. February 2017

“Overall, based on a qualitative assessment, there are grounds to suggest that on-farm efficiency measures, including those likely to take place under COFFIE, could have material socio-economic impacts on individuals other than program participants. These impacts are likely to be a result of cumulative or aggregate changes in irrigation water demand and water use and should be considered in implementing the underlying intent of the Basin Plan. (Page 3)

Aither: “A review of socio-economic neutrality in the context of Murray-Darling Basin Plan implementation, March 2017

The Victorian Government decided to halt on-farm projects that require farmers to give up water pending a review. They commissioned Aither to explore this issue. Aither found that:

It might be profitable for an irrigator to participate in on-farm WUE programs with entitlement transfer if historical water prices prevail in the future, but if many other irrigators also upgrade water prices will increase and the same investment might be unprofitable”.

Aither, Water market impacts of on-farm water use efficiency programs that require entitlement transfer, 2017

Recommendation 7: The Panel explicitly describe the negative impacts associated with on-farm projects.

Off- Farm Projects:

The Panel notes in Draft Finding 29 that:

There is little evidence to suggest water recovery through off farm infrastructure investment has helped Basin communities adapt. This issue—including potential implications for future IIO fees and charges—deserves more investigation, with the cooperation of IIOs. (Pg 53)

Off Farm water savings have totalled over 400 gigalitres in Victoria. Farmers have a more sophisticated system and can more flexibly use their water.

Higher flows and receiving water at any time of day at the designated flow rate has allowed farmers to adapt and become more efficient with their water use. The VFF believe the Panel need to review this finding.

Recommendation 8: The Panel review draft finding 29 and acknowledge the adaption of farmers through off-farm projects. acknowledge the negative impacts associated with on-farm projects.

Water Prices:

The Panel notes in Draft Finding 11 that:

“Drought is the main factor contributing to higher water allocation prices over the past 18 months”.

The VFF does not believe this is correct. The recovery of over 2100 gegalitres as part of the Basin Plan has meant there is less water available on the market. This is a very real man-made drought which is driving up water price.

Recommendation 9: The Panel review draft finding 11 and acknowledge the implementation of the Basin Plan in increasing water prices.

The Need for Certainty:

The VFF believe the Panel must acknowledge rural communities urgent desire to end the uncertainty. Currently as enshrined in legislation, a review of the Basin Plan in 2026, could see further water recoveries and Basin Plan 2. Farmers want an end to water recovery so they can build a strong business model on the current water, not be second guessing whether the Commonwealth may target more into the future.

Recommendation 10: The Panel recommend the Basin Plan be completed in 2026 at which time it is substantially amended to only focus on compliance beyond 2026.