

# Water, but at what cost?

The drought has broken, water is surging into the Murray-Darling Basin and the dams are spilling due to one of the wettest seasons on record yet many grapegrowers in the southern parts of the continent continue to be plagued with water shortages.

Chris Herden

The River Murray system is a vital source of water for the agriculture sector, communities, industry and the environment in NSW, Victoria and South Australia. The rules for sharing available surface water fairly between these states are set out in the Murray-Darling Basin Agreement (MDBA) and, in consensus with the Federal Government, aim to cap water extractions from the system.

The Murray-Darling Basin (MDB) covers approximately 15 per cent of Australia's land area and accounts for more than two-thirds of the country's irrigated agriculture. The MDB's highly developed and interconnected irrigation systems have proven to be particularly vulnerable during drought conditions.

## The need for water reform

The Murray-Darling Basin Cap (MDBC), in operation since 1 July 1997, is a restraint of an unsustainable practice; the increase in water diversions (due to growth, new developments and environmental programs) which pose a serious threat to existing users' water reliability. The differing systems of water law and administration of the three southern MDB states have, however, proven a complex challenge to this commitment.

Ongoing policy implementation is required in order to support functioning water markets while at the same time limiting the water extracted from the rivers and streams for consumptive use, as agreed under the cap on diversions.

"The major water issue for growers is the MDB reform process and until that's bedded down and the governments have made a decision that is workable and acceptable, we have this uncertainty," Wine Grapes Marketing Board chief executive Brian Simpson said. The variability of rainfall from region to region and each state's allocation policies are the main reason why water reliability is not the same across the states that share the Murray. High security means a higher reliability of water being delivered to growers and it costs more to get that privilege.

"High security allocations in our region have allowed our grape producers a reliability of water through one of the harshest droughts, though the 'carryover rule' is sometimes a contentious issue," Simpson said in reference to the anomaly whereby farmers and irrigators' carryover stockpiles are annulled when their supplying dams begin to spill.

"It resets the system. The growers hit their allocation plus their carryover – they get their 100% and then start losing it." ▶

## Hot topic:

### National Water Initiative

In 2004, a shared commitment by the Council of Australian Governments to increase the efficiency of Australia's water use was formalised in the National Water Initiative (NWI).

The key aim of this ambitious 'blueprint' for national water reform was to drive greater certainty for investment and productivity for rural and urban communities and for the environment by means of ensuring the security of water access entitlements for users. At the time, the governments received widespread support for their water trading initiatives from industry and environmental agencies.

Waterfind founder Tom Rooney says, "Most market reforms have come from the 2004 NWI, though many State Governments have been slower than promised in the creation of the different elements needed to support a robust market."

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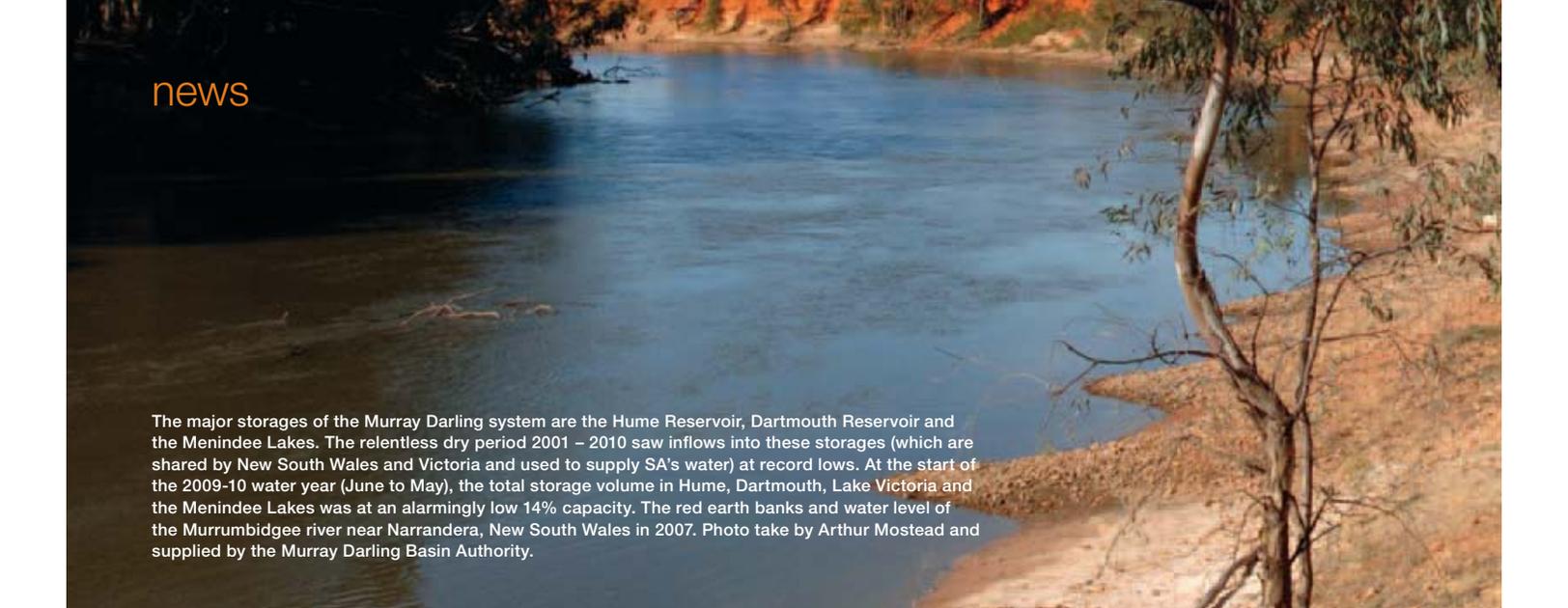
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The major storages of the Murray Darling system are the Hume Reservoir, Dartmouth Reservoir and the Menindee Lakes. The relentless dry period 2001 – 2010 saw inflows into these storages (which are shared by New South Wales and Victoria and used to supply SA's water) at record lows. At the start of the 2009-10 water year (June to May), the total storage volume in Hume, Dartmouth, Lake Victoria and the Menindee Lakes was at an alarmingly low 14% capacity. The red earth banks and water level of the Murrumbidgee river near Narrandera, New South Wales in 2007. Photo taken by Arthur Mostead and supplied by the Murray Darling Basin Authority.

## Water trading

The process of buying, selling, leasing or otherwise exchanging water access entitlements (permanent trade) or water allocations (temporary trade) is a key element of recent water reforms in Australia.

Permanent trade occurs when an entitlement holder purchases all rights from a water vendor. This 'permanent water' remains under the jurisdiction of the state it was purchased from and often requires the payment of an exit fee to the water supply authority.

"About 90% of our growers are engaged in the trade of water on an annual basis," Simpson said.

"They trade water as a supplementary income to offset low commodity prices.

But now, with the system so full, water prices on the temporary market have declined. At our field days there are more and more stands being taken up by water traders trying to get clients onto their books."

The amount allocated to water users is determined by a number of considerations. Each region's Water Allocation Plan (WAP) must take into account the amount of water in storage, expected natural inflows and how much is carried over as unused water from the previous year.

Under the current WAP for the River Murray, South Australia is allowed a maximum 650GL per water year. Irrigators are limited to a 67% cap of allocations due to both the considerable volume of carryover water now held by the South Australian irrigation community, and the drought

contingency measures negotiated with the other MDB states early last year.

"The water trade market is a beast as it sits at the moment," SA Murray Irrigators chairperson Caren Martin said.

"We now operate under a new amended water allocation plan that came into effect in July 2009. It was brought in without any consultation or knowledge of the irrigators at the time and who were all operating under drought management frameworks."

## Entitlement shortfall

Many SA Murray Irrigators members purchased water during the drought as a risk aversion measure intended to provide carryover for the following season. They are not happy with the State Government's rationing.

"We weren't told that if you purchase carryover you may not gain access to the full entitlement. The basin's waters recharged bigger than they expected and they got caught out in a big way," Martin said.

The Department of Water says carryover was introduced to help irrigators during the exceptional circumstances of the drought and was only implemented on an annual basis.

"South Australia has always maintained a very strong stance on not exploiting the river during high flows and has been very diligent in never exceeding our MDDBP on diversions," a Department of Water spokesperson said.

"At a time when South Australia is in the process of negotiating the new sustainable diversion limits specified in the MDDBP, it must maintain its exemplary approach to ensuring sustainable water allocations and, therefore, does not intend to breach its cap."

## Interstate trading

The limit on allocations is forcing irrigators to spend millions of dollars a month buying water from interstate. Martin finds little comfort in the SA Government's suggestion of a 'high chance' irrigators will begin the new water year with 100% allocation. ▶

## Hot topic:

### High costs in Clare

Anthony Koerner, Gullyview Vineyards and vice president Clare Region Wine Grape Growers Association: "Water allocations for local water (underground and surface) were reduced under the latest Clare Water Allocation Plan. The imported water is separate from this and is transported from SA Water's pump station at Morgan. This water is not affected by the 67 per cent cap. The major challenge is the prohibitively high price SA Water charge for peak imported water supply. It has increased 250% over the past five years and the State Government is forecasting further increases over the next two years."

SA Water spokesperson: "In late 2004, the \$38.4 million Clare Valley Water Supply Scheme was completed. The purpose of the scheme was to provide irrigators in the region with a long-term and sustainable water source, regardless of climatic conditions. The scheme also enabled filtered water to be supplied to townships Clare Valley region and improve SA Water's ability to transfer water to support the Yorke Peninsula".

**Ed's note:** On May 17, South Australia's ABC Rural Report announced The Australian Competition and Consumer Commission was to investigate the State Government's water pricing in the Clare region.

The report said growers pay up to \$2500 per mega litre on-peak, compared to their counterparts in the Barossa, who pay just under \$700 per mega litre.



“Now it’s disappeared overnight and for some people that’s a very large investment,” she said. “We don’t have the security of priority of allocation under the current WAP and we feel our property rights have been eroded.”

Feedback received by Tom Rooney, CEO of water market specialist and brokerage service Waterfind, suggests unease at the ability of the State Governments to manipulate water trade markets.

“The exchange of any commodity, whether it be water, wheat or rice, is very important and this changing of rules without consultation is concerning,” Rooney said in response to an announcement by the Victorian Government of an immediate suspension of water allocation trade from NSW to Victoria and a halt to some allocation movements within the state.

“Victoria cannot accept any more water from NSW because our share of Hume Dam is full,” Minister for Water, Peter Walsh

### Hot topic:

## The Murray-Darling Basin

Caren Martin, chairperson, SA Murray Irrigators: (when asked about the ongoing inquiry into the proposed Murray-Darling Basin Plan and chairman of the Regional Australia committee, Tony Windsor) “I’d like to see what he is going to recommend. He would have seen what has gone on over the past 5 – 10 years and look at some sensible solutions to right some of the wrongs. We have to stay at the table and talk to the various governments and policy makers and try and restore integrity into a licensed product.”

said in reference to the high storage levels, huge volumes of unused irrigation water and Victoria’s progressive carryover rules.

“If trade from NSW is not temporarily halted, the water available to Victorian irrigators in the next irrigation system will be reduced.”

For Rooney, the intra-state balancing effects of water sharing arrangements aren’t

significant enough to warrant the shutting down of water trade from NSW to Victoria.

“There is so much water in storage at the moment and in the past we’ve seen Victorian irrigators get a 100% allocation when there was about 40% storage volume in the Hume Dam. Its current level is more than 90% and it was probably premature of the Victorian Government to make such changes.”

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**Basin inquiry**

In recent months, the inquiry into the proposed MDBP has heard the concerns of various water-using industries. Many groups, including the Winemakers' Federation of Australia and the Wine Grape Growers of Australia, have welcomed the need for national water reform to improve river system health. However, other groups reject the MDBA's guide to the proposed basin plan.

New England MP Tony Windsor, chairman of the Regional Australia Committee which is conducting the inquiry, has since called upon his Federal Government colleagues to investigate current taxation arrangements for irrigators, overbank flows modelling and the impact of the so-called 'Swiss cheese' effect of water buy-backs on irrigation districts.

Brian Simpson says for every megalitre that leaves the system, the fixed costs for those who remain increases.

"Those growers who have been able to sell back to the government and exit the industry have left lots of holes in the system and this 'Swiss cheese' effect is very evident when you look at an aerial image of this region," he said.

**Hop topic:**

**Hunter Valley allocation**

Hunter Valley Water Users Association (HVWUA) is an incorporated organisation that represents water-users of the Hunter with particular emphasis on the Hunter Regulated System.

Since 1982, there has only been two years (2006-07 and 2007-08) when 100% allocated water diversions were not available for general security. Following the 2007 floods, 100% water allocation was restored.

HVWUA president Arthur Burns: "One of the major issues affecting all water users in this area is the rapid growth of coal mining and coal seam gas exploration – the possible contamination and indeed loss of both surface and underground water by the cumulative effects of open-cut mining.

"We are currently debating the coal and gas strategy with NSW government with the aim of protecting prime agricultural land, aquifers and streams from the irreversible damage from mining and gas."

Simpson wants to see the MDBP incorporate the use of a split system of "high reliability" and "low reliability" water shares to ensure permanent plantings benefit during drier conditions while seasonal croppers have access to a less

reliable product at a differential rate.

"We need a common trading system across Australia so that water can move more readily," he says. "And we can't suffer floods on a regular basis just to ensure the environment gets watered."

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