

Briefing note: First steps to fix the Murray-Darling Basin

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OVERVIEW

The mismanagement of the Murray-Darling Basin has become a national issue in 2019. While the Basin's problems are widely discussed, solutions are not. Practical steps to turn around the fortunes of the Basin and its people are:

- **Provide emergency relief to the southern Basin dairy industry.**
Efficient family dairy farms that have passed down through generations are at immediate risk due to high water prices driven by drought and new demand at the SA border. Water should be made available from the South Australian deferred entitlement account as an opening allocation in the 2019 water year.
- **Develop a policy framework to ensure diversity in Basin agriculture.**
Water reforms, including water trading and the Basin Plan, have restructured agriculture in the Basin. Without a new approach to regional economic development, industries such as dairy and rice will be lost, while almonds and cotton dominate.
- **A federal Royal Commission or federal ICAC investigation.**
The investigation should have wide scope including: the water efficiency program, floodplain harvesting, the operations of Murrumbidgee Irrigation Limited, strategic purchases, Broken Hill pipeline, the draining of Menindee Lakes in 2016/17 and SA's management of the Lower Lakes and Coorong.
- **Pause the Basin Plan** until the above steps have been carried out.
This means pausing accreditation of water resource plans, the efficiency program including the 450GL of 'upwater', supply measure projects and the issue of new floodplain harvesting licences. The pause should not affect environmental watering, volumes owned by environmental water holders, collaboration with Aboriginal people on water management, development of constraints management strategy or policies to protect environmental water.

These steps would return a sense of accountability and good management to the Murray Darling. They have strong public support inside and outside the Basin. They can be taken relatively easily if Basin governments have the political will.

EMERGENCY RELIEF

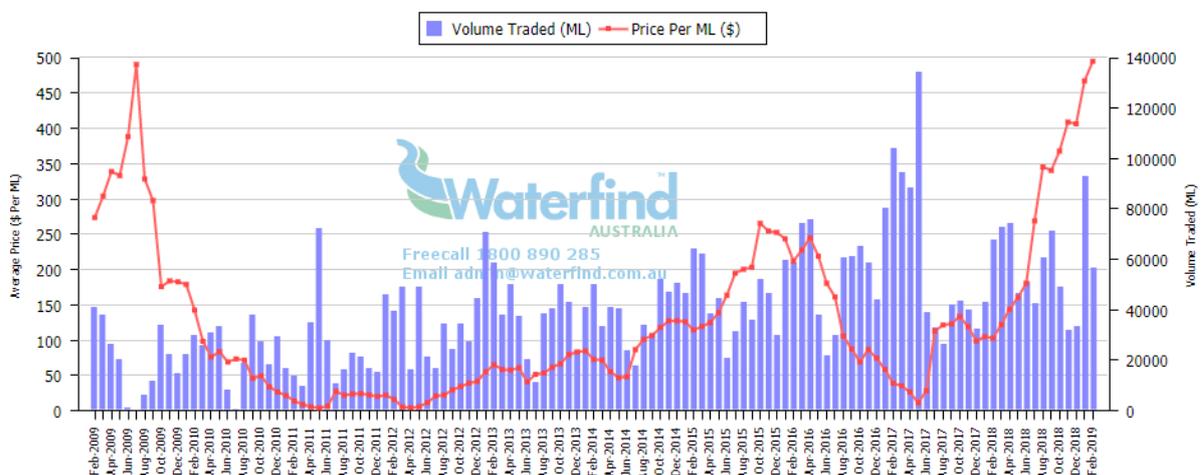
In the southern Basin, there are state-of-the-art, multi-generation family farms that rely on permanent water that are unlikely to survive this current water year. These irrigators all survived through the eight-year millennium drought and many droughts prior to that. The difference with this drought is:

- high water prices; and
- increased demand from nut plantations near the South Australian border.

High water prices

Water prices due are at record highs, as shown in Figure 1 below:

Figure 1: Temporary water prices in the Southern Connected System



Source: <https://thenewdaily.com.au/money/superannuation/2019/03/23/water-seen-as-profit/>

Figure 1 shows that temporary water prices reached nearly \$500/ML, record prices not seen for a decade. Dairy Australia claims that dairy farming is unviable at these prices:

Dairy farmers are highly sensitive to the temporary water price: in 2015-16, 26 per cent said prices over \$150/ML were not viable for their business, and 56 per cent said prices over \$200/ML were not viable.¹

¹ Dairy Australia (2019) *Future Focus: Dairy Industry Strategy Murray Region 2019*, <https://www.dairyaustralia.com.au/news-listing/future-focus-regional-dairy-industry-strategy?id=910D7B881ED94B50B3B8DEBF77041C57>

The high water price is causing farms to close and is threatening the viability of the industries such as dairy and rice in the Basin. SunRice axed 100 jobs last year in Leeton and Deniliquin because of the small rice crop driven by water scarcity and price.^{2,3,4}

Water prices are still viable for cotton farming and nut plantations in the southern Basin, particularly those with major institutional backing.⁵ Those industries have been developing 'greenfield' developments outside existing irrigation schemes, which is putting further pressure on struggling communities.⁶

If entire industries like dairy and rice are lost and replaced by other commodities in other parts of the Basin, there will be major socio-economic impacts. Farms are not able to change commodities without major investments, risk and disruption. Regional industries cannot adapt without serious impacts on local communities. The recent protests in Albury are a demonstration of this reality and the sensitivity around it.⁷

High demand at South Australia border

Most of the new nut plantations are either side of the South Australia border. Supplying these plantations incurred an additional 349GL in losses in delivering water this year.⁸ The additional losses were incurred because the only way to get meet the

² Jeffery and Laxton-Koonce (2019) *Last day for dairy at Deniliquin in southern NSW as drought forces farmers out*, <https://www.abc.net.au/news/rural/2019-04-07/last-day-of-dairy-at-deniliquin/10974882>

³ Higgins (2019) *Water crisis to wipe out Australia's rice crop*, <https://www.theaustralian.com.au/business/water-crisis-to-wipe-out-australias-rice-crop/news-story/c77fb16e38a04e43bcd87bf894de1e8d>

⁴ Jeffery (2018) *SunRice axes 100 jobs at Deniliquin and Leeton mills due to Murray water allocation of zero at one location*, <https://www.abc.net.au/news/rural/2018-11-30/sunrice-axes-100-jobs-at-deniliquin-and-leeton-mills/10571666>

⁵ Hemphill (2017) *Almond plantations: Investors spend big*, <https://www.weeklytimesnow.com.au/agribusiness/almond-plantations-investors-spend-big/news-story/78b5b0ea94af0c99b346c119a8ff2f11>

⁶ Chan (2019) *'You reap what you sow': why furious rural voters are pulling the plug on the Nationals*, https://www.theguardian.com/australia-news/2019/mar/31/you-reap-what-you-sow-why-furious-rural-voters-are-pulling-the-plug-on-the-nationals?utm_term=RWRpdG9yaWFsX0d1YXJkaWFuVG9kYXIBVVMtMTkwMzMx&utm_source=esp&utm_medium=Email&utm_campaign=GuardianTodayAUS&CMP=GTAU_email

⁷ Chan (2019) *Farmers' protest is a sign water politics is about to go into hyperdrive*, <https://www.theguardian.com/australia-news/2019/apr/09/farmers-protest-is-a-sign-water-politics-is-about-to-go-into-hyperdrive>

⁸ MDBA (2019) *Losses in the River Murray System 2018-19*, <https://www.mdba.gov.au/sites/default/files/pubs/River-murray-system-losses-report.pdf>

downstream demand was to put water overbank and flood Barmah-Millewa forest. 349GL would have been sufficient to give NSW farmers a small allocation.

A large portion of the nut plantations are new and will not mature for several years. By leaving water allocation to the water market, government is effectively prioritising new nut plantations over exiting inter-generational farms.

The South Australian government currently has 340GL as a deferred entitlement in Dartmouth Dam. The policy intent of South Australia's deferred entitlement is to give the state more control of water for critical human water needs. However, there are reports of the South Australian Government selling its water on the temporary market. Selling water is contrary to the policy intent of setting a deferred entitlement, and South Australia must have assessed that it is surplus to their critical human water needs. That water could be made available to assist the dairy industry.⁹

Recommendation: *Water from the South Australian deferred entitlement account is made available for the dairy industry as an opening allocation in the 2019 water year.*

STRUCTURE OF THE AGRICULTURAL INDUSTRY

The implementation of water reforms, including the introduction of water trading in the Southern Connected System and the Basin Plan, have resulted in a significant restructure of the southern Basin's agricultural sector. There has been a significant growth in almonds and cotton, and a decline in dairy and rice.¹⁰ Nut plantations are predicted to rise by 40% between 2006 and 2024.¹¹

The shift in commodity production is displacing intergenerational farms with institutional investors, many of which are from overseas. This is especially true of nut plantations. Some rice farmers have transferred to cotton, however, many new cotton operations are 'greenfield' sites outside irrigation districts. This is putting extra pressure on towns that were built around irrigation districts.

⁹ Hunt (2018) *SA accused of profiteering while shoring up its water supplies*, <https://www.weeklytimesnow.com.au/news/national/sa-accused-of-profiteering-while-shoring-up-its-water-supplies/news-story/b221f5e2200c4001245eaa2b59e63368>

¹⁰ ABARES (2019) *ABARES water market outlook*, http://www.agriculture.gov.au/abares/Documents/WaterMarketOutlook_v1.0.0.docx

¹¹ Jasper (2018) *Water trading reshapes what food and fibres are grown on Murray and Murrumbidgee*, www.abc.net.au/news/rural/2018-07-10/water-trading-makes-farmers-adapt/9945688

Under the current policy settings and trajectory, the Basin's agricultural industry will be dominated by two commodities: cotton and nuts. Family and intergenerational farms will be replaced by institutional and often foreign agribusiness.¹²

Recommendation: *Develop a policy framework for regional economic development that ensures some diversity in the Basin's agricultural industries.*

FEDERAL ROYAL COMMISSION OR FEDERAL ICAC

The Basin Plan has been plagued by mismanagement and malfeasance. In the 12 months following the 2017 Four Corners exposé into water theft a range of scandals attracted more than 100 media reports.¹³ Parts of the Plan are hotly contested, such as the Northern Basin Review, which was initially disallowed by the Senate in 2018.¹⁴

The SA Royal Commission demonstrated the need for further inquiry, as it was limited in scope, time and faced opposition from state and federal governments. The public supports further investigation. Polling by The Australia Institute shows that 65% of voters agree or strongly agree with the statement "There should be a Commonwealth Royal Commission into the management of the Murray Darling Basin".¹⁵

The investigation of a Federal Royal Commission should include:

- the water efficiency program;
- floodplain harvesting;
- operations of Murrumbidgee Irrigation Limited;
- strategic purchases;
- draining of Menindee Lakes in 2016/17;
- Northern Basin Review and supply measures;
- South Australia's management of the Lower Lakes and Coorong.

Recommendation: *Undertake a federal Royal Commission into the management of the Murray-Darling Basin.*

¹² Jasper (2018) *Water trading reshapes what food and fibres are grown along the Murray and Murrumbidgee rivers*, <https://www.abc.net.au/news/rural/2018-07-10/water-trading-makes-farmers-adapt/9945688>

¹³ Slattery and Campbell (2018) *The Basin Files: Maladministration of the Murray-Darling Basin Plan: Volume I*, <http://www.tai.org.au/content/basin-files>

¹⁴ Worthington and Belot (2018), *Murray-Darling Basin Plan: Labor backs Greens' bid to stop Federal Government changes to plan*, <https://www.abc.net.au/news/rural/2018-02-06/murray-darling-labor-backs-greens-disallowance/9400160>

¹⁵ Swann (2019) *Polling – Murray Darling Basin* <http://www.tai.org.au/content/poor-voter-impression-murray-darling-basin-management-soars>

PAUSE THE PLAN

There are calls from regional communities to ‘pause the Plan’.¹⁶ This was a major issue in the NSW election in the seats of Murray and Barwon, both formerly safe seats for the National Party. Both seats saw swings of over 20% away from the Nationals towards the Shooters, Fishers and Farmers Party, whose candidates had a strong understanding of local water issues. Basin issues will likely influence the equivalent seats in the federal election.

The following parts of the Basin Plan should be paused:

- the accreditation of the water resource plans;
- the efficiency program, including the 450GL upwater;
- the supply measure projects;
- the issue of new floodplain harvesting licences.

The pause should last until:

1. emergency relief for southern Basin irrigators and communities is delivered;
2. a policy framework for regional economic development, including the structure of the agricultural industry is developed;
3. the findings of a Federal Royal Commission is completed

Pausing the plan will not:

- Impact environmental watering;
- Change the amount of water owned by environmental water holders;
- Stop work on:
 - A genuine collaboration with Aboriginal people on water management;
 - Constraints Management Strategy
 - Protection of environmental water

Recommendation: *Pause the Basin Plan until:*

1. *Emergency relief for Southern irrigators and communities is delivered;*
2. *a policy framework for regional economic development, including the structure of the agricultural industry is developed;*
3. *the findings of a Federal Royal Commission is completed.*

¹⁶ Calver (2019) *Southern Riverina Irrigators and SFF campaign to pause the Murray Darling Basin Plan*, <https://www.theland.com.au/story/5991402/push-to-pause-the-plan/>