

**Submission
No 99**

**IMPACTS OF THE WATER AMENDMENT (RESTORING OUR RIVERS) ACT
2023 ON NSW REGIONAL COMMUNITIES**

Organisation: Quambone Pastoral Co. Pty Ltd

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The Chair
Investment Industry and Regional Development Committee
Parliament House
6 Macquarie Street
SYDNEY NSW 2000

Via email: investmentindustry@parliament.nsw.gov.au

Dear Sir/Madam

RE: INQUIRY INTO THE IMPACTS OF THE WATER AMENDMENT (RESTORING OUR RIVERS ACT 2023 ON REGIONAL COMMUNITIES)

Thank you for the opportunity and the extension of time to make a submission to this most important inquiry, and correct the misconceptions held by many communities and politicians that have been peddled by large self interested industry lobby groups.

My family has lived on or beside the Macquarie Marshes floodplain since 1912, and have actively been involved in progressing Australia's national interest since the early 1800s.

I would like to begin with some facts:-

1. All water in rivers, lakes and aquifers, occurring naturally on or below the surface of the ground are vested in the Crown, in other words - owned by the people of New South Wales.
2. The Commonwealth used its external affairs powers to force an agreement between the states and the Commonwealth and created the Commonwealth Water act and water agreements.
3. Water resources are over allocated and/or overused (statement of fact in 'objects' & agreed with by SA Royal Commission)*
4. As a result of the Commonwealth Water Act and the basin agreement, the New South Wales government has to also comply with the Objects of the Commonwealth Water Act* especially the "Relevant International Agreements to the extent to which those agreements are relevant to the use and management of the basin water resources".

As a result of the **Water Amendment (Restoring our Rivers) Act 2023** the Federal Government asked ABARES (Australian Bureau of Agriculture Resource Economics) to examine the impacts on irrigated agriculture of using buybacks to meet outstanding recovery under the 450 GL target. The resulting paper is very enlightening especially table1*

ABARES studied three scenarios: 125GL, 225GL and 325GL recovery. The higher Water allocation prices for temporary transfer are most enlightening and indicate the price will rise from \$474 to \$545. This is not a permanent transfer water license, but rather temporary or annual Water license allocations. One would imagine that increasing the recovery to 450GL would increase the average price of temporary water to closer to \$580 per megalitre.

Acknowledging that the average price of temporary water will approach \$580 per megalitre is the cornerstone of my argument.

Water is only being bought from willing sellers so the remaining irrigators will own a product that has a much greater value, and as a result their permanent Water licenses will also increase exponentially in value, much the same as when Gold increases in value the price of gold mining shares also increases in value. With this in mind, the asset value of all irrigators is increasing, not decreasing, as is being falsely communicated by the Industry.

The state governments (who own the Water on behalf of the Crown) do the Available Water Determination (AWD). The water value immediately before the AWD is of zero \$0 value, however immediately after the Available Water Determination ABARES states the average value is approximately \$550 per Meg.

In the Murray Darling Basin the Sustainable Diversion Limit (SDL) is 11,630 GL of which NSW Murray Darling Basin SDL is 6656 GL, so in 100% allocation years the NSW Government at the AWD is giving the irrigation industry water to the value of \$3,660,800,000. ($6656000\text{meg} \times \550) An asset that can instantly be sold.

The ABARES values are reported in \$2022–23 dollars.

The practice of giving water to the irrigation industry has been going on forever, however if you start from 1975 and go through to 2025, and bring that into today's value in real terms, we are talking about 50 years of \$3,660,800,000, or a total of \$183 billion in the NSW Murray Darling Basin alone.

If you added the remaining rivers in NSW, it would be easy to come up with \$250 billion.

My understanding is that the NSW state debt in 2027 is expected to be \$236 billion. In other words, all politicians collectively over half a century, have given the state debt in value, to the irrigation industry, an industry which is predominantly owned by overseas interests or entities who are taxed in overseas jurisdictions.

For example, I understand that the Canadian Pension Fund (Canada's PSP Investments) owns a substantial percentage of water entitlements in the Murray Darling Basin. Canada's PSP Investments can instantly cash its annual allocation if desired and take the proceeds back to Canada to help fund their mounted police and other essential workers, whereas in New South Wales we do not have enough money to pay our essential workers in this cost-of-living crisis.

If NSW taxpayers/voters knew of this gross financial mismanagement there would be riots in the streets - a perverse economic outcome.

The giving of this water to the irrigation industry is a cost of production subsidy, which gives an unfair and perverse advantage to the irrigation industry versus dry land production in NSW and Australia. It is best explained using an example:-

Irrigated oranges use between 10 and 15 Megs of water per hectare - that represents a subsidy of \$8,250 per hectare. (15mg × \$550)

Irrigation is great. It has many attributes and one of these is future production predictability and forward contracts are a great management tool for forward production volumes and price.

Grocery stores such as Woolworths, Coles, Aldi etc.. need to know where their supply of food is coming from for the future. So they are more than happy to do forward contracts with irrigated orange growers. The orange growers need to establish their cost of production along with a small margin for profit. To do this, they go to their Profit and Loss Statement normally supplied by their accountancy firm. They will find all the expenses for the last financial year so it is easy to work out a set price for a future contract. The problem is that the state government has given the Water to the irrigator for free, so it does not appear in their profit and loss, and as a result it is not accounted for in the forward contract for their irrigated oranges, creating a very perverse outcome.

This outcome allows a grocery store to set a below true cost of production price in their stores.

It also enables Woolworths to go to all food suppliers and bargain down their price because they can get it cheaper just down the road.

The oranges are effectively being dumped on the market and distorting it for all other producers, especially dry land producers. The above example is not only happening within Australia, but is being done by Australian irrigators on international markets which would be against Int'l Free Trading Agreements, especially to the ire of Donald Trump at the moment.

Most of Australia's agricultural production, food and fibre, is exported around the world to wealthy countries that can afford to pay for it. But here in Australia we have irrigated product that is being subsidised by state governments such as yourselves, to give cheaper food and fibre to Paris London, New York, Vancouver, Tokyo, Beijing, Seoul - all countries that we have free trade agreements with, yet we do not have the money for our essential workers, teachers, nurses, ambulance drivers, policeman librarians etc.

What an incredibly perverse outcome Australian state politicians have created.

Once you understand the example of oranges above, you can transfer that scenario to the production of irrigated Barley in the Macquarie Valley, where it would use about two megs of water. Because it is a winter crop the cost production subsidy would be 2 X \$550 = \$1100 per hectare, and the production is much higher - say seven tons per ha. This allows them to take out forward contracts again with grain traders such as Feedlots and establish forward pricing below the true cost of production.

There's very little irrigated Barley grown in the Macquarie Valley, but there is a large amount of dry land Barley produced. The forward setting of prices enables grain traders to truthfully say they have just bought cheaper Barley just down the road.

The effect of this artificial lowering of prices is to decrease profit, even to below profitability. This has a monstrous effect on our communities. The profits made by these dry land businesses is the money that is spent in our regional communities - in shops, health centres, on entertainment, restaurants - creating jobs and sustaining our schools, etc.

Another incredibly perverse economic and social outcome politicians have created.

There has never been a socio-economic study done on the effects caused by irrigation on downstream communities in the Macquarie Valley. The only study ever done was the **Lower Balonne Floodplain Grazing model report** which found a decrease in carrying capacity of 21.62% plus a decrease gross margin, ie earnings of 29.34%.

When I met the modeller, Phil Townsend, I asked him if it was possible to do a study on the Macquarie River, and he said the authorities did not want such a study because they would be suspicious of the results. I then asked him if we could use the lower Balonne study and he said we could use it "indicatively".

I've since asked our accountants to put our own profit and loss statements through the model results for the years 2014 to 2023. Indicatively the loss per year is \$1,417,427.00. After tax that would be \$992,198.60. The lost profit per week before tax is \$27,258.

If a business that relies on the natural production of grass and water can lose \$1.4 million a year one can only assume the loss to the natural environment, flora and fauna, caused by the reduction in water to the Macquarie Marshes.

Another perverse economic, environmental and social outcome caused by giving water for free to the irrigation industry.

As you are all aware originally Water allocations/licenses were tied to the land but the state government in their wisdom decided to separate water from land so it could be commercialised traded collateralised etc. It just forgot to actually commercialise the sale of Water at the available Water determination(AWD).

All other local government, state government, Commonwealth government i.e. Crown assets that are disposed of are auctioned, expressions of interest or tended so that they go to the highest value use, avoiding subsidies and potential corruption and other perverse economic outcomes.

True market value for Crown assets would be returned to the public purse to be used in the budget for social economic and environmental outcomes and even reducing state debt.

The solutions:

When the State Government announces the AWD, the water should be auctioned to Water license holders. Each license holder is able to purchase Water to the maximum of their license volume.

This will ensure that Water goes to the highest value use which ensures that the total production in irrigated agriculture will be maximised. High value and production crops will receive more water and thus productivity will be massively boosted. Low value and production crops which have competed with dry land production will receive much less water and thus be unable to decrease the competitive prices received by those dry land producers which will avoid dumping of product as discussed above.

This will force inefficient subsidised irrigation production to change - possibly back to dry land production, where they can fairly compete unsubsidised.

Avoiding the forward contract prices of dumped product will lift the competitiveness of dry land production in rural communities lifting profitability of these agricultural businesses which will have flow on effects to all rural communities and small towns, making them all more sustainable. Most of these businesses are Australian owned and pay Australian tax.

Agricultural politicians have had the ambition to achieve \$100 billion of agricultural production. This simple change to the pricing of water will probably mean that we surpass \$100 billion very quickly. It will also increase the amount of income in the state budget from the sale of water, also the income/ profit generated across the community will become taxable.

With communities becoming more sustainable, the need for welfare payments will decrease also helping the budgets of state and federal governments.

Woolies, Coles, Aldi etc will still be able to have forward contracts but they will be based on businesses full profit and loss statements (unsubsidised by free irrigation water) so that fruit growers in naturally competitive areas eg Orange, Batlow, North Coast etc can compete fairly in this cost of living crisis - helping communities right across the state.

Water for the Environment which is held as licenses would need to be purchased each year. This will solve the problem of not having enough water to make the Environment sustainable, so that when the Environment needs water, the environment department can purchase water up to the extent of their licenses.

The money involved is actually achieving a round robin effect, i.e. it comes out of the state budget - goes to the Environment department - goes to the water department - goes back to the budget.

This mechanism allows the priorities of the State Water Act to be complied with under section **5(3)abc, section9(1)ab** and also, this mechanism complies with the Objects of the Commonwealth Water act, all of them, I suggest you read each and everyone of them to see what I mean. They are attached below.*

Ironically and perversely, if water had always been sold (by an open market system) to the irrigation industry at the available water determination there would be no need for the Water Amendment Restoring our Rivers Act, because the environment, through the appropriate departments would be able to buy 100% of their water allocation in years when the environment needed it, thus making it sustainable.

The need for the 450 gig would be in addition to sustainability.

My second recommendation is that the New South Wales Water Management Act be amended at **section 5(3)** Water Sharing Principles to also include the Objects from the Commonwealth Water Act 2007, and then below, to prescribe an updated list of the relevant Int'l Agreements to the extent which those agreements are relevant to the use and management of the basin water resources.

My third recommendation after implementation of the second recommendation, is to have a Royal Commission into how the Objects and Principles of the Act have not been complied with, the cost to the state of non-compliance, and how to recoup the loss, along with any other relevant matters involving unlawfulness maladministration and political fixes.

In conclusion, although we regard the impacts of the Water Amendment (Restoring our Rivers) Act 2023 as a small, but very positive step forward in realising the importance of the sustainability of the Murray Darling Basin, the massive amount of time spent on trying to rectify and reverse the gross over extraction of water from the MDB would not have been necessary if the Objects and the Principles of the Water Acts had been followed in the first place.

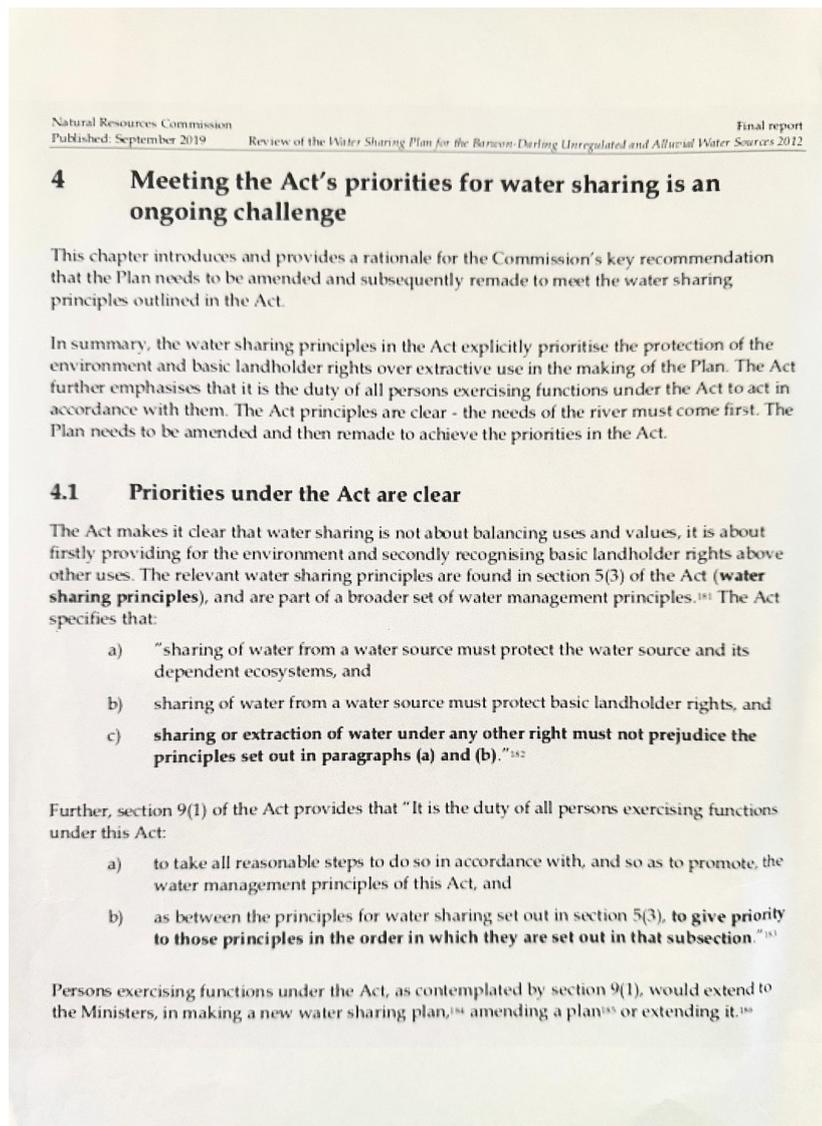
Yours faithfully

Dugald and Justine Bucknell
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References:

- South Australian Murray Darling Basin Royal Commission Report
<https://static1.squarespace.com/static/608f6ee3994fb525aa27657d/t/60909819e725855253b5667a/1620088880761/ MDBRC+REPORT+31.1.19.pdf>
- ABARES impacts of buybacks on irrigated agriculture (esp. Table 1):
<https://www.agriculture.gov.au/abares/research-topics/water/the-impacts-of-further-water-recovery>
- Lower Balonne Floodplain Grazing Model Report:
<https://www.mdba.gov.au/sites/default/files/publications/lower-balonne-floodplain-grazing.pdf>
- Natural Resources Commission Summation of the Principles of the NSW Water Act



- Commonwealth Water Act Objects

3 Objects

The objects of this Act are:

- (a) to enable the Commonwealth, in conjunction with the Basin States, to manage the Basin water resources in the national interest; and
- (b) to give effect to relevant international agreements (to the extent to which those agreements are relevant to the use and management of the Basin water resources) and, in particular, to provide for special measures, in accordance with those agreements, to address the threats to the Basin water resources; and
- (c) in giving effect to those agreements, to promote the use and management of the Basin water resources in a way that optimises economic, social and environmental outcomes; and
- (d) without limiting paragraph (b) or (c):
 - (i) to ensure the return to environmentally sustainable levels of extraction for water resources that are overallocated or overused; and
 - (ii) to protect, restore and provide for the ecological values and ecosystem services of the Murray-Darling Basin (taking into account, in particular, the impact that the taking of water has on the watercourses, lakes, wetlands, ground water and water-dependent ecosystems that are part of the Basin water resources and on associated biodiversity); and
 - (iii) subject to subparagraphs (i) and (ii)—to maximise the net economic returns to the Australian community from the use and management of the Basin water resources; and
- (e) to improve water security for all uses of Basin water resources; and
- (f) to ensure that the management of the Basin water resources takes into account the broader management of natural resources in the Murray-Darling Basin; and
- (fa) to ensure that the use and management of Basin water resources takes into account spiritual, cultural, environmental, social and economic matters relevant to Indigenous people, including in relation to their knowledge, values, uses, traditions and customs; and
- (g) to achieve efficient and cost effective water management and administrative practices in relation to Basin water resources; and
- (ga) to ensure that the governance of water markets and trading arrangements relating to Basin water resources is appropriate, and that governance measures promote integrity and transparency in water markets; and
- (h) to provide for the collection, collation, analysis and dissemination of information about:
 - (i) Australia's water resources; and
 - (ii) the use and management of water in Australia.