

REPORT OF PROCEEDINGS BEFORE

**STANDING COMMITTEE ON NATURAL
RESOURCE MANAGEMENT**

At Sydney on Friday, 17 October 2003

The Committee met at 10.00 a.m.

PRESENT

Mr G. F. Martin (Acting Chair)

Mr G. Aplin
Mr A. M. McGrane

[PROOF COPY]

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RICHARD WARREN THOMPSON, Chairman, Murrumbidgee Irrigation, Hampton, Hanwood, 2680, and

GEORGE BODILLE WARNE, General Manager, Murray Irrigation Limited, 443 Charlotte Street, Deniliquin, New South Wales, sworn and examined:

ACTING CHAIR: Mr Thompson, I am advised that you have been issued with a copy of the Committee's terms of reference and also a copy of the Legislative Assembly Standing Orders 332, 333 and 334 that relate to the examination of witnesses, is that correct?

Mr THOMPSON: Yes.

ACTING CHAIR: Mr Warne, we are pleased to hear your evidence. I am advised that you have been issued with a copy of the Committee's terms of reference and also a copy of the Legislative Assembly Standing Orders 332, 333 and 334 that relate to the examination of witnesses, is that correct?

Mr WARNE: Yes.

ACTING CHAIR: We have received a submission from your organisation, is it your desire that it be part of the formal evidence?

Mr WARNE: Yes, thank you.

ACTING CHAIR: Would you like to speak to the submission at this stage and then we can go into a question and answer process? Are you happy with that?

Mr WARNE: That would be good.

ACTING CHAIR: Mr Thompson?

Mr THOMPSON: If I could start off by saying that there are so many misconceptions about trade and its impact on salinity and on the environment that we really need to address in the context of these hearings. I had the opportunity on Wednesday to speak at a Vital Issues seminar at the Library in Federal Parliament. Mike Young was the other speaker at that seminar. I can assure you that we do not fully agree on a lot of the issues that have come through in his report. I believe his report is referred to in this.

ACTING CHAIR: Yes.

Mr THOMPSON: We do need to discuss some of the differences that are coming through. He is purely from an academic point of view and much of it is in actual practice not right. The other point I would like to make is that New South Wales is well in front in the water reform area. It is much different to what you will hear from a lot of people in Victoria and South Australia. It is surprising how far advanced we are in rules for trade and overcoming the impacts that trade has on other irrigators, but more so on the environment. We need to fully understand those issues.

I do have a written answer to the three questions we were given, but I think most of it we need to discuss in the context of Mike Young's statement.

ACTING CHAIR: Did you want to make any comments, Mr Warne, at this stage?

Mr WARNE: No. I pretty much concur with Dick's comments and I would like to

reinforce the point that contrary to a lot of the data coming out of ABARE, with the Federal Government fisheries and agricultural agencies, and even the Murray Darling Basin Commission, in many respects New South Wales leads the way in water reform. In New South Wales, apart from some shortcomings which have been vocalised well by irrigators about the tenure of their licences, the legislation I believe is second to none.

ACTING CHAIR: You do not see ABARE as being the inscrutable voice?

Mr WARNE: No. I just think - this is a personal view - that when I meet a lot of these people they have had their careers and upbringing in Victoria and they are expressing the view that Victoria leads Australia, if not the world, in water reform and water management. While that may have been the case up until 1970 I am not sure that is the case now. Some of the morals created in New South Wales, progressively over the last ten years, to separate State functions from private distribution functions I think lead Australia in that respect. I do have a Powerpoint presentation and at the right point I will run through that.

ACTING CHAIR: It might be more appropriate that you do that and then we can go to the questions and get them on the record, which I think is important.

Mr WARNE: I think the questions are insightful. They are the questions that a lot of people are raising. Dick and I are going to agree on a lot of these here. I hope we can improve each other's understanding of where the Government is coming from and certainly where the irrigators are coming from.

This is going to be a word record only, so I am going to have to explain these as I go. What I want to talk about today is a little bit about our company to give you a bit of a perspective of Murray Irrigation and trade and some responses to the specific questions that were raised.

As you know, Murray Irrigation is a private irrigation company which was formed in 1995. There are 1.5 million shares and water entitlements. The shareholders own the water entitlements in the company. Our shareholders are our irrigators. In 1995 the State, through the legislation, effectively separated land and water. In our case we use about 78 per cent of New South Wales' share of the Murray in an average year.

In terms of our local environment, we have got land and water management plans which are designed to improve natural resource management. The company introduced limits on the amount of water that a farmer can use on his farm in a year. We have got rigorous limits on where rice can and cannot be grown. The company has got policies on storm water drainage, when a farmer can allow water into a drain, which we believe are second to none. We certainly have a very well managed and maintained infrastructure.

The graph that I am presenting there, I thought I would put this as an important background because I imagine the inquiry is being held in the background of increasing salinity and disastrous salinity and a landscape marred by salinity. As you can see, in the graph the four coloured lines represent water tables at different levels. You can see the most dramatic effect on the landscapes is water tables that are above two metres, that is, they are closer than two metres to the surface. That is the bottom line. While in our area of some 800,000 hectares there were 100,000 hectares with water tables within two metres of the surface in 1995, there are now less than 4,000 hectares with water tables within two metres of the surface.

The point I am trying to raise is that contrary to the popular belief that things are just getting worse and worse, as a function of the way we farm, the way we use our water and, of course, the very dry years we have had for the last six years, they have certainly reduced that apparent problem.

In terms of trading history, and this inquiry I understand is about trading, the questions you are asking us today are about trading and the impacts of salinity. The push for trading in our area has been driven by shareholders. It has evolved progressively since 1938. The main market in trading is annual trading. If I can explain that, it is like someone owns a flat and they lease it out. That is the lease; it is the annual lease. So the actual sale of water rights on their own is quite unusual. Most water rights when they are traded are traded with a farm. The whole business is sold. There has been an acceleration in annual trade since 1991 and our shareholders buy from and sell to New South Wales and Victoria Murray, the lower Darling in some seasons when there is water in the Darling, the Murrumbidgee valley and we even buy and sell water into South Australia.

We have even done some deals, and so has Dick, and he will talk about those later - we have leased water from the Snowy, where we have leased next year's releases on the understanding that we repay them in the year they fall due. There has been quite a bit of trading going on, really within the connected Murray Darling Basin. The reason you can trade with someone in another valley, even though you may have a different source of water, is because you both have responsibilities to deliver water downstream. All that means is the other person has to deliver a bit more downstream and you deliver a bit less downstream and that is how trade occurs between timber and river valleys.

In terms of innovation, we were doing transfers between farms with farmers with the same ownership as early as 1938. We did our first deal with the Snowy in 1999, during a drought year. We created a daily exchange in water for annual transfers in the year 2000. Last year we went to a 24-hour live exchange where you ring up on the phone and buy the water over the phone instantly, and we have created instant, remote and paperless annual transfer systems. Farmers have a pin number and they can transfer water between farms instantly over the phone. That has proved popular with our farmers because, as you can imagine, many of our farmers own more than one farm, and if they are running out of water on one farm we simply will not give them the water unless they get onto that holding water on one of their other farms. It is much more convenient to ring up and use your pin number than it is to come into the office and facilitate a transfer.

Interestingly, our company has developed the policy that we do not charge for transfers or trade facilitated by our own water exchange. We have considered the benefits are so great to the majority of our shareholders that to charge a commission or to charge a fee would, in fact, be such a universal penalty it may as well be part of the water price, the costs associated with it.

In terms of our rules on annual transfers, do you all understand the difference?

Mr McGRANE: What about the guys that do not trade much at all, don't they feel penalised as against guys that trade a lot?

Mr WARNE: Last year the company had its worst year ever. We only had 300,000 megalitres. 226,000 of that was subject to a transfer or a trade. The other thing we would argue is because we are such large net importers of water as a company, we typically bring 80,000 to 100,000 megalitres of water into the company a year, the extra income we derive from that helps lower the water price to every one because our business is largely a fixed cost business.

In terms of annual transfers, we all understand the difference between annual transfers and permanent trade. The company has not limits on annual transfers in or out. There are no charges for transfers, no charges for sales or purchases. We do have a loss allowance, which reflects the actual loss we incur in delivering water. The way we have got around the issue of flow rates, and you talk about the impacts on someone who does not trade, if you own a farm and your next door neighbour buys 2,000 megalitres of water on the annual market, you would be concerned that he in fact is going to flood your channel for the season, you are going to have trouble with delivery. In

1995 we fixed the flow rate for each farm and we do not trade in flow rates. Every farmer, when restrictions apply, they apply universally, and the farmer who has got more water, he will last longer, he will go for more days, but he does not get any more flow rate as a result of buying that the water. That varies throughout the Murray Darling Basin and different people take a different approach to that.

ACTING CHAIR: When you say there "it avoids third party issues", what are they?

Mr WARNE: Third party issues are if I bought 3,000 megalitres from Dick and put it on my farm and I have said, well, now I have got more of a flow rate share, and he was not involved in transfers or transactions at all, and he wondered why his channel was being restricted to deliver all of my water, he would consider that an unfair third party impact. We do have annual farm limits applying. A farmer can buy as much water as he likes but the actual right to use it is limited by the rules we were talking about before.

In terms of permanent water, permanent water transfers out of Murray Irrigation have a cap. I have written there "not yet an issue". We have never had to stop someone transferring water out of the company because we have always imported more than we have exported.

ACTING CHAIR: Do you see it as a looming issue?

Mr WARNE: Yes, it is a looming issue and we are going to have to deal with it and we are coming under pressure from committees like yours to address that issue. It is an issue for us as a company because we are out in the market place with the annual market espousing free trade, and you really cannot be that hypocritical. It is something we are going to have to address. There are a couple of issues that may come up that Dick may want to talk about and I do too. Water transfers from any one farm are limited to 60 per cent of the 1995 entitlement shareholding for that farm. That was about banking issues and security issues. The banks were concerned that if someone slipped through our net and got through our share registry and they did not register the encumbrances properly, that they could sell all the water from the farm, the banks would go to recover the farm and the water would be gone. We struck a figure of 60 per cent.

We also had quite a few community concerns about what will happen if the nine farmers on my channel all sell their water and I am left here. We set a rule of 60 per cent. It has come under quite significant challenge, because by now you can imagine maybe 50 or a hundred our farmers have sold their 40 per cent, so the person that owns that farm has nowhere to move. He can sell water on the annual market but he cannot sell the water permanently because he has hit that 1995 cap. In terms of permanent trades, we do apply charges to mediate costs. Typically it is a fixed fee of \$150 to facilitate a transfer.

Making trade work. Just some of the things that we think are important: You have to be able to innovate. We are using available technology. Our farmers live often 100 miles away from our office; they cannot be coming into the office and it has got to be quick. We are using, not state of the art electronic devices, we are using well tried ring technology that you might have used in phone banking five or ten years ago. It has to be accessible, simple and reliable. People have to be educated. Users have to be aware of what is happening and that education is important in terms of information. We found once we created the internet exchange, and we offered a daily or ten minute posting of the prices, that gave people terrific access to market information. When a farmer was talking to his next door neighbour about buying some water from him in a private sale he had terrific market information. He knew that day or hour what the price of water was doing.

We need to motivate people to use the system by removing barriers. We need to make sure we have volume to warrant the investment in the different technologies. We need to make sure that the system is honoured. There is nothing worse than a failed transaction and certainly the company

stands behind every transaction. In every year we do several thousand transactions, there is one or two that we stuff up, that is we have given a farmer water and the person selling, their transfer had not been properly carried out, or we pay the farmer for the water money but the buyer pulls out, or something like that, and the company has a policy of honouring every transaction with either the water or the money. That has enabled the exchange to grab a very large proportion of the market.

Just to give you a bit of an idea of the scale, and I will run through these numbers for the benefit of the record: in 2001/02 there were 85,000 megalitres came into Murray Irrigation; in 2001, 84,000; 1999, 175,000; 1998, 89,000; 1997, 98,000. Obviously it is very hard to say whether there is more water in droughts or in wet years. In very severe droughts, like the one we have just been through, the water is very valuable for high value horticultural crops, which we do not have very many of. In the very wet years there is often more water about and people are disposing of surplus water. It is one of the issues about how you apply the cap in terms of water trading.

ACTING CHAIR: Just a question on 1999/2000, a hell of a spike there, is that seasonal?

Mr WARNE: Yes, with the drought and there was water available in some of the other areas.

In terms of permanent transfers, this gets the thing in perspective: In 2002/03 there were only 4,000 megalitres transferred in permanent transfers. We have a bulk shareholding of 1.5 million shares and only 4,000 of them were traded. Can I say something like 100,000 would have been traded when people sold farms. The sale of water on its own is quite unusual; 95 per cent of trades occur where the farm and the water are sold together.

External permanent transfers; two came into the Murray Irrigation, 490 megalitres, and one out of Murray Irrigation, 402 megalitres. The point I raise there is there had been a lot of emphasis on interstate trade and inter-valley trade. The most likely people to trade with are within your own community. By far the most activity for the foreseeable future is going to be dominated by what is happening in your community of interest. In our case it is Murray Irrigation's area; in Dick's case it will be the Murrumbidgee, certainly where the most activity will be. Maybe we will change our memorandum and articles to allow water out of the company, the point I am trying to raise is I do not think it will make much difference, certainly not in the short term.

Mr APLIN: When you said the trade sometimes occurs when the farm is actually sold, that obviously accompanies the water licence, that remains in that particular area?

Mr WARNE: It remains on that farm.

Change in ownership, that was the figure I was running through, 143 land holdings changed ownership, 5.9 per cent of the total land holdings, so probably 5.9 per cent of that 1.5 million shares, the water rights changed hand. Similar numbers to previous years. We have noticed in the last few months the spike in the number of land transactions, and historically after a drought you will get a rush in people selling farms.

Why do we limit transfers out of our business? There is some quite important issues here. We have community desires to keep their communities in tact. They are very worried about robber barons or people coming and buying their water. Economies of scale are important, and in asset protection we have \$300 to \$400 million of assets and we do not want to see even a slow bleed of the income providing cash flows to support those assets.

We are very sceptical about the State Government's ability to regulate use and compliance. I said earlier that we use 78 per cent of the water in New South Wales. Some water moves from our business onto the river. It is often a river that we supply through our infrastructure, like the Niemu

or the Wahpool or the Edward, and we do not believe the State is serious about compliance issues, so why would we allow them to take water and put it on a farm where there has to be three megalitres provided to give them one because of the inefficiencies and noncompliance issues. Why would we encourage someone to use water at that spot when we know that the State are not serious about the compliance issues in our view?

ACTING CHAIR: How do you back that up?

Mr WARNE: We are reluctant to come out and to start pointing the finger at farmers. Just in terms of the staff on the ground, the number of prosecutions per year and number of instances we know of cases of farmers. For example, a fellow last year used 800 megalitres at the start of the season and he had an entitlement to 80, but he used 800 and he will repay it some time and he will not be prosecuted. Now, in our business he would be allowed to get to about 82 and he would be turned off. Why would we allow our farmers to sell water permanently to that farmer when who knows what is going to happen with that water? We share the resource. If the other third of the resource is really badly managed why would we give them more of it?

Mr McGRANE: How did he get away with it for so long?

Mr WARNE: They only read the meters twice a year. He just said, "Normally I will repay it later in the season. Why would I not do it this year?" Dick would probably reinforce, there are stories like that told the length of the rivers, the traditional areas and districts, and people talk about the inaccuracy of a debt bridge outlet. At least it works. At least someone looks at it every day. At least the meters are read once a week, and that is far cry from some of the laissez-faire approaches that might occur in some other jurisdictions.

There is a risk of restrictions on the Murray Irrigation because of the choke. The concern we have is in the Murray valley specifically, our water is taken upstream of a large natural barrier called the choke which limits the amount of water that can run through the forest. If we were to sell water say to a water trust, or something like that, and within a couple of years the pressure would come on the State Government, the various jurisdictions, to let that water into South Australia or down to Sunraysia, we may find - this is that third party impact - our irrigators are restricted and if they try and get water down to South Australia through a choke it will not fit through. We want to be very confident that people understood these limitations before they started buying the water.

Multi-part pricing on long term contracts, you have asked the question about pricing in your queries. In really simple terms our business is a fixed cost business but we do have a multi-part tariff. Our farmers pay in a normal season they pay about half their water bill in fixed costs, that is the cost of owning the entitlement. It is a bit like shire rates per hectare. And they pay the other half based on use. A farmer who used none of his water in a year would pay about half as much as a farmer who used the full entitlement in a normal season. That is not based on any science, logic or brilliance; it is just a recognition that there should be some cost for usage but the business is a very large fixed cost business.

The variable or usage charges are based on the water used. The others are paid on the entitlements owned, and our current balance is approximately 50/50. I am not saying that is right or wrong. We have actually gone out and asked farmers about changing it, how do they feel about changing it, so you can move towards a usage based charge, and they are very reluctant to see any change. If we went to a higher fixed charge we could protect the company's income stream. In the longer term one of the things we are thinking about, if we do open up our share registry and someone buys a thousand of our shares and wants to use the water somewhere else, maybe that will give us the ongoing right to charge them each year the fixed charges associated with our infrastructure, so you get over that problem of stranded assets maybe.

It is certainly more attractive than exit fees. People have talked about exit fees, and that would be where someone buys 1,000 Murray Irrigation entitlements and they pay the farmer, but they also pay the company something for the recognition of the future loss of earnings for the infrastructure repairs and maintenance. That would be an exit fee. I think that is quite untidy compared with the concept of tagged entitlements which a lot of irrigators are coming to think might be the answer.

In terms of multi-part pricing and long term contracts, obviously to allow sales out of our business we need changes to our company rules. We need shareholder support. I think that would be hard to get. It is likely to be unpopular. And we also have little confidence in the capacity of the State administrators to ensure compliance of other licence holders. That is quite an important issue.

ACTING CHAIR: Which is getting back to the point you made earlier.

Mr WARNE: That thing about shareholder support is required. You have the conflicting aim. The shareholders are saying we want to hold our communities together but we want our shares in the company, like yours, to be worth the most possible. We want our capital asset to be the most possible and if you open up the trade that will make it worth the most possible. The point I raised earlier, there is a big enough market in our 750,000 hectares of operation and the 1,500 farm businesses to provide them with an active market. At the moment they are not screaming at us to allow them to sell the water outside our company.

ACTING CHAIR: Just in terms of the compliance, you raised it a couple of times, is the answer to that just more resources on the ground as far as the departmental people are concerned?

Mr WARNE: There are a whole lot of issues at work there. It is often in remote terrain along creeks and streams with no defined roadways. There are pumps which are operated by the farmers, the metering devices are expensive and they are often very hard to maintain. If you were to get the sort of presence we have, where someone is driving past the installation once a day, the cost would be exorbitant given the low volumes of water and the miles you would have to drive. Maybe some remote technology could really help where you have a device in an office that tells you whether the switch has been turned on or off on the pump.

ACTING CHAIR: Has your company raised this?

Mr WARNE: We have raised the issue. The reason I am bringing it up here is on the basic business principle of 80/20, 20 per cent of your customers are going to give you 80 per cent of your problems. We have one customer, they have a remote electronic reading that they get every 20 minutes of how much water we are taking and they are saying at 75 per cent of the water, why would you worry about the rest, it is too hard. The point I am trying to raise, as an equity issue, as a community issue, it is an obstruction, it is a real problem.

If you start an interstate trade we are very concerned about Victorian pumps, meters, that sort of thing, and in papers circulated within the Murray Darling Basin Commission that compliance issue is coming up again and again. Not on a huge scale but at a human or a community level it is quite important.

Maybe taxes and credits to encourage trade. This is something you mentioned. We question the assumption that trade must be encouraged. People will tell you that already there are lots of different things you can do on your own farm; you do not have to sell your water. If you have an inefficient farm business, the first thing you should look at is what can you do on this farm before you start thinking about selling the water.

Trade does provide business opportunities, no doubt about that. Please do not assume that

automatically trade provides great environmental outcomes, because it simply does not. I think conceptually your model is okay. We are a bit sceptical of States to put in place the credits and debits to do that properly. We have a question about would a Government ever stop a new development? If some one comes and says "I have invested a million dollars in this land in the mallee. I bought \$4 million worth of water and now you are telling me I can't do it", I question the ability of governments to stop developers.

ACTING CHAIR: The ability?

Mr WARNE: The political will. Where the towns people are saying we want this development and these jobs and these people and by then it is often too late.

With regard to credits and debits with South Australians with regard to interstate trade, we are not confident that register is exactly right.

In terms of the policy approach to water use efficiency, you have identified something about if farmers get more efficient will there not be less water that pops up back in the river, and you are right. As farmers become more efficient more water will go through the plant and less will go into the escape flow or the return flow to the stream. I just do not think you can discourage farmers from becoming more efficient, and why should you; you want them to do that.

I think McColl and Young's work is seriously flawed technically, but the principles they have outlined are correct. Initially it is an irrigation company issue. In the first place the irrigation companies used to order a lot more water than they used and we used to return heaps of water into the rivers and creeks through mismanagement. So our farmers would order 10,000 megalitres for the day but they would only actually take delivery of 9,500, and 500 megalitres would find its way through all of these little escapes and back alleys and some went back into the mainstream of the river. As the pressure has come on water supply and delivery and we put remote sensing control systems in, our losses last year were effectively zero, they were less than one per cent through escape flows from a figure that might have been 10 or 12 per cent 15 or 20 years ago. So the irrigation companies are doing their bit.

On a smaller scale the farmers are doing exactly the same thing. If they order ten megalitres they are going to use ten megalitres and they would like most of that to go up through the leaf of the plant and not through into the groundwater and not through into a drain and back into the river. It is a real issue. A policy approach cannot discourage farmers. I just do not think if you said, "Well, any of that water you save you have got to give back". Guys, it is not going to work. I just think you can not bring a policy for irrigation companies to become more efficient. They just are going to become more efficient because we all know water is a scarce commodity.

Mr McGRANE: When we ask that question along those lines, how do you get to there, there has to be an incentive for them to do something when they are becoming more efficient and some people want to put more back into the river. The only way would be taxation.

Mr WARNE: Something like that. The problem you have got is that the Australian irrigation farmers per se are not limited by land; they are only limited by water. If a farmer that was using 11 megalitres a hectare on a rice crop now uses nine, he is just going to lay out another few acres of his farm. In our case he has plenty of farmland to do that. There is no shortage of real estate and efficient farmers. There is some idealistic notion they are going to give the water back to the river, the efficient farmer is going to be efficient on a bigger area.

What are the most equitable and efficient methods? Currently, the principles adopted by the Murray Darling Basin Commission, and I think reinforced by New South Wales, are that those who make the investment in the saving get the saving, whether it is the State investing in a channel

sealing project or a farmer investing in new irrigation technology. So the drivers are already in place for farmers to make an investment in improved efficiency.

If Government want water for the environmental flows, it should make the investment, and of course you could make investment in water saving technologies where you get the double benefit of you get the water and you see an improvement to the environment through less waste of water, but maybe the most efficient method is really just to enter the market.

What are the most equitable and efficient methods? Through evaluation and potential projects, and if you are going to evaluate projects and work out which project is best for water saving you want to make sure your water accounting is spot on and people are measuring very accurately the water flows.

It must be in the context of the cap. You cannot have people offering you savings where they are saving but they are not allowed to use under a capped environment, and you have to recognise any third party impacts of those projects. I think, obviously, incentives and voluntary approaches are much more popular. The use of market based options are okay, as long as the compulsory acquisition is the last thing you do and not the first. The involvement of the target audience, those you are hoping are going to become more efficient in the use of their water, in the development of these concepts and ideas is a very important part of coming up with ideas for equitable solutions for using water more efficiently.

That is the end of the presentation. I do not know how you want to handle it from there.

ACTING CHAIR: We did issue you with a number of questions. Some of the matters you have addressed in your presentation, but we can certainly revamp those and make sure we have got them on the record, particularly out of permanent trades and such. I think they were mainly addressed. Did you want to address?

Mr THOMPSON: I certainly do because there are a lot of differences.

Mr WARNE: I think you want to hear Dick's presentation first.

Mr THOMPSON: We are a net exporter of water on a temporary basis, so we believe that any trade has got to have rules which make everything comply with a cap. The cap is good for irrigators and the environment. What a cap should do is in wet years reduce the usage. The last thing we want in a wet year is somebody activating more water by trade just because it has rained and they do not need it on their own crop. If they turn around and trade it to somebody who can store it for next year and carry forward this year or to use it just to water pasture or fallow downstream, what you are doing is breaking the cap in that year, you are taking water away from that environment. That water should be left in the dam. Then if you have a wet year that following year and it spills, you get your environmental outcome, but if you traded that water you did not have a right to, you are actually taking it off the environment. If you are running into a dry period, which has happened the last couple of years, and that water was activated in the years before, you have less in the dams for irrigators to use in the dry years. What the cap should do, you should be able to grow virtually the same amount of crop each year, but in a wet year you should use a lot less water and that water should remain there for the environment or for future security for irrigators.

That is a principle I think that is now being accepted. Mike Young even accepts it now. I would like to go at that stage to his paper. His understanding of what trade would do in New South Wales is based on his understanding of the South Australian cap. South Australia does not have a cap. Let us be clear on that. They are allowed to activate in the future up to 90 per cent on average of their entitlement. If you can average up to 90 per cent on average, then in the dry years they are going to have to use a hundred per cent of their entitlement. Their cap was their entitlement.

In the Murrumbidgee in New South Wales our cap is 80 per cent of our entitlement. Mike's argument that people will trade their spare water up to the entitlement is not correct, because we have to remain within the 80 per cent cap. If somebody is allowed to trade water in those wet years or activate a hundred per cent in a hundred per cent of years, then somebody else has water taken off them, either because the water is not in the dams or, if we have a run of wet years, there has been restrictions to keep us within the cap. The water is just taken off somebody who is not compensated.

We have to have rules, and these are not restrictions, they are rules, which have trade complying with the cap and also environmental flow rules. We brought in environmental flow rules in the Murrumbidgee which moved water from the peak of summer, reduced the amount available to irrigation, and we released those environmental flows in the autumn, spring and winter. What happens now with trade, people are activating water that was used for pasture before, moving it to grapes, using it in the middle of summer and what you have done is just reversed the good of the environmental flows.

We need to be getting to a stage where there are two markets, one for summer available water and one for winter available water. Then people will know when they are going into the market that they are buying water that they can use in the peak of summer. We are just making it worse because all the high value crops, or so called high value crops, that water is moving to are mainly in the peak of summer. So we are moving away from the winter and spring when some water was going down the river. I want to make clear on our company's behalf we are not against trade but trade must comply with these other rules.

We have just had a ruling in the Land & Environment Court that backed up rules for trade being compliant with the cap. Horticulture and high security challenged the early cut off rules. We get then to explaining the early cut off rule. If we tell people who have high security who know they have their full allocation for the start of the year, if they have to save at the start of the year, how much they are going to trade, it means they can trade their real savings. They know what they have got to spare. You do not have to go to March and say, well, it has been a wet year, and let them virtually trade the rain. We have got to have rules in place to stop that. I am pleased to see the court has actually backed that up.

I think it is necessary for the Murray also to look at having similar rules. At the moment they do not have them and we have had the ridiculous case this year where high security and Murray New South Wales had 100 per cent of its allocation. In South Australia high security had 65 per cent of allocation and Victoria had reduced amounts too. George would probably know the exact amounts. They are talking about how far Victoria is in front and how stupid to have these different allocations.

Mr McGRANE: I take on board what you just said about trading, but how do you stop the people trading to the areas that water is used in summer when they are high value crops? Is there a reason why you want to stop that? Is it just the economics? If people are wanting to grow high value crops, why do you want to stop them? Am I reading you right or do you want that sorted out before summer?

Mr THOMPSON: What I am saying is those people should buy water which has been activated in the summer before if they want to grow those crops. There should be two different capital prices for water. You cannot continue to move water from winter and spring into summer. It is accepted that the flows are too high at the moment in summer. What we are trying to do environmentally is being reversed by trade. Let the high value crop compete for summer water if that is what is going to happen, or they put it in a storage of some sort. There is even underground storage being looked at now. So they can move water down in the spring and use things in the

summer.

Mr WARNE: I think your assumption is that the push that is coming from South Australia for environmental flows in the river is less of an environmental flow and more of a dilution flow. South Australia want better water quality to support their high value and terrific horticultural industries. They are not too fussed about the environment of the river. If they were they would not have a series of seven lakes, slow moving, towards the sea, they would have a river that reflected something more like what was there. Really it is a water quality argument and I have to say that they are quite insincere about the environmental outcome, they just want better water quality more often and they want to do it with more water. Not that that is a bad outcome, it is an agricultural and a human needs outcome, but I do not think they should pretend it is an environmental outcome.

Mr THOMPSON: Now, as far as our trade rules within the company, I have a written report on this, we allow the full trade out of savings. If somebody puts in a pressurized system for horticulture, which we are moving into now, that person can sell three megalitres per hectare of his water anywhere. We do not have any restriction on people trading savings, because that is really what trade should be. We also have a small amount we allow out each year, about one per cent of our allocation of the market to see what happens if people sell their sleeper and dozer water. Unfortunately, so far virtually all your permanent trade has been sleeper and dozer water. Even a lot of your temporary water is sleeper and dozer water. All the claims about this increased production from trade, in a lot of cases it has been increased production from sleeper and dozer being activated, but all the other irrigators at the same time lost a small amount. They have not measured the reduction in production on all the other irrigation farms.

Mr WARNE: The 51 trades that formed part of the pilot study for interstate trade downstream of Nyah on the Murray River, that is the interstate trade between Victoria, New South Wales and South Australia, they did a study of the 51 farmers selling the water and 49 of them had never used the water. So this concept of it going from a low value crop to a high value crop, it was probably going from a Collins Street bank account into a bigger Collins Street bank account. It was not about farmers trading water to a higher value user. Some of them never used it trading it to someone who wanted to use it. The person who bought it, they will definitely be using it. It used to be used by everyone in the community and now that licence holder has the benefit in cash. That story is often told, even in our own community. People who sell water are often people who are unable or unwilling to use their water.

Mr McGRANE: How much sleeper water is there in your area, what percentage of the overall water?

Mr WARNE: I would argue it is nearly gone now. When we started the capping regime our community at Murray Irrigation were very passionate about looking at the history of use, and our company for the previous ten years has had a history of using an average of 110 per cent, and the other irrigators on the river with similar licences on average would use of 51 per cent. Now we find ourselves in 2003 and the combination of them increasing the use and markets in water means that our use last year and the use of those fellows who live on the river with pumps was about exactly the same. The concept of the sleepers and dozers, in the developed southern Murray Darling Basin, I would argue it is nearly all over.

Mr THOMPSON: Just on that point in the Murrumbidgee, the cap is roughly 80 per cent of the entitlement. People who were using 100 per cent have come back to an average of 80; people who were using 60 have gone up either by trade or usage. So there was 20 per cent that was there that was virtually sleeper water but is now being activated by other means. It has had the impact so far but all this rubbish about the extra production from trade so far has been exaggerated.

Mr WARNE: I think the other point is that trade is not the only way you can increase the production of the Murray Darling Basin. Murray Irrigation's farmers were excluded from growing tree crops until 1994 by legislation. They were not allowed in broad acre areas to grow permanent plantings. That rule has changed. So obviously there could be a massive landscape change in the way in which our farmers use their irrigation water. That would not involve trade of any water. It would involve the importing of capital and knowledge and skills and a whole lot of marketing, but there is no water changes hands. Already we have seen that revolution in Griffith, where I think there has been 70,000 megalitres which was used on broad acre cropping now used in horticultural operations.

Mr THOMPSON: In fact in the MIA over the last ten years there has been 100,000 megalitres of general security converted to high security at 80 per cent. That was the conversion figure then. That is now available for permanent plantings on large area farms with secure water. That has happened. 10 per cent of our general security allocations in the last 10 years have converted. It is not as if nothing is happening. People think we are sitting out there not making changes. Probably now the average irrigator owns two farms, whereas in 1990 he owned one. The structural adjustment and the changes are taking place.

Mr McGRANE: Survival.

Mr THOMPSON: It is survival and unfortunately we are concentrating too much of our efforts on trade and not enough on change of production on farms. We have this change on farms from people who are growing grapes now on low security water. That couldn't happen up until about 1990. Our large area farmers were not allowed to grow horticulture. We only had the change in the last 10 years that allowed us to go into these high value crops, or so called high value crops. We have still had some grapes left on vine, and when you leave grapes on the vine it is not a high value use of water. The markets need to be there as the change takes place and I think that is one very important point, that with the high cost of converting to some of these crops you cannot expect people to do it unless there is secure markets for them.

Moving on to the permanent trade, George mentioned tagged, the odd over tagged allocation and we are totally supportive of that. I managed to explain it to Mike Young after we talked the other day on the way to the airport. You have a Murrumbidgee allocation, general security allocation, if it moves to South Australia, you can either move it to that individual in South Australia and he gets exactly the same rights as it would have given you in the Murrumbidgee each year, and you keep a record of that - there might be some losses to deliver it down the river, that can be worked out easily - or you can have a tag system where if there were 20 transfers from South Australia to the Murrumbidgee they would all be at the State border. It would be up to South Australia whether they passed it on as tagged water or whether they wanted to convert that water to the same as the rest of their entitlement and slightly reduce the security for their other irrigators. That would be entirely South Australia's call.

Mr WARNE: New South Wales' obligation would only be to deliver what was available that season for those licences on the Murrumbidgee.

Mr THOMPSON: If you go through a conversion factor, then if we run into climate change or we have years that it is not available, and you convert it, we could be reducing the right of the New South Wales irrigator in those dry years. I really believe that the tag system is much simpler. It will encourage trade. I am not against trade. I am just against trade of water that people do not have an entitlement to, that is outside the cap.

Mr WARNE: We also think that the tag entitlements concept could go right down through the irrigation companies, and we have been criticised, and we hear a little bit of it in your notes, criticism about allowing shares outside our companies. If someone from South Australia, for

example, were to buy 100 shares in Murray Irrigation, and a 100 shares in Murrumbidgee, that would give the company the right to have a call on those shares to pay the fixed entitlements, which would solve the problem of infrastructure decay and it may even address some of the community issues. We could say, well, look they own the water, they are using it in South Australia, but they are still making a contribution to your irrigation company in the maintenance of our infrastructure. We are allocated eight per cent, they get eight per cent, not some number that has been made up.

Mike Young, I know, has a vision of a Torrens title or a Young title to water, universally throughout the south eastern connected Murray Darling Basin, and I would argue that that is an unrealistic aim, because of the differences in the States and differences in the security, the differences in the farming system that have evolved around those securities. I think the concept of a tag entitlement is much more likely to get up and gain acceptance from irrigation communities than any other system.

Mr THOMPSON: To try and convert all the water in the Murrumbidgee to a similar security comes from people that have no understanding of the system and the different reliabilities. It cannot happen. To tag it, it allows all the trade you want and you do not have to go through this process. I can imagine the Victorians accepting that George's irrigator gets the same right as they do. They would have to reduce their security to give you the same outcome. We want to make sure that what people get now is defined as their right. I believe in New South Wales, the water legislation, if we had a longer period for the water sharing plan, and maybe in perpetuity, then we would have the right that is necessary. I believe it does define the access right, if there was just a longer period.

Mr WARNE: Irrigators are very critical of tenure. I think in every other respect the legislation is good. The involvement of the independent pricing tribunal, which was the first by any of the State jurisdictions, is a well run administrative regime. There is an issue of tenure; ten years is too short a period for farmers to make investment decisions. The more that enter, there seems to be uncertainty about what is going to happen at the end of that ten year period.

Mr THOMPSON: The other one I should comment on, as George said, water is limited, not land. That is where the MIA is. The horticulture people are limited on their farms. That is why we are looking to assist them. For the Government to pay for on farm improvements, the drip system and that water was virtually tagged for the Snowy River. That is how the savings from the Snowy were to come about, because they do not have the ability on their own farms to increase production. Some of them have bought other large area farms which they can move their savings onto. There is an opportunity there for government to fund savings on farms and get the savings.

While we are on that topic of savings, we are looking at a project in the MIA - it is a painting of my wife's of what it will look like in ten years time - an area which is just water and dead trees at the moment and that is a result of drainage from irrigation over the last 60 years. We are going to recreate a 2000 hectare wetland and leave 1000 hectares as a storage area. We will save something like 30,000 megalitres in that process, and regrow 2000 hectares of wetlands. South Australia and Victoria are growing about 20 hectares of wetlands, we are looking at 2,000, and the EIS is commencing at the moment on that. I cannot see that it will get knocked back in any form. That is water which the Snowy entity, they look like they will fund the bank and works and they will get those savings back to the environment, a third to the Murray and to the Snowy.

At this stage we should discuss Mike Young's paper and some of his views on savings. I think you wanted some comment back on that. The figure, when he talks about the farm efficiency and it all coming off river flows, well, in some cases to some extent that is true and I believe the Victorians were trying to use that to some extent to find their savings that they did not have a net cap, but it is not one for one. If you make one megalitre saving on farm, it does not reflect in a one megalitre in river flows.

Mr WARNE: It might in 2000 years time.

Mr THOMPSON: Even in 2000 years time, because some of that saving will be reducing evaporation. So many different areas where the saving will impact. When I talk about Barrenbox, that is evaporation off a 3000 hectare area, which is almost as big as Burrinjuck Dam in surface area. We run it to two metres deep. There is no future in continuing with that. A lot of savings even of the farm are poor water management. They do not all go into the water table or all be drained out the bottom.

In our area it does not return to the river, and that is where we are different. We had a problem with too much water in rural creeks below our irrigation area. As we reduce that we are improving; we are not taking water off the river. All of our savings within our scheme are real savings. They do not apply to that area that Mike talks about of reduced river flows.

The second area he has got there, 373,000 megalitres - I explained before he did not understand how the cap worked in New South Wales. The trade in New South Wales, or in the Murrumbidgee, will not activate that additional water. He is wrong in that area as well. He talks about land use change. This is an interesting one. We are concerned about forestry and some of the softwood plantations in the upper catchment. They will clearly reduce run-off and so, possibly, they should be looking at having to buy water in the future if there is going to be large scale forestry take place.

Mr WARNE: It is interesting if it is the State Government who are the major planter of softwood forests.

Mr THOMPSON: That raises another issue. People keep talking about the water in the river and what percentage. If you talk about pre-regulation or you talk about pre-European, I suggest with all the forests that were there, any trees in the catchment we have actually increased the run-off with all the clearing. What were the natural flows in the lower river? Now, I have spoken to a few scientists who agree with me on the principle that they have no idea of coming up on what was really the natural flows. The ones they compare it with now are pre-regulation and pre-regulation clearly had a lot more run-off than there was under natural flows. There is so much of the scientific evidence out there that can be questioned.

The other area that Mike is talking about is the groundwater and the litmus surface water. I have been told that those figures are not correct. I cannot say, I am not qualified to talk about ground-water concessions back, the amount of water that might be used extra. George might have some views on that. I think the figures he has there are greatly exaggerated.

ACTING CHAIR: Is that one of the problems we have through this whole argument, getting some credible base of information there, that depending on who you talk to, it is based on estimation rather than research or hard facts?

Mr WARNE: Our concern is it is worse than that, it is based on advocacy, where people have actually got a view that they want to promote and they are using the forums of the scientific area. Our company has been very critical of the involvement of senior CSIRO scientists in the Wentworth group that are basically an advocacy group. While they may well be raising the profile of the CSIRO, we argue they have come up with the answers before the science has been completed, which is a fairly unscientific approach. We have been very anxious about the machinations of the Wentworth group and the enormous credence they have with Government and with senior Government Ministers of all persuasions. A lot of their science is half-baked and needs to be completed before their work or word is taken as Gospel.

Mr THOMPSON: To add to that, the models of the Murray flows as yet do not take in the Goulburn and Murrumbidgee and the best management of those rivers. If we are going to help top up flows in the lower Murray we are going to need some off-river storage at the bottom of the Murrumbidgee where we can put small flows into, and when there is a flow on the Murray, drop it back on top. They will also drop the water from Lake Victoria back on top and you will get some sort of outcome. If you are going to release the water from Burrinjuck or Blowering and expect to get it out the bottom of the river 20 days later, it will have totally spread out the peak and you will not be getting any effect for a large amount of water. At the moment they have not modelled that. I spoke to Gary Jones the other day and he admits that has not been done. For scientists to make comments about how much they peak - I do not even know how they are going to pay for - it is a bit over the top.

ACTING CHAIR: We have got the message there. Have we addressed the three questions?

Mr APLIN: Yes, we have. I have one question on the matter of salinity which was basically covered by the second question. Have you got any comments on that?

Mr WARNE: I have some important observations on that. Our area is regarded as one of the areas that should never have been irrigated and what a disaster and what have you. Less than one per cent of our area is affected by water logging and less than 0.2 per cent of our area is affected by ground salinity. It is not to say it is not an issue. It is a major issue in our region. As a community, through the land and water management plans and the Government's assistance, we have come to grips with it. Maybe the last five or six very dry years have given us an Indian summer where we are living in a fool's paradise, but it seems to me that as a community and as water managers and as farm managers we are well able to address a lot of those issues with regard to salinity in irrigation areas.

I think that the horror and the fear campaign maybe has passed and it is time for some rational thinking and some smart ways we farm. Things like the limits on irrigation intensity on a farm we have introduced are about reducing spot salinity or the effect of rising water tables which bring salinity with them. That is a question for all of us. If you have a farmer that is on a 600 acre farm that is badly salinised, why do you not just let him sell all the water? That has been happening in the Kerang region in Victoria. I am not sure it is the right answer for that farm or the community in anything other than the very short term.

Mr THOMPSON: If I could comment on the salinity one, it is one I raised in Federal Parliament the other day. Dryland salinity in the Murrumbidgee - I only speak for the Murrumbidgee - I believe has been totally over-exaggerated. I believe that the methods of overcoming it are working already. You only need to go to some of the areas above Wagga Wagga and see farms like Syd Clark's where they are planting perennials, strategic tree planting, not a lot of tree planting, and they are making major differences, plus they are increasing their production. Most of these changes will actually benefit farmers. It will be short term costs, but clearly these things are working. I believe the CSIRO has exaggerated a lot of the dryland salinity issues to get funding. If you keep telling people how bad things are you will get funding to do something about it.

There are issues there to be addressed. There is vegetation; there is the riparian zone. We do need this NAP funding in the new catchment authorities looking at exactly where the funds should be spent and how do we get the best bang for our bucks. We need to be clear that we do not have too much to do, there is a lot of good stuff out there.

On the irrigation area, the water tables, George mentioned theirs, ours are lower now than in 1991. They were predicted to rise to buggery by now. We have had a dry period, so it is a

culmination of better management, better cropping, plus the climate. I do not deny the climate has something to do with it. We are clearly winning in a lot of these areas.

Mr WARNE: Can I just answer that thing about salinity and community concerns. As you move out into the Riverina communities, people value a whole lot of things about the river. The other day I went to a meeting at Yarrawonga where Don Blackmore, the CEO of the Murray Darling Basin, was speaking, and Don Blackmore gave people about a 25 minute spiel on salinity and why some of the science was right and what have you. There was a crowd of 3500 people and their eyes just glassed over, because the value they placed in the river of Yarrawonga was their lake. Someone had told them that they were going to lower the lake by a foot, and that was enough to get 3500 people mobilised.

In terms of community concern out there, people are concerned about a whole lot of values in their river, including the fish, birds, weirs and locks and the river they enjoy for water sports and what have you. As an irrigation community we certainly have to be cognisant of the increasing value of those rivers as community amenities and as tourist destinations. It is a big issue for the irrigation community. For the first time ever, a couple years ago we were told on a very hot New Year's Day we could not have any more water out of the lake because there was a speed boat championship on and they wanted the lake a foot higher than normal. Now, it is just a change in community value. 20 years ago or 30 years ago the farmers would have got what they needed but these days the community places other values on our lakes and rivers and that is something we have to be aware of.

ACTING CHAIR: As a trading profit structured company you do not see there is conflict of interest in what you are doing and fitting in with the communities along your river?

Mr WARNE: If we are going to be in conflict with our community we are in big trouble. We are of our community. Our boards are constituted very much like a local government, that is they either come out of ridings or out of industries, and if they are not cognisant of their community's problems, they are not going to be in office very long.

ACTING CHAIR: Anything else?

Mr THOMPSON: As an example, we had red gums which were suffering from the drought and I donated the water myself, we watered the things. All you hear Don Blackmore doing is running up and down the river talking about all these trees that were dying, not about what he is doing to try to water some of them. We need to be a little more practical and get on with some of these things. It is not quite as bad as people make out.

(The witnesses withdrew)

(The Committee adjourned at 11.05 a.m.)