

WFA response to release of MDBA report, 8 October 2010

The following is an initial response to today's release by the Murray Darling Basin Authority of its guide to a Basin plan. WFA will make a further response once it has digested the report and consulted with its members.

As expected, the guide document has recommended significant cuts to irrigation water available in the basin, recommending between 3000 and 4000 GL are removed from irrigation diversions in order to meet environmental objectives.

It should be noted that while the actual mechanisms for reaching the reduction targets are yet to be confirmed by Government, during the election both sides of government made commitments to fund any shortfall between previous Budget commitments and any new commitments arising from this process.

It is also worth noting that the release of the guide marks the first step in a process that will include community consultation, potential amendment by the Federal Minister for Water and then scrutiny by both Houses of Parliament in the second half of 2011. If the plan is passed it will come into effect in a staggered pattern as follows:

- Three South Australian water plans from 2012
- NSW, Queensland and South Australia, covering most surface water resources, from 2014
- A number of NSW Groundwater Plans from 2017
- Victoria in 2019
- All others from the commencement of the Basin Plan.

Our response at this stage

WFA acknowledges that the water resources of the Basin have been historically mismanaged and that reform is required. We welcome the Basin's water extraction processes moving onto a more sustainable footing as we believe that this will support the ongoing future of the wine sector in the Basin, and our international standing as makers of quality wine.

While some contraction in the number of wine grape growers is expected, the negative impact on the wine sector as a result of irrigation cuts will largely be at the level of impact on the rural communities of which the wine sector is a part. Hence we will be pressing to ensure the needs of the community are well recognised in any Government response.

Additionally we believe that the investment in efficient water-saving infrastructure and other means to support the efficient and effective monitoring and trading of water across the Basin can play a more important role in enhancing water use efficiency.

The Positives

The impact of reduced irrigation water and hence increased environmental flows can be expected to have the following benefits.

- a) Provides long-term certainty.
- b) Reduces the risk of negative publicity in export markets relating to the health of our rivers and the validity of sustainability claims.
- c) Improves the quality of water in rivers such that the irrigation water that is available is likely to be less saline, reducing the risk of soil salinity problems and saline flavours in wine.
- d) Related to point (c), increased likelihood of long term sustainability of production sites.
- e) Clearer, market-based water trading guidelines and a more consistent, national approach to water management, trading and sharing.

The Unknowns

Significant purchases by the Government will influence the water market depending on how prices are determined. Higher prices can be expected; if so, coupled with an exit support or community adjustment scheme this may make departure from the wine grape sector attractive to some growers with poor recent business performance. The exit of growers may support the correction of Australia's current over-capacity in wine grape growing, however if substantial numbers exit an overcorrection in grape supply capacity could lead to a supply shortfall in coming years. WFA is also conscious of the need to retain capacity in irrigated areas.

The report is silent on how the water is to be acquired. WFA's position to Government is that it should be acquired only from willing sellers.

The process for implementation in accordance with State Water Plans indicates a long lead time for adjustments such as water buy backs by Government. The pace of these processes will have a significant impact on the outcomes.

The Negatives

Reduced allocations over time may place upward pressure on the cost of water in short term trades. This coupled with less available water overall may reduce the flexibility of the system as a whole to adjust to the effects of drought where water can be traded between low and high value commodity producers depending on market forces and water cost, potentially making currently viable businesses unviable.

Cuts to irrigation are likely to lead to a reduction in employment and economic turnover, resulting in poorer provision of services and facilities in the rural communities of which the wine sector is part.

To date the Government has not given a clear undertaking to support the communities of irrigators who leave the sector to adjust to the social ramifications, although it has acknowledged the issue.

The high figures for reductions in water diversions are likely to exceed the funding allocated to date with the implication that there is greater pressure to redirect money allocated to infrastructure improvements towards direct purchase of water entitlements, and that additional

funding will need to be directed from other Government programs to support water acquisition.

Summary

- WFA welcomes the report
- WFA will need to consult with stakeholders over the accuracy of the report
- WFA will be seeking a commitment from Government to:
 - Maintain infrastructure improvement initiatives
 - Only purchase from willing sellers
 - Address the community impacts of the buyback