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**Narromine Irrigation Board of Management**

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**Chairman:**  
Mr E. Whittle

**Secretary**  
W. Goodridge

10 July 2000

Review of the Operation of the Cap  
Attn: Dr. Tony McLeod, Project Manager  
Murray-Darling Basin Commission  
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CANBERRA 2601

13 JUL 2000

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Dear Mr. McLeod,

Thank you for talking with me on Friday in relation to our submission to this review. This letter confirms some matters discussed and highlights a couple of issues for the record.

**Economic and Social Impacts** [The Cap Project Board Position box in your response sheet 'The results of research conducted for the Review make it clear that, in the absence of the Cap, the erosion of security of supply for irrigators and other users would have been significant. These analyses were performed on several systems across the Basin reflecting diverse agricultural practices and climatic conditions]

1. We disagree with this statement. The erosion of security of supply was not prevented in any way, in the Macquarie at least, by the implementation of the Cap. An embargo had been placed on new entitlements on all northern rivers long before the Cap was implemented. Erosions following the embargo resulted from (a) the provision of large and secure allocations to the Macquarie Marshes and (b) changes in management policy made by the NSW Department of Land and Water Conservation (DLWC). The Cap did not prevent "Sleepers" and "Dozers" from developing land for irrigation - in fact it encouraged them to do so. We fail to understand, then, how the Review can claim for instance that "Without the Cap, there would have been continued development and activation of water entitlements that had not been fully used (so called 'sleepers' and 'dozers)'

2. A further issue, which we think should be responded to under this Cap Project Board Position Box, is the assertion that the combination of the Cap with water trading has been favourable to the development of enterprises where water is put to its highest value use, leading to enhanced economic benefits.

We note that much of this section relies on the Marsden Jacob Associates report, which we have previously commented on to the NSW DLWC expressing our concern with a number of fundamental issues. We have two major points to make here.

The first is that the best economic use of the water, a major premise of free water trading, does not necessarily create the best environmental or national use of the water. Sometimes it does not result in the best long term social effects either.

The second point we make can best be explained by quoting from the conclusion in a paper by Lin Crase, Leo O'Reilly and Brian Doolery in the *Australian Journal of Agricultural and Resource Economics* Vol 44 Issue 2, June 2009 entitled "Water Markets as a vehicle for water reform: the case of NSW".

'A review of the legislative and administrative reform of the water industry in NSW has indicated that the success of many of the reforms rests partly on an

efficient market for tradable water entitlements. The available data on trades suggest that, while the market for temporary transfers is active, the same growth is not evident in the market for permanent water entitlements. Moreover, the paucity of transactions in the permanent water market is likely to be accompanied by under-investment in high-value enterprises. In this respect, the failure of the permanent water market stands to undermine the effective reform of the NSW water sector.

Our discussion of the market for water entitlements abroad suggests that many of the common obstacles to the formation of robust water markets overseas are also present in NSW. Property rights are not well defined and the use of an adaptive management framework in particular, undermines the certainty current entitlement holders. The general hydrology of the region is inherently unstable and unreliable, though data are readily available for the market to encapsulate hydrological variability in the price of entitlements. The distribution system, while adequate and the subject of recent infrastructure improvement, produces geographical obstacles which will always inhibit the transfer of some entitlements. Transaction and transfer costs are relatively high for permanent water. Price information can often only be obtained with the services of an agent and there are considerable delays and administrative burdens associated with a trade of permanent water. There are also cultural factors which preclude the interaction of some players in the permanent water market while others appear to hoard entitlements because of uncertainty and the potential for speculative gain. In general, these factors operate on the supply side of the market with only the most desperate licensees offering their entitlements for sale. Further research of each of the impediments is warranted if the reform process is to realise the economic and environmental goals sought by policy-makers."

Equity [The Cap Project Board Position box in your response sheet "The Project Board focused on equity issues arising from the implementation of the cap.....In order that all submissions receive appropriate attention, these submissions and that of the CAC have been referred to the appropriate Government for consideration and reply."]

We thank you for forwarding the matters of equity raised by us to the NSW Government and we look forward to their reply.

Yours sincerely,

E O Whittle



Chairman.