

Review comments provided by Greg Watkins, Irrigator, Kyabram
Vic [REDACTED]

Summary

Water trading has brought substantial benefits to water users across the Basin. Water markets allow irrigators to increase their water supplies, to earn income by selling their water rights when they are more valuable to someone else, to expand production, or to release capital for investment in their businesses. The benefit of water markets is demonstrated by the fact that, despite tough and volatile climatic conditions, the value of production from irrigated agriculture in the Southern Basin has trended upwards in real terms since 2010-11.

regulation of market participants that promotes open and fair trading, and which is robustly enforced.

However, the ACCC's interim view is that the current governance of the Basin and the regulatory frameworks for water trading do not meet these standards. There are significant deficiencies associated with the settings and governance of water trading, which undermines the efficiency of water markets and their dependent industries.

In response to these concerns, some market participants have called for a return to the system where water was tied to land, perhaps with some limited trade between water users only. The ACCC does not support this position. Dismantling existing water markets would mean the benefits that markets provide to many water users would be lost, and this would be to the detriment of the Australian economy. It would also significantly diminish the value of water entitlements, which make up a substantial proportion of the assets owned by irrigation farmers.

The ACCC's preliminary view is there is a need to reconsider governance frameworks focused on the proactive development and regulation of markets, to promote open and fair trade across the Basin.

Water trade benefits users

Other groups who trade in water markets include irrigation infrastructure operators (IIOs), urban water authorities, environmental water holders, First Nations

Summary of Comments on Water Inquiry - Submission - Greg Watkins (sub only) 27 August 2020.pdf

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- Author: Mitchbrook Date: 27/08/2020 8:01:00 AM +10'00'
Yes – irrigators – not speculators who have no connection to land
- Author: Mitchbrook Date: 27/08/2020 8:02:00 AM +10'00'
Yes but who is benefitting from this – corporates at the expense of family farming operations ?
- Author: Mitchbrook Date: 27/08/2020 8:05:00 AM +10'00'
This should be limited to direct water users – environment, irrigators, domestic and commercial use – NOT SPECULATORS WITH NO CONNECTION TO THE LAND
- Author: Mitchbrook Date: 27/08/2020 8:07:00 AM +10'00'
This is an important issue but nowhere near as important as the discussion around who uses the water and the drivers of price
- Author: Mitchbrook Date: 27/08/2020 8:10:00 AM +10'00'
Where have the ACCC provided the logic and evidence to say that reconnection of water to land is a bad idea ? This is such an insulting piece of commentary on such an important issue to the irrigation community This is strongly rejected – the water won't disappear if you reconnect it to land – but it does it put the water back in the hands of those who directly use it
- Author: Mitchbrook Date: 27/08/2020 8:15:00 AM +10'00'
Who ? This is the key to this whole report and you have not done it justice in this paragraph – I hope there is more evidence of your conclusions within
- Author: Mitchbrook Date: 27/08/2020 8:17:00 AM +10'00'
Again you are building this up to be the most important issue – WRONG The most important issue is who holds water rights and what drives the price

and Traditional Owner representative groups, water brokers and exchanges, investors—that is, parties holding water assets for financial gain, not production—and others, with some being significant users and traders of water at different times and for a range of reasons.

Particularly since the National Water Initiative⁴ was agreed in 2004, the Basin's water markets have developed and become more complex, and new market participants have emerged. These include intermediaries such as brokers and water exchanges, and investors who do not use water for primary production but who trade and hold water rights as a financial investment.

Water investors, meanwhile, can help irrigators free up capital by buying and leasing out water; they can increase water market liquidity; and they can help irrigators manage water-supply risks, by providing water products such as leases and forward contracts.

Box 1: Water trade affects Basin communities.

The Australian community benefits overall from water trade, which helps people access water where and when it is wanted and valued most—to put the water to its most productive use.

Demand for water is increasing, inflows are variable and limited, and prices are volatile

On the demand side, fluctuating rainfall levels also impact water trade. For example, if rainfall levels are lower than a farmer needs to produce a crop, the farmer is more likely to consider purchasing water through the markets. Overall, there is a trend of intensifying demand for water in the Basin. More farmers are trading water rights. In 2000, less than 10 per cent of irrigators in the Basin had conducted a water trade. By 2015, 78 per cent of Southern Basin irrigators had conducted at least one water allocation trade.¹⁰ In addition, it is clear that more of the water on issue is being traded. While the volume of water allocation trade depends on total water availability in a given year, the data indicate that volumes traded relative to the total water allocated to entitlement holders is growing. Various other factors have driven more intense demand and higher participation in water markets in recent years. These include the substantial expansion of the almond industry in the Southern Basin, concentrated on the Murray River below the Barmah Choke, and substantial plantings of cotton, rice and other broadacre crops in New South Wales. New entrants into water markets have also contributed to higher trade volumes. Investors and fund managers now account for significant proportions of water allocation and access entitlement trade in the Southern Basin. In 2018–19 these traders accounted for, at least, 16 per cent of total number of water purchases and 14 per cent by volume. Their water sales accounted for five per cent of total number and 20 per cent by volume.

The ACCC is considering whether there is conduct that is harming the efficient working of the water market. For example, the ACCC is examining whether some

Author: Mitchbrook Date: 27/08/2020 8:20:00 AM +10'00'

Get rid of them – you will take a lot of heat out of this issue if you just remove these people from the equation There is absolutely no good reason for having them in the market

Author: Mitchbrook Date: 27/08/2020 8:25:00 AM +10'00'

This is misleading. Who did u talk to when you came to your conclusions about investors in the market – everything you just said can still be achieved by reconnecting water to the land. I assume by liquidity you mean the water has high value – explain what you mean – how does high liquidity help an irrigator that cannot afford to enter the market. This statement is something that would come out of the mouth of an economist or accountant – certainly not a farmer/irrigator – you have missed the point big time

Author: Mitchbrook Date: 27/08/2020 8:33:00 AM +10'00'

Nothing wrong with farmers trading water to farmers – big things wrong with an investor sitting on his water during dry times – the end result of this is higher prices that less people can afford – you seem quite ok with the idea that the water must go to the highest value crop – again, this is the view of an economist or an accountant. Diversity in a farming community is critical. No good if we are all growing bloody almonds !!!!!!!!!!!!!

Author: Mitchbrook Date: 27/08/2020 8:39:00 AM +10'00'

Again – nothing wrong with trade between farmers. The two big problems with the commentary in this report (so far) is (1) the lack of detail around the value of investors in the market and (2) this idea that its ok to have a system that drives higher prices that only some farming operations can afford. Do you understand or have you seen the impacts of a dairy farmer who has dried off his operation and just sells his water annually? Its devastating to the local communities – we need diversity and we need water at a price that can encourage diversity

traders (not just investors) may have previously, or may have opportunities to, manipulate water markets and artificially inflate prices in order to maximise investment return

The ACCC has not formed conclusions at this stage, except to observe the potential opportunity for various well-resourced market participants to exploit the complex market arrangements, and a lack of rules and oversight preventing such conduct

Two paths: more of the same, or more comprehensive and immediate reform

The ACCC does not consider it a viable option to entirely or substantially dismantle existing water markets, or to make them much more restricted. While this may limit some of the poor outcomes caused by problems with the current markets, it would also mean that the Basin's farmers, other water users, and the nation would lose some of the considerable benefits of water trading

5.2. Investors provide benefits to the Murray-Darling Basin water markets

5.2.1. Investors provide new sources of capital to irrigated agriculture. Investors' participation in water markets has provided new sources of capital to irrigated agriculture. This is acknowledged by a number of stakeholders. The National Irrigators Council (NIC) submitted that the presence of investors in the water market has enabled some irrigators to invest available capital into land or agricultural production rather than owning water entitlements, and manage their business more effectively. This has assisted some irrigators expand their irrigated production area, without the significant capital outlay of a water entitlement purchase.

5.2.2. Investors increase water market liquidity

Water market liquidity describes the readiness with which participants are able to buy and sell water assets at predictable prices. Indicators of market liquidity are the presence of many buyers and sellers in the market and a narrow spread between bid and offer (buy and sell) prices with transactions taking place reasonably frequently.

5.3. Stakeholders have raised concerns about the conduct of investors

In public forums and submissions in response to the issues paper, and in complaints to the ACCC, many stakeholders raised concerns about the conduct of investors in water markets. In the public forums in the Southern Basin, stakeholders have raised general concerns about the presence of investors in the water markets and questioned their value. Many have alleged that investor behaviour has resulted in materially higher water allocation prices. In broad terms, the concerns relate to the investors' ability to influence the water markets and specific conduct resulting in market distortions and artificially inflated prices. The ACCC is continuing to investigate the concerns raised by stakeholders, as well as other trading activities observed in the data that may seem unusual or suspicious. Many of these concerns and trading behaviours will not involve breaches of the Competition and Consumer Act 2010 (CCA) or other legislation. However, the ACCC is concerned about

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Author: Mitchbrook Date: 27/08/2020 8:49:00 AM +10'00'
Laughable!

Author: Mitchbrook Date: 27/08/2020 8:52:00 AM +10'00'
Its too hard – that's what it sounds like to me – and I am 26 pages in and I still haven't seen why we would allow investors (who don't own irrigation land and pay delivery shares etc) to stay in this market

Author: Mitchbrook Date: 27/08/2020 9:02:00 AM +10'00'
People were encouraged to sell their water rights to the environment on the back of a strong message that the temporary market would always be there for them if they needed water – I know because they tried to buy my water – my question at the time was, if the temporary market is so good why don't you purchase your water from this system? They went out the front gate and never came back. Farmers were hoodwinked. The short term grab for cash has in a lot of instances ruined farmers businesses – but that's not a story you will read in this report. I have 9 neighbours – all used to irrigate – now there is only 3 – dry cropping/farming and working off farm – is that your solution?

Author: Mitchbrook Date: 27/08/2020 9:10:00 AM +10'00'
You need to balance this discussion – it plainly is not a balanced commentary

Author: Mitchbrook Date: 27/08/2020 9:11:00 AM +10'00'
Your commentary might apply in a season where the big dams are full and we have some sort of reasonable season. It does not apply in a dry period – you may argue that the dry period is abnormal – no its not – its part of farming and it's a large part of why the big dams were built – again your commentary is misleading I believe

Author: Mitchbrook Date: 27/08/2020 9:16:00 AM +10'00'
Come on guys – the system currently provides the opportunity for investors to hold onto their allocation and watch the price rise – I have still seen no justifiable reason for having these people in the system. Draw a line and give them 3 years to exit the market – this should be done immediately – it would take a lot of heat out of the discussion with irrigators

Author: Mitchbrook Date: 27/08/2020 8:47:00 AM +10'00'
Are you kidding me? Dry season – irrigators screaming for water – prices go up – investors time their sale to maximise their profits – are you honestly honestly telling me that you need to do more work to understand if this is actually happening???

conduct harming the efficient working of the water markets and distorting price signals, and is investigating the concerns raised and other conduct of market participants on that basis.

5.3.2. Stakeholders allege investors withhold water to raise prices. Some stakeholders raised concerns that investors are buying water allocations and withholding water from the water markets to artificially drive prices high.