

ACCC Submission

John Kennedy

[REDACTED]  
Irrigator and water holder

29Ha Almonds and Citrus  
[REDACTED]

### Section

- **market trends since 2012, including demand for water, changes in the location where water is used, the quantity of water traded, water availability, changes in water users and their communities, development of new trading products, and the number of participants and sectors participating in the water markets.**

### Demand

Since 2012 demand from permanent horticulture below the Barmah Choke has increased from 1100GL in 2009 to a predicted 1500GL in 2027 (DEWLP 2018 Report) a more recent assessment by Aither has forecast that production demand in 2019 is at least 1230 GL this figure could be higher as it is a theoretical number with actual use tracking as much as 165 GL more. This is four years in advance of the 2018 report. High security water Licences are fixed with the following an approximate assessment of the total high security licences available in the lower connected system.

Zone	Total GL High Security	CWH	Remainder for Irrigation
Vic High 6,7	1245	362	883
NSW High	192	21	171
SA Class 3A	548	161	387
<b>Total</b>	<b>1985</b>	<b>545</b>	<b>1440</b>

These number do require some clarification and refining for example Commonwealth water holder Licence (CWH) will increase over time as programs to gain water through efficiency are rolled out, water is available to be traded in from other areas however this does reduce the water available for other types of production such as Cotton or Rice from the Murrumbidgee or Dairy from the Goulburn System and SA has a small portion of Class 3 water which is also used for irrigation.

The main point is that sometime soon demand will out strip supply even when not in a drought forcing prices to move higher as high value crops compete for a limited resource.

The scenario is far worse in a drought, permanent crops by their nature are fixed water users and can't be switched off and then brought back into production easily. In a drought scenario as little as 700GL, may be available for permanent plantings meaning that if we continue to expand almost half of all planting would be required to be decommissioned under such conditions milder droughts however would still require large areas to be decommissioned.

Essentially, we are on a path where no matter what happens demand will out strip supply unless other crops are paid via the market to stop production and allow that water to move to higher value crops.

### **Planting without water.**

It is now possible to plant large areas without holding the high security water to irrigate those areas and so rely on the spot market or varied water products to support the irrigation demand of that development. Government's issue Site use approval licences (SA) or Site use limits (VIC) that allow for irrigation developments to proceed, these licences are not connected to how much water is in the system and sit outside of the allocations.

Many farms in their rush to develop have decided to develop without water and speculate that water will remain at an affordable price. Some large corporations have turned down offers to buy high security and choose to buy from the spot market, their business models factor in a price for water that is not connected to the real world of increasing demand for the limited resource.

The last drought had prices exceeding \$1000 a ML at a time of lower commodity prices less development and no CWH ownership, so the current circumstances were predictable.

Farms have sold off their permanent entitlements (sometime to investors) to raise capital to expand, and again have speculated that the price will remain low. Logically if everyone does the same eventually the bucket will run dry and investors can capitalise as demand exceeds supply. This situation is again caused by irrigators. Without the demand investors cannot ask higher prices for water and it appears now hypocritical that people who enticed the investors into the market by asking them to buy their water are now complaining when the investors look for a return on that asset.

It would appear now that those same speculators (those you thought the price would never rise) that wanted to develop without water are now trying to change the rules to benefit themselves and cannot understand the simplicity of the issues there is too much development and not enough water and the market is the only way to unwind the mess the speculators on development have created.

- ***the role of carryover arrangements, and the trading of water allocations which have been carried over, on water markets***

Carry over is critical in drought years, this year 760GL has been carried over to assist growers who want to protect their farms from low allocations. This represents almost 30% of the water available this season. Droughts tend to build over time so the ability to carry water over for multiple years is essential, also the capacity to fill up carryover licences (low security licences) in wet years at a low price can offset price hikes in drier years. Investors buy the low security licences buy the water pay the fees and charges, lose the 5% annual evaporation component then offer the water to the market, a grower can then opt to take out the option on the water at a higher price but hedge that price against other water products or secure the water at an economical price that does not exceed their cost of production. For example I have 100ML purchased at \$250 per ML, at the time of the agreement this was above the spot price but now sits \$600 below the spot price, all parties are benefiting from the agreement. Any major alterations will mean that these products will disappear and grower's ability to secure forward sales will also disappear.

Growers can now also use carryover as their preferred option to hold water, buying actual water in any one year carry it forward minus the losses and be certain to have that water in following years

, unlike a high security licence where drought can reduce the amount of water allocated to those licences. So, for those who make the investment this is a new way to have water security.

- ***the role and practices of market participants, including water brokers, water exchanges, investment funds and significant traders of water allocations and entitlements***

Water can be traded by investors or growers depending on the weather forecasts that may arise; however, investors and growers have two very different objectives. An investor will trade water in most years for a return on their investments and may carry water over from one drought year to the next to maximise their return, however the water will ultimately be sold to a grower (the final destination for all water). This means that even in the worst drought scenarios some water may be available to purchase for the highest value crops.

A grower if it appears that the drought is ending will sell surplus water to maintain cash flow in the business, however if there is a high probability of the drought continuing then a grower will not sell this year or the next so reducing the water available to the market, and so forcing up the price higher than it would otherwise be.

Given that many growers have sold their water to investors they are now critical to the functioning of the market and any moves to remove them from the market could in drought years increase the price of temporary water.

Brokers facilitate this trade and should remain an integral part of the system there are many trading platforms and participants leading to competition on price and volume.

One final comment most growers have a large equity component held in their permanent water assets which is a function of the lease price, if investor's can no longer see a return on their investment then it is logical to see a dramatic fall in the price of permanent water eroding grower's equity and creating a situation where many grower may become insolvent.

- ***the availability to the public of information on water market activities and tradeable water right holdings***

Governments hold all the information's so a coordinated approach to water data is required showing volumes used, available and allocated on a monthly or quartile basis so growers can see what the surplus or deficit situation is and how this is related to price. All the information is out there however it is up to government to link with industry groups to get the information to the community.

- ***(e) the timeliness, accuracy, and completeness of public information released on water market activities and tradeable water right holdings, including true trade price reporting and the types of trade (for example, immediate purchases, forward contracts, leases***

As mentioned previously this data requires governments to coordinate their systems and release the data at the same time.

- ***barriers to entry, expansion and exit, including transaction costs***

Increased competition will force prices down, already some brokers have per ML charges some reduced commissions etc so the market is working in this area

- **the management of constraints on the storage or delivery of water, including adjustments made to give effect to trades and intervalley transfers.**

IVT's are a major restraint and increase prices in certain catchments, however physical and environmental barriers exist. Due to excessive development in some zones this has become an issue and will stay that way while demand is focused on the lower parts of the system.

Thanks for your consideration

John Kennedy

Almond Grower

Riverland

South Australia