



## *Australian Dairy Industry Council Inc.*

### ADIC Submission: ACCC Murray-Darling Basin Water Markets Inquiry

The Australian Dairy Industry Council welcomes the opportunity to provide a submission to the ACCC Murray-Darling Basin Water Markets Inquiry.

#### **The dairy industry in the Murray-Darling Basin**

The Australian Dairy industry Council (ADIC) is the national peak policy body for the Australian dairy industry and represents all sectors of the industry on issues of national and international importance. Its constituent organisations Australian Dairy Farmers Limited (ADF) and the Australian Dairy Products Federation (ADPF) represent the interests of dairy farmers, manufacturers, processors and traders across Australia.

Dairy is the fourth largest regional industry in Australia and makes a significant economic contribution to regional economies. In 2018-19, the Australian dairy industry in the Murray-Darling Basin produced some 1,782 million litres of milk from 1162 dairy farms, and with a farm gate value of approximately \$885 million, much of which is returned directly into local regional economies. There are also approximately 24 processors across the region. Significant private and public funds have been invested in local irrigation schemes to improve efficiencies over the last 20 years, with water use per litre of milk produced decreasing significantly over this time.

Dairy farmers in the Murray Darling Basin are facing a perfect storm of low milk prices, dry conditions, and high water prices, which is threatening viability across the Basin, and putting at risk 20 percent of Australia's milk supply. The water market is critical to dairy farmers. We know during the millennium drought that dairy farmers disproportionately sold permanent entitlements, and now require 60% more water than they own<sup>1</sup>, increasing business risk by requiring the purchase of this water on the market. This is despite significant improvements in water efficiency across the industry.

The progressive decline of the dairy industry in the Basin is one of the unintended consequences of the current market. Significant change, ensuring access to affordable water, is immediately required to avoid this outcome.

#### **Feedback to the Inquiry**

The ADIC believes that there are legitimate concerns with the operation of water markets in the Murray Darling Basin, particularly around whether this important mechanism is achieving the social policy outcomes that were intended at its inception. If we are to ensure robust and diverse Basin communities into the future, we need to ensure that the water market is functioning in a way that does not produce the unintended consequence of undermining certain industries. The market may be delivering water to the highest paying users, but this may not mean it is delivering greatest value.

We would like to express support for the following high level points made by the National Farmer's Federation (NFF) submission to the Inquiry, including:

- that improved market transparency will improve function of the market, and should continue to be pursued;

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<sup>1</sup> DELWP, *Victorian Farm Modernisation Project Options Review*, DELWP, Victoria, 2018

- that the current regulations in the water market should be re-examined to account for increased risks due to significant changes in land use and crop types and subsequent water demand below the Barmah Choke, with focus on consideration of third-party impacts, especially reliability of entitlements;
- that there is merit in asking what role speculators should have in the water market, in line with ensuring ongoing functionality of the market and recognition that entities solely trading water likely includes farmers themselves; and
- that we need to better define what 'optimal social and economic outcomes' are so that we can better design market and trading rules that align with these values.

In addition, the ADIC wishes to raise the following specific issues:

### **Transparency and Water Ownership**

To improve transparency within the market, the ADIC supports the disclosure of ownership of large water holders. This needs to be balanced to ensure privacy concerns are protected. The ADIC understands that the Victorian Department of Environment, Land, Water and Planning has prepared a thorough review of the issues around transparency and disclosure, including consulting widely, and we refer you to this process for further consideration.

### **Level Playing Field**

Dairy farmers have raised the need for a level playing field for the network costs that are levied on water market participants drawing from irrigation networks such as the Goulburn-Murray Irrigation District (GMID). Entities who simply trade water are not subject to the same quantum of levies, producing a dis-incentive to apply water to land. Infrastructure costs are complex and subject to state-based pricing reviews and could be something to be considered in order to avoid this perverse outcome.

### **Carryover**

The ADIC wishes to reiterate the importance of carryover for managing risk in dairying businesses, particularly considering comments from some sections of agriculture in NSW. Carryover is an important mechanism that allows farmers to manage water resources year-to-year. In addition, AITHER research has suggested that carryover may in fact buffer market volatility. These factors should be thoroughly reviewed by the ACCC through its investigations.

### **Water Brokers**

ADIC recommends that the regulations around water brokers should be strengthened. Brokers should be licensed, similar to real estate agents, with restrictions on their ability to own and sell water, vendor bidding and to ensure they are genuine brokers. This would protect against unscrupulous behaviour and improve market transparency.

### **Dual Licenses Between Valleys**

The ADIC has registered some concerns from farmers about the operation of irrigators and or water traders with dual licenses between valleys and believes that mechanisms for inter-valley trade should be examined.

### **Market Volatility and Trading Platforms**

The water market was developed to provide a mechanism for the efficient distribution of resources, and to allow farmers to better manage water risk. The ADIC would like to see some analysis of the level of market volatility and risk over its operation, the ability of water users to manage this, and whether there are new mechanisms to better manage this volatility. This should include analysis of the impact on market volatility of the current arrangements for trade, where there are many small trading platforms, versus the suggested single trading platform for the Southern Basin. This could consider options to decrease market volatility as well as improve transparency and potentially reduce transaction costs.

### **Third Party Impacts**

The ACCC should consider the impact of third-party impacts of trading rules and agricultural development, including impacts on water reliability and the environment. These impacts are not insubstantial and are likely to grow in line with agricultural development in the Mallee, and subsequent growth in water delivery losses.

### **Market Power**

It is currently unclear how the ACCC intends to deal with instances of excessive market power. This should be clarified to give confidence in the market.

### **Principles and objectives of water markets – fresh milk security and the national Interest**

At the most basic level, the ACCC must ensure that the water market is allocating water for irrigators to grow food and fibre efficiently, rather than commodifying water simply to create opportunities to grow wealth.

Beyond this, the dairy industry believes that it is paramount that the review examines whether the water market is creating outcomes that are in the national interest. The dairy industry believes it is in the national interest for all Australians to be able have access to fresh, safe, locally produced milk and milk products as a part of maintaining our food security. The current water market is putting Australia's fresh milk and food security at risk.

Dairy farmers in the Basin provide 20 per cent of Australia's milk production. If Australians are to continue to enjoy security of fresh milk supply, the water market must deliver affordable and accessible water for dairy farmers in the Basin, in good years and dry years.

As it stands, dairy farmers are feeling the pinch of dry conditions and water prices and finding themselves more reliant on the expensive and volatile temporary market. This is threatening the viability of the industry in the Basin and in turn, is putting at risk the viability of whole irrigation systems.

We urge the ACCC to consider how any market reforms would facilitate the continued profitable operation of the dairy industry in the Basin, and the ongoing supply of locally produced, fresh milk and milk products to Australian consumers. The continued provision of fresh milk and milk products to Australian consumers is one of the 'social outcomes' or 'objectives' that should result from a healthy and efficient water market. Without this consideration informing the shape of the market or any reforms, it's likely that we will see the progressive elimination of the dairy industry in the Basin as one of the unintended consequences of the current market.

ADIC understands that the ACCC will be providing a draft report to the Minister in May 2020 and releasing a final report in November 2020. We urge the ACCC to continue to consult with the industries and communities impacted by water markets to ensure ground-truthing of the final recommendations. We note however, that while the ACCC process is very welcome, the timeline of this inquiry will not be fast enough to deliver the immediate access to water that many dairy farmers in the Basin need. Nonetheless we look forward to seeing the draft report.

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