



Initial response to the ACCC inquiry into water markets in the Murray Darling Basin

November 29, 2019

To whom it may concern

This brief submission to the Competition and Consumer Commission Price Inquiry into Water Markets in the Murray-Darling Basin is offered on behalf of the members of Riverland Wine. The organisation is not a trading entity, but its members are all irrigators in the Murray-Darling Basin with a diversity of interests and commitments to the Australian wine industry.

Riverland Wine

Riverland Wine (RW) unites these two entities: Riverland Winegrape Growers Association (RWGA) and Riverland Wine Industry Development Council (RWIDC). The two member-based organisations pooled resources in 2010 to accelerate and support the region's return to growth and prosperity following the prolonged period of global supply/demand imbalance in grape and wine markets and the pressures imposed on producers by the (millennium) drought.

As Australia's largest wine region, the Riverland produces more than 25% of national grape and wine production and approximately 60% of South Australia's crush from an irrigated footprint of almost 21,000 hectares. The organisation provides the conduit between its 960 members and the broader stakeholder base of industry, government, community and research institutions. Members contribute more than any other wine region to the Australian wine industry's Research, Development and Adoption levy fund.

RW's remit is to:

- actively engage members and encourage participation in programs that empower and encourage best practice in all facets of Riverland grape and wine production;
- recognise, encourage and facilitate access to the benefits of innovation, education and diversification;
- foster collaboration and encourage linkages between Researchers, Practitioners and Policy Makers;
- inspire and encourage disruptive and unconventional business models, new and emerging viticultural and winemaking practices, and alternative grape varieties, wines and wine products;
- be alert and responsive to existing and emerging consumer signals and adapt the product and package range to meet emerging preferences; and
- advocate in appropriate regional, State and federal forums on behalf of winegrowers and winemakers by developing and presenting specific, coherent responses to challenges and barriers to progress

The region has many natural and man-made competitive advantages. The climate is ideal for grape growing, with ample sunshine throughout the growing season, superb soils, readily available water and very low incidence of pest and disease incursions. These attributes provide a stable platform for large scale, predictable, high grade winegrape and wine production through a network of just eight large wineries and one significant boutique winery. Regional (wine industry) success is dependent on open, transparent working relationships to achieve profitability, sustainability and competitiveness in all facets of the supply chain. Customers include almost all of Australia's major

wine producers. Products are distributed to regional, national and international markets. More than 70% of Riverland wine is exported to over 100 countries.

The organisation's growers and producers are resilient, skilled viticulturists, irrigators, wine makers and marketers. Collectively they have confronted and met the challenges presented by almost two decades of suppressed grape and wine prices in domestic and international markets. Necessity has driven innovation, invention and best practice. RW winegrowers and producers are poised for the new Australian wine era.

Irrigation infrastructure to the farm-gate is second to none. On-farm irrigation practices, in terms of 'water-use-efficiency' are at world's best practice levels. The blend of larger and much smaller-scaled operations provides a balance of high-grade commercial grape and wine outputs, well supported by a growing number of medium and small wine producers. The membership is well informed and knowledgeable, agile and quick to respond to the ever-increasing demands for versatility and diversity in wine styles, business models and emerging technologies.

Through its leadership and engagement programs, RW has successfully raised awareness of its programs and achievements throughout the extended network of stakeholders, including industry organisations, government agencies and research institutions. RW is recognised as a reliable partner with the capacity to provide funding and practical support in transitioning the region's winegrape producers to the new 'Ag-Tech' era, embracing digital solutions in economic and business modelling, vineyard management, irrigation efficiency, winery production and market insights.

The ACCC water market inquiry

If the water markets of the Murray-Darling Basin (the Basin) have not experienced market failure, there is an overwhelming perception among long-term custodians of the Basin, including every member of this organisation, that these markets are at best, dysfunctional.

From the perspective of Riverland Wine, this ACCC inquiry into water markets in the Basin sets the scene for a constructive, critical review of business and trading arrangements and relationships between its members (winegrowers and winemakers), water brokers, water traders (including investors), relevant local, state and federal government agencies, water authorities, regulatory bodies, primary producer industry groups, conservation groups and the wider basin community.

The Basin has been pushed to its brink. Decades of disagreement, ignorance, poor policy and mismanagement by the Basin states and the commonwealth have confounded custodians, communities and city dwellers alike. Unfettered competition for Basin resources, driven by ill-informed, self-satisfying promotions and incentive schemes have led to unsustainable developments of permanent irrigated crops throughout the Basin districts. Water, that vital component of our Common Wealth has been taken and commodified without care or consideration of the social and economic impacts on the basin's people, its environment and the general wellbeing of Australia.

This is not just a wild assertion. Respected commentators and water authorities alike have expressed concerns, to varying degrees, that developments of permanent irrigated horticulture over the past few decades but especially since the millennial drought increased the demand for irrigation

water in a year of normal rain and groundwater inflows to valleys and storages, to the point where there will not be sufficient water to meet the needs of the planted (permanent) crops. Some say the deficit will be as much as one third of irrigation requirements in a 'normal' year! There is a common view that 'water markets will resolve the competing needs' based on the underlying values of agricultural products, with water moving to the 'highest value' crops.

There is little doubt this will happen. But, at what cost to key stakeholder industries, communities and the environment? The lack of timely, reliable, transparent information has led to confusion and poor decision making. Indeed, many recent developments probably would NOT have proceeded had there been sufficient information available for rigorous risk assessments to be applied to business plans. The fact that there is not a central, accessible repository of data detailing land-use and water statistics throughout the Basin, combined with rewards and incentive schemes fabricated to drive decisions in favour of (apparently) unconstrained irrigated developments, has influenced many to make very significant financial commitments without full knowledge. The fact that industry bodies have consistently called for moratoriums on permanent plantings is a key indicator that farmers and their communities are in crisis over this situation in the Murray-Darling Basin. Riverland Wine members are in this category. They want to be heard in this ACCC inquiry into water markets.

The Riverland Wine perspective

Riverland Wine is not a licenced water holder and does not have a specific interest in the use and trade of water in the (the Basin). However, its members are deeply invested in the well-being of the region, its economy, its environment and its communities. Making matters more difficult, in terms of preparing a specific, cohesive response to the water market inquiry, is the realisation that the membership base of 960 irrigators, represents almost every imaginable form of business model from sole traders to some of the world's largest international public companies. This diversity of business models and business interests among members is matched by a corresponding diversity of opinions on water markets not dis-similar to the diversity of opinions about wine. This multiplicity of opinions and positions, renders it impractical for this organisation to support a single set of arguments or positions around the MDB water markets underpinned by specific, coherent rationale.

Those facts notwithstanding, the members do agree on several broad positions:

- It is imperative that the inquiry be granted the freedom and resources essential to (urgently) evaluate and realign the policies, rules and regulations governing water markets, water availability, entitlements, allocations and water products, in the context of Australian competition, fair trading and consumer protection laws and the *Competition and Consumer Act, 2010*. Riverland Wine is keen to participate in ongoing talks with the Commission and to offer constructive input into what is a complex set of challenges.
- The members note that "the social and economic impact of water trading on communities in the Murray Darling basin" is specifically excluded from the scope of this inquiry. Prima facie that would seem to limit the potential benefits of the inquiry. To examine the operation of water markets in isolation from the impacts of those markets on people and economies seems

pointless. The inquiry is, it would seem, a direct result of the disturbances caused to the people and the economies of the Basin and beyond by the commodification of water and the effect of its trading on the wellbeing of those Basin communities and economies in particular, but also the impacts of water trading on the broader community, economy and environment. To suggest that these same communities must consult separately with the Independent assessment of social and economic conditions in the Basin is illogical and unreasonable.

- Water security in the Basin has always been elusive. While some RW members are relatively less exposed to the security risk than others, the levels of confusion and bewilderment around water markets is starkly apparent and must have appeared as such to the ACCC Commissioners and Staff at the recent consultation sessions across the Basin. The reports of the Commission staff having to be escorted by security to and from some of these events is concerning. When community emotions are running so high, it's a clear indication that systems, if not markets, are failing and failing very badly. These failures cannot be attributed to the drought. The drought is an exacerbating factor but not the cause. The increased anxiety about water security is a result of the (relatively) recent rush to develop at all costs, ignited by the new water markets and confused by the lack of clarity, consistency and perceived inequity in their operation. The inquiry must rigorously explore the Terms of Reference items (a) to (g) and absolutely reveal the findings of each. The lack of available data will be a major impediment in that regard but another reason to urgently recommend a pause in any further development programs until the Plan is complete and water markets have clearly articulated rules and regulations, developed in the context of sustainable farming programs, consumer protection and fair trading laws. The resulting reforms will be major reforms that will demand detailed transition arrangements to facilitate necessary adjustments.
- The timetable for the milestones marking the implementation of the MDB Plan must be adhered to, especially around the engineering works being completed on time, to assist Basin communities in their understanding and adjustment to the revised systems of water products, entitlements and responsibilities.
- Primary producers, the natural custodians of the Basin's resources will adapt and optimise opportunities for the Plan to succeed, if the Plan can take precedence over the water trading agendas. That is not to infer some sort of panacea or nirvana exists, rather it is an acknowledgement that such triple bottom line outcomes will only be achieved if there are clear, coherent, equitable and unambiguous rules, regulations and compliance provisions that all stakeholders can comprehend and rely upon to manage business risk.

In conclusion

Consistent with the Riverland Wine remit outlined above, the RW Management Committees are committed and keen to work with the ACCC Commissioners to ensure that the price inquiry into

markets for tradeable water rights relating to water in the Murray-Darling Basin will deliver beneficial outcomes to RW members.

This organisation will welcome the opportunity for direct, face to face consultations in the short term, to offer constructive inputs and to seek clarifications and explanations around aspects of competition and consumer protection. More particularly RW members want to grasp this opportunity to enhance the markets' operations, transparency, regulation, competitiveness, and efficiency. Members view this as a unique opportunity to influence outcomes that will provide a base for wider reforms that will restore balance and viability to primary production throughout the Basin.

The Treasurer has directed the Chair of the ACCC to conduct this inquiry. It is important for all stakeholders to listen to others' points of view and have input to policy settings where appropriate.

This inquiry also presents an opportunity for winegrowers and winemakers to examine and understand the true competitiveness of the Australian grape and wine industry; to renew this industry's commitment to best practice in winegrape and wine production with particular emphasis on water-use-efficiency and a continuing commitment to Research, Development and Adoption of world's best practice in irrigation. Water markets are a crucial element in these difficult equations and our members want to be assured that they are genuinely and sustainably competitive in global markets. From the standpoint RW members, this inquiry also offers the chance for industry to embrace and encourage value-chain principles in the inland wine regions, especially if it encourages increased retention of the wealth, at the regional level.

Riverland Wine will contact the Commission in coming days to request an opportunity for further consultations.

A handwritten signature in blue ink that reads "Chris Byrne".

Chris Byrne
Executive Chair

[Redacted contact information]