

CENTRAL IRRIGATION TRUST

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Water Branch: Water Trading Rules Issues Paper
Australian Competition and Consumer Commission
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PUBLIC SUBMISSION TO WATER TRADING RULES ISSUES PAPER BY CENTRAL IRRIGATION TRUST ON 23 APRIL 2009

Due to work pressures from drought related matters, CIT responses have been limited to questions 5, 7 & 10 contained in your issues paper as the subjects with the highest priority to our business, together with a summary of the outcomes we are seeking on those subjects.

Question 5 B *Should the ownership of water access rights be restricted for any particular individuals? If so, on what basis?*

The two principles on this topic CIT would like to see included in the trade rules are:

1. Ability for environmental water holders to purchase water is particularly important to South Australia due to our location at the lower end of the river systems where improved environmental flows are essential to reduce deterioration in river health. Accordingly we support trading rules that ensure environmental water holders are not restricted in their ability to purchase water access rights.
2. It is essential that water trading rules are administered equitably. Currently we understand that Victoria operates with a ten per cent limit that does not exist in other states and we also understand Victoria accounts for trade under the 4% annual trade limit in the Southern Murray Darling Basin differently to South Australia and New South Wales.

Our concern with different accounting for trade is that the current drought induced exodus of irrigators that is occurring in our Region (and we would expect in many other Regions as well), may become disproportionate between States and Regions if States are permitted to administer rules differently.

Accordingly we seek rules on water trade that are equitable across the Basin States and that administration of the rules is audited by the Murray Darling Basin Authority to ensure that equity is also achieved in the way each State administers the rules.

- Question 7 H *Are there other examples (besides the 4 per cent rule) of volumetric limits on the amount of water that can be traded/transferred out of particular areas?*
- 7 I *What are the arguments for and against volumetric limits on the permanent trade of water access rights out of an area?*

At the time that the 4% limit was introduced CIT supported that principle to ensure that the expected sales of permanent water out of our districts occurred at a controlled rate to enable river communities to progressively adjust to the impact of water reform, and that no one State, Region or commodity group would bear a disproportionate share of the adjustment process.

The situation in our ten irrigation districts has since deteriorated due to the combined impacts of drought, ever increasing water restrictions and low commodity prices. The spiraling change of circumstances caused CIT to review our trade limits in an attempt to accommodate the increasing number of farmers looking to escape being trapped on the farm. Farmers inability to afford the purchase of additional water to secure plantings and crops and inability to sell the farm as a going concern now leaves many with no alternative but to exit the horticultural industry by selling off the water entitlement, clearing trees and vines and remaining on the property as a rural residential site.

In response CIT lifted the annual limit to 6%, brought the second year forward making 12% available immediately, excluded mortgagees in possession from the limits and excluded farmers receiving Commonwealth exit grants from the limits.

Our intention was to provide immediate relief to people desperate to exit farming, then hold the position until other regions have reached similar levels of water traded out of their regions. It now appears the new limits will soon be reached in some of our ten districts and we will not be able to stem the flow of water trade out of the districts. This will be due to the provision of transformation rights that we interpret as providing a path that enables individuals to circumvent both the basin 4% annual trading limit and the more generous CIT 6% annual trading limit.

We would be supportive of transformation if individuals who have transformed were still subject to basin trading limits, currently 4%, the same as the rest of our irrigators.

Accordingly we seek the same limitation on trade by transformed irrigators as those who choose to remain under district bulk entitlements to provide equity between the different groups and to ensure that the original purpose of trade limits continues. Without this provision in the trading rules, any existing and proposed limits will become meaningless.

One other aspect of limitations on trade is submitted. Trading rules should provide for farmers abandoning irrigation in district schemes being required to meet up to three minor adjustments to the total water entitlement sold permanently.

1. If the farm has a residence, one megalitre of the water entitlement must remain on the property to provide a domestic water entitlement for the residence.
2. A small reduction will also be necessary to cover the sellers' share of conveyance losses, currently averaging around 3.5% in our pipeline schemes. Although the amount is quite minor, it is still necessary to make adjustments because bulk licences in South Australia do not include any provision for conveyance losses.
3. A reduction of about 1% will also be required to account for the sellers' share of the imbalance between bulk licences and individual water allocations. The imbalance is a legacy from when the ten irrigation districts were operated by the SA Government which now has neither the water or funding capacity to remedy errors made when establishing bulk water licences based on volumetric water allocations prior to 1997.

We now seek provisions in your new Water Trading Rules for these adjustments to be made at the time of trade or transformation.

Question 10J ***Do approval authorities recommend specific brokers or exchanges to water market participants? On what basis are such recommendations made?***

Until September 2008 CIT only provided an information sheet containing the business card information of eight water brokers to customers enquiring about water trade from which they could choose a broker.

In October 2008 the member growers from the Chaffey district requested that CIT introduce a separate water broking business to act for CIT growers. The suggestion was referred to the grower members of all ten districts who also requested the introduction of a water broking service.

CIT growers can now choose the brokering service provided by their Trust or any of the other brokers offering water trade services.

As our water brokering service was sought by our irrigator members, we seek provisions in the Water Trade Rules to enable Trusts to continue providing this product.

SUMMARY:

In summary CIT seeks the inclusion of the following provisions in the new Water Trading Rules:

1. **Equitable trading rules across the Basin States.**
2. Auditing by the Murray Darling Basin Authority or ACCC to ensure equity in the administration of the rules by all Basin States.
3. Equitable trade limitations, currently 4%, between transformed irrigators and those who choose to remain under district bulk entitlements.
4. Provision in Water Trading Rules and Transformation Rules for small adjustments to water trade for domestic entitlements, conveyance losses and licence imbalances.
5. Provision in Water Trading Rules for Water Authorities to provide water broking services.

Yours sincerely



Jeff Parish
Chief Executive Officer
23 April 2009