

Background

We are annual vegetable growers in SA and have been in operation for over 35 years, and have exports markets to Europe, UAE and SE Asia. We held approx. 660mgl of water before and during the millennial drought.

When the millennial drought ended, many irrigators had to sell their water entitlements in order to continue farming, so became “willing sellers”, and sold their water to the government. We were one of them.

The economics behind it was that owning the water was no longer viable because

- The government would determine year to year if it could be used or they would restrict it
- Banks would no longer lend against it
- Many, like us, were in a poor debt position after managing through the drought.
- Provided there was no long term drought like the millennial drought just experienced, it was economical to buy in the water as there would be enough available in a normal year
- The plan if there was a terrible drought, annual growers could alter plantings to suit, use less water and manage higher prices if necessary.

Market trends and drivers

Up until the end of 2017, it was possible to predict availability and price expectations for water, even though the government water rights had increased in that period. And development of large irrigation projects had also occurred. 2016-2017 was a wet year after a dry period where SA received carryover. Due to the wet year and SA having extra from carryover, there was a lot of water available and the price was low. Despite brokers telling us otherwise, this was easy to predict.

2017-2018 was the first year after a high rainfall year. It was also the first year it was difficult to “read” the market. Something had changed and prices were high (\$200 a megalitre) when historically this should not have been the case. It was also strange that water holders did not sell their water at the end of the year, increasing the availability of water, given the prices were high and attractive, and SA had no carryover. Especially as this was a 100% high reliability water year. The following year, whilst not a high rainfall year, was a 100% allocation for high reliability users again. Despite the availability of water, the price skyrocketed to \$600 a megalitre. Since then it has been near \$1000 a meg and is dropping away slightly to nearer \$900 a meg. So what is driving the market pricing? The public are led to believe it is the high demand from new water users, such as almonds, and others, and the drought. This argument does not have credibility because

- New developments have been in place for many years, and the low price in 2017 could not have occurred if this was a factor. Despite it being a wet year, jurisdictions are still capped

on their usage, and would not have taken more than any other year so were not increasing demand

- Despite the panic over a drought in the MDB, the drought is mainly confined to the northern basin, not the southern basin, and is not a “real” drought like the millennial drought.

There are other reasons that are not widely mentioned, and are possibly outside of the scope of this investigation, but need to be discussed in the context of the effect on the market.

- The impacts of the government buy up of water for the environment has reduced what is available for irrigation.
- The purchase of large amounts of water by “speculators” and the management of their water by using carry over, propaganda about the drought,
- Government policies, changes in inter valley trade, quarterly water balancing rules, all make a difference and preference the water speculators who exploit the “demand”.

Each of these factors need investigating.

The impacts of the government buy up of water for the environment has reduced what is available for irrigation

- The drive to purchase water for the environment was made in a politically charged environment, and has been to the detriment of irrigators. The science behind the need for the volume of water was dodgy at best, and criminal at worst. There is still no real information about why this much water was required.
- It is still difficult to assess the use of this water and why it is necessary to flood areas in a drought for the benefit of the environment. The fact that there is so much water to carry over in a wet year is one area that needs investigating. It makes it obvious that there was little need for so much water to be required for the environment.
- Whilst no under investigation here, it is worth noting that the limitations on consumptive use because of environmental water did not seem to have the effect on the market pricing significantly during the dry period of 2015-2016.

The purchase of large amounts of water by “speculators” and the management of their water by using carry over, and propaganda about the drought

- It is not clear what the percentages of water owned is by non land holders. It is a dangerous thing to have our food and fibre production in the hands of people who simply want to make as much money as they can from a finite resource. It needs to be investigated how much water is owned in this way, and by who. A public register is necessary.
- The rules that apply to the water held by speculators allows them to short the market. In addition, exploitation of the green agenda, the “drought” that doesn’t exist, and the government penalties that apply to non conforming irrigators is driving prices. This is not a typical simple supply v demand situation.
- Up until 2017-2018, the market system had performed well. When did the water become separated from the land, and is there correlation between this and the market pricing?
- Irrigators with permanent plantings cannot turn the tap off, and even annual planters need to make decision outside of the water year. Even early predictions of allocations are useless, as they are very negative and not transparent. Again, an area that speculators can exploit.

Government policies, changes in inter valley trade, quarterly water balancing rules, all make a difference and preference the water speculators who exploit the “demand”.

- Inter valley trade restrictions skew the data about water availability, and even if a landowner has done their research, policies changes and alterations around this change everything
- Similarly, the SA government have brought in quarterly balancing, where this was not enforced previously. This shows a total lack of understanding about how irrigators work, and the effort that has to be put into planning crops. As well, total ignorance of cash flow demands.
- Segregating water from land is a policy that the current government admit is a mistake. How is it possible that they can bring in such policies, but have no way to revoke them? Do government representatives own some of the water? Why can't the government reverse this decision?

Market transparency and information

The trends in price are difficult to follow, and one reason is that the information required to make proper judgements is difficult to collate. Dam levels have less meaning compared to historic levels due to the uses of that water eg environmental water, and major factors such as carry over volumes. It appears that even rainfall has different meanings to availability of water than in the past. Again, it is difficult to collate the data.

Irrigators making decisions about water need to know

- What is the distribution of consumptive water use in the whole system? What are the categories of consumptive use, environmental, carry over etc etc? Now that trade can cross borders, information from every state is needed. It is very time consuming to go to every states website and try to collate all the information. Is it all there anyway?
- Dam level information, rainfall triggers for allocation increases, and other information needs to be available. And consistent. The differences in state rules and regulations need to be highlighted and understood, and easy to find.
- It is evident that speculators and brokers have this information. This gives them a market advantage that is being exploited. Historically brokers would try to short the market, tell the buyer there wasn't much about, and create demand, but it was relatively simple to discount their efforts. It is not possible in this environment. This week I was offered 50mg of SA water at \$900, right on the market, but also told we are waiting for the market to go up. So, water brokers are telling buyers the market will go up and inducing panic buying. I couldn't afford it anyway.
- This week also, I received an email from a broker with a panic message about being fined if water isn't balanced quarterly. Again, brokers, speculators will take advantage of this type of policy and inflate the market.
- BOM data is also not useful. Historical data is changed, and unreliable for comparative purposes, and forecasting, even in the short term is unreliable, without even considering the longer term. The BOM seem more intent on breaking records with high temperatures or low rainfall, than providing useful information. This leads one to wonder if the rumours are true about kickbacks to the BOM from cashed up speculators. Also, even the BOM reports about the Murray Darling Basin do not add up and previous low inflow years this decade did not see inflated pricing.

- Why is it that the CEWH can hold water back for another year in a wet year? There was no environmental contribution from the CEWH in wet years, as there was no need, but did all their water carry over, how is this managed? Is this why they seem to have so much now, and the river is high, in a so called drought? Where are transmission flows accounted for, evaporation etc etc?
- Even Aither water market reports cannot understand why the market price for water is so high. How can an irrigator explain it? This is what the ACCC must investigate.

Regulation and Institutional settings

Sharing rules between states existed prior to the Basin Plan. It is difficult to see where any advantages have occurred for irrigators under the Plan. Certainly, there is more water for the environment, as there is environmental water, but it is still difficult to see any real benefits from this water. There are many backwaters that can remain permanently inundated, true, but there is still debate as to the necessity of this. The message is to preserve breeding grounds for fish species and other fauna, but in reality, it is often the pest species that thrive in this environment. The Flora is also manipulated, and continuous water in many areas is not only not necessary, but kills a lot of plant life that would otherwise thrive in drier conditions.

It has never been well documented the advantage to the environment for continual flooding of backwaters, and there is little wonder why irrigators are calling much of this watering as mismanagement. It would be wiser to use the environmental water to increase base flow and keep the lower lakes fresh if they must be, rather than competing with irrigators' consumptive use.

Inter Valley trade restrictions are having an effect of water trade, and whilst they may be necessary, they may need to be better documented, so that this can be predicted by irrigators. Any decision that shorts the market will have an effect on price.

Quarterly balancing of water, as mentioned previously, is having an effect on the supply and demand curve, and helping the speculators cause. Again, out of touch politicians changing the landscape, and impacting markets.

[REDACTED]


[REDACTED]

[REDACTED]

[REDACTED]

Competition and Market outcomes

Points on this topic have been mentioned earlier in the submission, but to summarise:

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- What are the range of water products? Spot marketing seems to be the mainstream and only a select few have long term leases available to them. My attempt at a long term lease had pricing options very similar to spot marketing, and it would be madness to commit our business to such ludicrous pricing. If the high prices stay we will be forced out of irrigating. Full stop. It is not economic for any grower, even almond growers, to function at the current prices.
- The changes in the ability to trade water across jurisdictions has created problems for the operators, and will continue to do so. But if this is a problem then maybe the policy should have been thought through in the beginning. It is not the irrigators that should have to suffer through bad policy, but this continues to be the case.
- There is no confidence in the market rules, regulations or institutions. Informed decisions are not possible as mentioned earlier. This poor environment has resulted in the inflated high prices we are seeing now, and the exploitation of the irrigator's requirements. It is not a natural drought, it is a pseudo drought caused by poor government policy and monitoring, and third party manipulation and propaganda.

In summary

The market cannot exist in its current form. Wholesale changes need to be made and scrutiny has to occur. Information systems need to improve so that all parties in the market can have access to the same, extensive information. The ACCC need to investigate the exploitation of the market and demand the government make changes to policy that are inflating the market price and allowing speculators to manipulate the market.

The number of irrigators leaving the market and requiring government assistance to transition is going to be huge. And it is the government that have allowed this to happen. Their lack of monitoring market practices and improving policies despite pleas from irrigators is very disturbing, and will result in a collapse of the irrigated industries.

Submission by

