

**ACCC Water Trading Rules Draft Advice**

**Public Submission to Water Trading Rules Draft Advice by  
Victorian Farmers Federation Sunraysia Hort. Branch on 1/ 02/ 2010**

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**Introduction.** The branch commends the ACCC's draft advice on water trading rules and thanks the ACCC for its acknowledgement of the branch's input into the formulation of the draft advice, particularly with respect to the ACCC's recommendation that the 4% cap should be lifted.

The draft advice recognised the branch's position on the 4% cap as contrasting with that of the VFF itself, referencing aspects of the branch's submission in recommending removal of the cap. Key points recognised were

- a) The inherent economic and financial unfairness to the particular class of irrigator financially disadvantaged by the cap and the related restraint of trade and constitutional aspects (i.e. the SA court challenge).
- b) The cap is an inherently inefficient and discriminatory means of achieving the social/ economic imperative of water retention within both irrigation districts and their broader communities, and for retention of water within agriculture as opposed to re assignment to environmental use.
- c) Sunraysia pumped district irrigators constitute a special class of irrigator in that they have exclusively permanent plantings, face relatively high fixed costs and charges per mega litre and exit fees per mega litre, and are especially vulnerable to the water security issues which have caused massive financial disadvantage over the last three seasons. Accordingly they are particularly affected and penalised by the operation of the cap.

The branch affirms all aspects of its original submission as recognised in the draft advice, but wishes to make additional observations and recommendations related to recent developments in water security and other matters.

**4% Cap reached for Sunraysia, collapse of wine industry, collapse of property values, MVGGA reverses its position on cap, LMW board wants cap gone.**

As predicted in the submission the 4% cap was reached for the first time in Sunraysia, this event occurring early in the water year. Market failure has reached a catastrophic degree in the wine industry with this season's major winery benchmark prices dropping across the board to one third those of last year. Prices are now one third the cost of production and the industry is in chaos with growers being forced out of production and being dropped by wineries at an accelerating rate. Eg, in January Constellation wines announced the termination of all Sunraysia contracts.

The desperate situation facing local wine grape growers has prompted the Murray Valley Wine Grape Grower's Association (MVWGGA) to reverse its long term stance in favour of the cap and to adopt the VFF Sunraysia Hort. Branch's position that the cap be removed for Sunraysia. The MVGGA is now lobbying the Victorian Government to remove the cap for Sunraysia.

Like wise the board of Lower Murray Water (LMW) is sympathetic to the removal of the cap, recognising that the financial future of LMW itself is dependent on the ability of irrigators to sell their permanent water to realise the funds necessary to pay arrears and ongoing water rate charges.

### **Property values plummet, water only realisable asset.**

Property values in the pumped districts have plummeted to less than one quarter of their long term level and as the MVWGGGA and LMW have now conceded the only significant remaining asset irrigators can realise in order to raise capital to fund the continuation of farming or to fund an exit from farming is the sale of their permanent water.

The flood of irrigators being forced to sell their water means demand is exceeding the available exemptions from the cap. The Victorian government recently made an extra 1000 Megs available to Sunraysia irrigators of unused First Mildura Irrigation District (FMID) cap capacity. This was utilised instantly, as will be the forthcoming lifting of the cap to 6%.

### **Cap penalising irrigators, financial penalties, and discrimination.**

The situation in Sunraysia now is that a flood of irrigators are being prevented by the cap from selling their water outside the district at an uncorrupted market price and are therefore suffering a direct and discriminatory financial penalty.

Irrigators who successfully tendered their water to the commonwealth at \$2400 per mega litre will not be able proceed with those deals if caught by the cap and will face a penalty of from \$700 to \$1400 per mega litre depending on whether they can re tender in the upcoming round of buybacks (likely tender benchmark \$1700 to \$1800) or are forced to sell at heavy discounts within the district.

Additionally the hundreds of irrigators being forced by circumstances to tender water to the Commonwealth in this year's upcoming round of buy backs similarly risk losing the chance to obtain \$1700 to \$1800 per mega litre for their water and could be forced to sell at a heavy discount to buyers within the district.

### **NVIRP, Water Politics**

The Northern Victorian Irrigation Renewal Project (NVIRP) is aligned with the Commonwealth buyback programs. Essentially, available commonwealth buyback funding has been earmarked by the state government, with Federal cooperation, to fund the adjustment of irrigators made necessary by NVIRP reconfiguration.

The 4% cap essentially does not apply to the NVIRP region. Generous open ended politically motivated exemptions mean that in practical terms it is fully exempt from the cap. As far as the Victorian government is concerned, the more money it can divert from the commonwealth buybacks to funding NVIRP adjustment the better. To this end it suits the Victorian government to force the cap on Sunraysia irrigators whilst effectively exempting NVIRP irrigators as it will effectively deliver more money of benefit to NVIRP.

The Victorian Farmers Federation is cooperating with the Victorian government on the NVIRP project and the VFF's proposed cap exemptions for Sunraysia are rejected by the branch as inadequate, discriminatory and self serving.

## **VFF, STATE GOVERNMENT HYPOCRYTICAL**

**The branch emphasises the contradiction inherent in the State government's and the VFF's insistence that water should stay within agriculture and their support for the 4% cap. On the one hand they are insisting that Sunraysia irrigators support retention of water in agriculture by paying a severe and discriminatory financial penalty. On the other hand they are targeting commonwealth money and manipulating open ended cap exemptions to achieve outcomes which will SPECIFICALLY REMOVE hundreds of gigalitres of water AWAY FROM AGRICULTURAL USE FOREVER.**

## **RECOMMENDATIONS and OBSERVATIONS**

1) **Cap to go now for Sunraysia.** The branch recommends that the 4% cap be removed from the Sunraysia Pumped district immediately. The branch requests that the ACCC assist in achieving this aim by utilising its powers to enforce the prevention of damage occurring to individuals arising from the imposition of artificial barriers to trade. The one size fits all cap policy espoused by the VFF and the Victorian government is crucifying Sunraysia irrigators and must go.

2) **Government must fund water retention, not irrigators.** The branch demands that the retention of water, being a general economic and social imperative, be funded by government, not by specific individuals in a burdensome and discriminatory way as is the case presently in Sunraysia. The branch requests the assistance of the ACCC in relieving individual irrigators from this responsibility and placing it with the state where it belongs. The state government could pay irrigators the federal buyback benchmark prices for their water tagging it long term for agricultural use only.

3) **Low Security Water should not get federal money.** The branch recommends that the ACCC formulate its final advice to ensure that Victorian Low Security (LS) water entitlement be ineligible with respect to any federal buyback funding. Given the outlook for the resource, LS water is in practical terms a worthless product which would represent zero value for money. Any money spent on LS water would be diverted from 'value for money' High Security water and would mean less money for Sunraysia irrigators being forced to sell their water.