



Australian Dairy Industry Council Inc.

**Australian Dairy Industry
Represented by Australian Dairy Industry Council Inc.**

**Response to the ACCC Interim Report for the
Murray-Darling Basin Water Markets Inquiry**

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Introduction

The Australian Dairy Industry Council welcomes the opportunity to provide a submission on the ACCC Murray-Darling Basin Water Markets Inquiry Interim Report. We recognise the extensive consultation and analysis undertaken to date and are pleased to note that our previous submission has been recognised in the Interim Report.

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.

The Murray Darling Basin (MDB) and access to water is a strategic priority for the ADIC. Dairy irrigators are key participants in the water market. Water is an essential input to dairying, whether for pasture or fodder production, which in turn provides essential fresh milk to Australian consumers. This submission draws primarily from a recent dairy farmer survey carried out by Dairy Australia, seeking insights from dairy irrigators that are relevant to a selection of questions posed in the ACCC Interim Report.

The ADIC **supports the NFF submission** to this inquiry, in particular that recommendations made by the ACCC to improve the water market:

- must seek to improve trust and confidence in the market;
- must be consistent with the NWI principles;
- must address demonstrated market failure;
- must be cost-effective, guided by cost-benefit analyses of options and minimise the cost burden;
- reduce duplication, complexity and harmonise existing regulations where possible;
- must be proportional to the impact;
- be considered, fair, equitable, and avoid unintended consequences and other third-party impacts; and
- be reasonably practicable.

Our submission compliments the NFF submission, adding dairy farmer water market 'user experience' insights (based on dairy farmer survey) to ACCC deliberations.

Our submission also argues that safeguarding Australia's food and fresh milk security should be an explicit objective of water policy in the Basin. To achieve this will require a suite of tools, with the market being one that helps ensure efficient use of scarce water. The ACCC review, appropriately, has considered ways to ensure the market functions more efficiently, but it hasn't considered whether the market is helping or hindering progress towards the overall goals for the Basin. If it's not, and the fact that dairy farmers are being priced out of the water market indicates that it's not, then other measures need to be considered to ensure this outcome is achieved.

.The comment and data provided below seek to provide input to the ACCC's further research and deliberations. We strongly request that any new recommendations from this process are released to stakeholders for consideration prior to the Government making any response to the Final Report.

The dairy industry in the Murray-Darling Basin

While most dairy production is located along Australia's coastline, where pasture growth depends on natural rainfall, there are several inland dairying areas reliant on irrigation schemes, producing pasture or fodder. It is the irrigated areas of northern Victoria, southern New South Wales and smaller numbers of farms around Forbes and Wagga Wagga in New South Wales, Toowoomba and Warwick in Queensland and Murray Bridge in South Australia that are located in the MDB. **Figure 1** illustrates Australia's eight dairying regions.

Snapshot of dairy in the Basin FY 2019-20¹:

- 1159 dairy farms across four states, 78% of which are in Victoria and the remainder split between South Australia, New South Wales and Queensland.
- 35% reduction in dairy farm numbers since 2012, when the Basin Plan began
- 1.66 billion litres of milk, with a farm gate value of \$906 million, representing 19% of the total volume nationally
- 30% reduction in total milk production since 2015. (Note that while the value of total MDB milk production has increased recently, despite volumes decreasing, this is in large part a function of farm gate milk price in the recent period.)
- 24 milk processing companies operating in the Basin to transform perishable milk into a range of valuable products, creating local employment and injecting income back into local communities
- Community flow-on impacts valued at \$2.3 billion
- In the past five years, \$493 million has been invested in on-farm infrastructure on dairy farms in the Murray region, as well as \$500 million in milk processing infrastructure in the GMID and Southern Riverina sub-regions. This is confidence in the industry, manifested by large employers providing local jobs, demonstrates the strategic national importance of dairying in the Basin.
- Dairy irrigators are key participants in the MDB water market. Anecdotally, water entitlements make up around 25% of capital assets for dairy farm businesses in the MDB.
- Dairy irrigators in the MDB have become more efficient water users. They are using approximately 50% of the irrigation water they consumed twenty years ago.

¹ Dairy Australia, multiple sources.

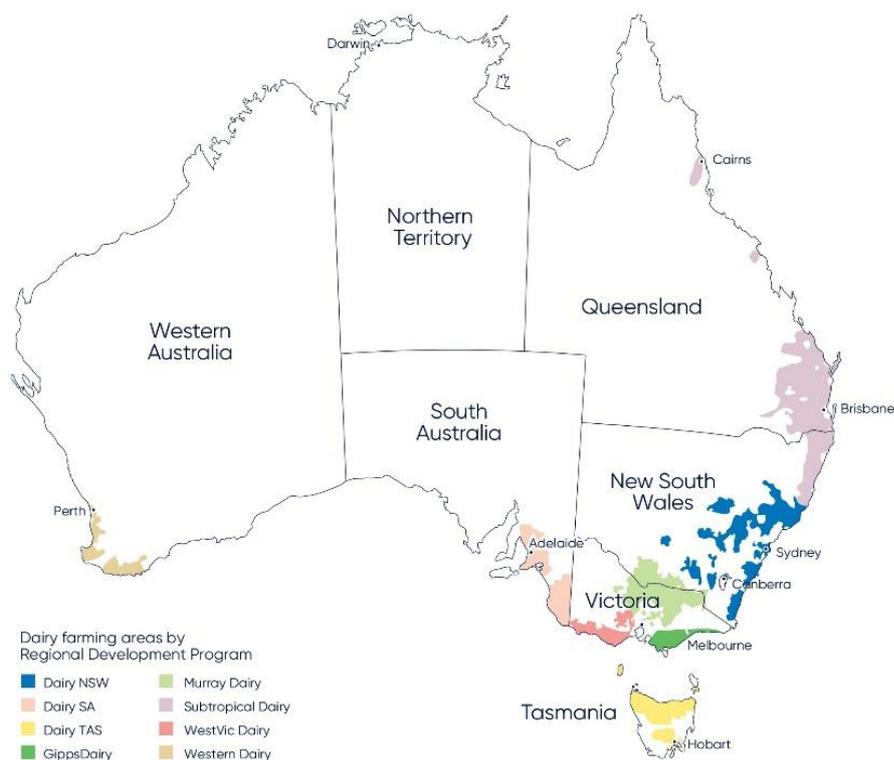


Figure 1.
Australian
dairying regions.²

Along with the value outlined in the snapshot above, dairy production and processing in the MDB underpins food security and is a key source of nutrition in the Australian diet, benefiting the wider Australian community.

The dairy industry in the MDB is regionally and nationally pivotal—for both export and domestic markets. Competitive advantages include the modernised processing capability, affordable land prices, modernised water infrastructure, connectivity to markets through road, port and telecommunications infrastructure, excellent herd genetics and an ability to grow and access a wide variety of forages for dairy production due to a long growing season. Seasonality in milk production is flatter in the Basin than in southern Victoria and Tasmania, helping to ensure efficient use of infrastructure year-round. Fresh milk from the MDB is supplied across a wider area of Australia than ever before as drought and adverse conditions impact milk production elsewhere, particularly in Queensland. The MDB dairy regions are located with access to major markets in Sydney, Melbourne, Brisbane and Sydney.

Dairy profitability in the MDB has historically been based on a cost-effective farming system that grazes cattle on irrigated pastures, and this been another comparative advantage in MDB milk production.

However, drier conditions over the past several decades, implementation of the Murray Darling Basin Plan, other agricultural development in the Basin, and the cost pressures these factors have produced on the water markets have eroded that comparative advantage for many.

² Dairy Australia 2019. *Australian Dairy Industry in Focus 2019*. Melbourne, 52pp. See Appendix 1 p. 33.

Farms in the MDB region are notable in particular for being on the front line of adapting to climate change: many are managing the volatility in water availability/price and have increased water use efficiency often in association with a transition to alternative forages and more intensive, fodder and grain fed systems.

Farmers are continually looking for and implementing strategies to increase their water use efficiency and to opt in and out of the irrigation market dependent on water availability and price.

One strategy to achieve this is through the integration of fodder production businesses with dairy farm businesses in the Basin, increasing the value of fodder by targeting it to specific end user requirements but also retaining value of product within local communities. This interdependence has significant follow on effects to community resilience as farmers within the region develop complementary relationships that increase value of resources such as land and water.

Water remains a fundamental building block for the region’s economy. Both adding value to water as well as diversifying the dairy industry’s reliance on irrigation is integral to maintaining and improving community resilience and prosperity. **Figure 2** illustrates some key dynamics at play, showing that dairy in the MDB is a resilient industry.

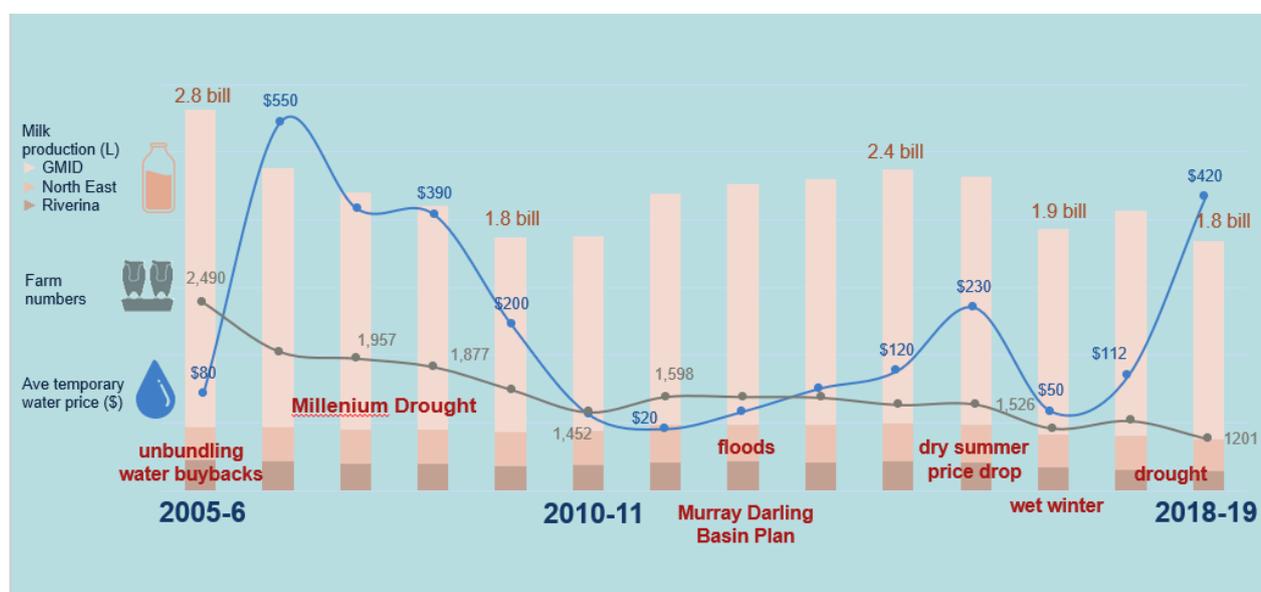


Figure 2. Milk production and farm numbers against temporary water price in the Murray Dairy region of Australia.³

However, significant volatility has meant others have found themselves priced out of the water market altogether. Since the water buy-backs of 2005-06 for example, dairy farmers are typically using 60% more water than they own. In Victoria, high reliability water shares were sold to retire debt accumulated through the Millennium drought, making them subsequently significantly exposed to the temporary water market.

Aither reports the annual average southern MDB allocation prices for 2019-20 ranged from \$304 per ML in the NSW Murray (above Barmah) to \$644 per ML in Vic 7 Murray (Barmah to SA). Water prices in the lower Murray peaked at approximately \$970 per ML (weekly volume weighted

³ Developed by Murray Dairy. Note data available only to 2018-19 and does not include SA or Qld.

average price) in November 2019.⁴ The majority (56%) of dairy irrigators in the Goulburn Murray irrigation District region surveyed in 2016 indicated water prices over \$200 per ML were not viable for their businesses. Only 5% of dairy irrigators in that survey said they could afford to pay more than \$250 per ML.⁵

Water security is key to developing a resilient irrigated farming sector underpinning viable and vibrant Basin communities. With dramatic reductions to in-flows over the past two decades, there has never been a more critical juncture to consider fair allocation of this scarce resource.

Beyond producing essential nutrition for the community, irrigated dairy farm businesses play an important role in the MDB water infrastructure landscape and complement rather than just compete with other irrigation users. Water authorities report that dairy farms are an important component of maintaining the viability of irrigation infrastructure for all irrigators. Indeed, agricultural diversity (diverse consumptive water uses) may deliver optimal resilience and prosperity in Basin communities and regional economies, such as the example given above describing the symbiosis of dairy businesses and fodder production businesses.

The efficiency of the water market is essential—the dairy industry supports the current ACCC inquiry to enhance its operation—however it is only one contributor to resilient communities in the Basin. Other policy responses outside the scope of the ACCC inquiry, (including the ongoing implementation of the Basin Plan itself), remain critical to prosperity and are currently uncertain. While the Australian dairy industry supports a healthy environment and healthy river systems, implementation of the Basin Plan must progress in a way that results in prosperous and stable rural communities, including a competitive dairy industry that has confidence and certainty enabling continued investment.

Ongoing, genuine consultation is required to meet the multiple objectives of the Basin Plan and this ACCC inquiry is one important component of this process.

The ADIC notes that much of the ACCC's analysis remains incomplete in the Interim Report and will be included in the Final Report. It is essential that stakeholders have the opportunity to respond to the completed analysis and each subsequent policy option before the Government responds to the Final Report.

Water Market Design Objectives

In our initial submission to the ACCC's Issues Paper in January 2020, the ADIC argued that safeguarding Australia's food and fresh milk security should be an explicit objective of water policy in the Basin, and should be a factor that shapes any ongoing water market design or reform.

Since that time, the disruptions caused by COVID-19 to international trade, including to the trade of food products, have highlighted the importance of food security to both the Australian government and the Australian people. Australia is fortunate that we are largely self-sufficient when it comes to fresh produce, including fresh milk. However, the Federal Government's inclusion of food and beverage manufacturing as a priority sector in their recently announced Modern Manufacturing Initiative serves as formal recognition of the need for Australia to be proactive in ensuring food security and the sustainable local manufacturing of our fresh produce,

The dairy industry believes it is in the national interest for all Australians to be able to have access to fresh, safe, locally produced milk and milk products as a part of maintaining our food security. The continued provision of fresh milk and milk products to Australian consumers should be one of

⁴ AITHER Water Markets Report 2019-20 Review and 2020 21 Outlook: <https://www.aither.com.au/report>

⁵ http://www.gbca.vic.gov.au/downloads/GMID_studies/RILWUM_TechnicalReportFinal2017_LowRes_30_3_2017.pdf

the objectives for the Basin, and if the operation of the market is working against that outcome, then Government needs to consider why, and what other policy options should be considered. Dairy farmers in the Basin provide almost 20 per cent of Australia's milk production. If Australians are to continue to enjoy security of fresh milk supply then the Basin water market must deliver affordable and accessible water for dairy farmers in good years and in dry years. The current regulations and incentives for agriculture, compounded by the operation of the market, are putting Australia's fresh milk and food security at risk.

Reform in this space cannot just focus on 'efficient market operation', but must also ensure that regulations, water management rules and associated policy settings across the Basin support the adoption of food security as an objective. This is consistent with *National Water Initiative*, which states that, 'governments have a responsibility to ensure that water is allocated and used to achieve socially and economically beneficial outcomes in a manner that is environmentally sustainable'.^[1] Without food and fresh milk security informing the shape of the market or any reforms, it is possible that we will see milk production in the Basin diminish to the point where it undermines Australia's fresh milk security.

Key water market issues for dairy

As active participants in the water market, dairy farmers are increasingly concerned that the market may not be operating well. They are concerned that safeguards for unscrupulous behaviour of both participants and the brokers who facilitate transactions are insufficient.

In relation to the current ACCC inquiry into water markets, these are the key issues for dairy irrigators:

- Improving market transparency, including both in water ownership and transactions;
- Investigating the role of speculators in the market;
- Regulation and transparency of water brokers;
- Re-examining regulations around the water market 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;
- Ensuring a level playing field for those who irrigate and are subject to network costs, and those who simply trade water and are not subject to these transaction costs;
- The operation and impact on the market of carryover;
- Mechanisms for Inter-Valley Trade;
- Market volatility and the ability of irrigators to better manage this;
- The third-party impacts of trading rules and agricultural development, including impacts on water reliability and the environment;
- Ability to manage instances of excessive market power; and
- Whether the market is facilitating the social and economic outcomes that the community expects.

^[1] Intergovernmental Agreement on a National Water Initiative, available from: <https://www.agriculture.gov.au/sites/default/files/sitecollectiondocuments/water/Intergovernmental-Agreement-on-a-national-water-initiative.pdf>

In October 2020, Dairy Australia (DA), the industry's Research and Development Corporation, commissioned a short volunteer survey of dairy irrigators in the MDB, in order to better understand farmers' interactions with and attitudes to the water market.

The survey received a high level of interest, with almost 100 responses from dairy irrigators across the MDB.

Findings from the survey, while being indicative only due to the relatively small sample size, help address some of the questions posed in the ACCC's Interim Report and are summarised in this submission. We provide these insights as anecdotal rather than statistically significant and respond only to those questions posed in the Interim Report that the DA survey speaks to.

The key themes that emerged from the dairy farmer survey:

- Dairy irrigators are highly engaged in the water market, buying and selling a wide range of water products, with many planning to enhance the diversity of their water portfolios over the short to medium term.
- 'Water market literacy' amongst dairy irrigators is generally high.
- Price was the number one barrier to irrigators using different water products, followed by cash-flow and exposure risk. Dairy irrigators are very price-sensitive.
- Dairy irrigators are accessing a wide range of information sources to help make trade decisions, in particular seasonal forecasts. Much of this information is from peers, as well as publicly available sources and water brokers.
- Dairy irrigators are on the whole relying on water brokers to undertake the actual buying and selling of water, for a range of reasons including access to information, timeliness and understanding of complex trading rules.
- Cost of brokerage services was flagged as the number one challenge to engaging their services.
- Farmers also flagged transparency of brokers (that is, confidence that they are working in their 'best interests') as a key challenge in engaging a brokerage service. Trust and organisational reputation were the key factors in choosing a broker.
- Dairy irrigators are using a range of strategies to manage their water resources when they exit dairying – including selling the water along with the business and keeping ownership of the water separate to the business.

Response to Interim Report questions

Buyers and Sellers: Who Trades, Where, Why and What? (Chapter 4 & 5)

ACCC Question: *How many and what type of irrigators are adopting these riskier water ownership and trading strategies?*

Dairy irrigators are currently trading a wide range of water products. Dairy Australia (DA) survey data indicates that up to 40% of dairy irrigators may be interested in changing the mix of products they purchase.

DA Survey Question: Aside from the products you currently use, which others would you consider using in next 5 years? (Choose all that apply)		
Answer Choices	Responses	
	Percentage	Number
Temporary Trade Purchase	45%	27
High Reliability Water Share	36.7%	22
Leasing an entitlement (Limited term transfer)	33.3%	20
Carry over on entitlements owned or leased	31.7%	19
Forward contracting a volume of entitlement	28.3%	17
Groundwater	15%	9
Other (please specify)	6.7%	4
NSW General Security	1.7%	1
Total respondents for this question: 60		

This demonstrates a high level of engagement and interest in a wide range of market products and trading options.

ACCC Question: *What barriers, if any, prevent an irrigator from buying or selling allocations or entitlements, or using leases, carry over parking or forward contracts?*

Price, cashflow availability and risk exposure were the key factors in dairy irrigators choosing water products, according to the survey. Results indicate that dairy irrigator survey respondents generally have a high level of 'water market literacy' and this is reflected in the low response for 'complexity of products' as a barrier to trade.

DA Survey Question: <i>What barriers, if any, prevent you from using different water market products? (Choose all that apply)</i>		
Answer Choices	Responses	
	Percentage	Number
Price of water market product	84.6%	55
Cashflow	61.5%	40
Exposure to allocation risk	27.7%	18
Not sure how much water I will need each year	12.3%	8
Plans to exit farming	9.2%	6
No barriers	7.7%	5
Complexity – don't understand how some water products work	7.7%	5
Other (please specify)	7.7%	5
Plan to reduce irrigation	6.2%	4
No benefit to capital appreciation of entitlement	3.1%	2
Total respondents for this question: 65		

ACCC Questions: What are the investment objectives and strategies of small water investors? / What are the investment objectives and strategies of water investors that participate in the water market by buying and selling water allocations but do not own entitlements? / What are the investment objectives and strategies of irrigators that buy and sell water allocations for profit, alongside their farming operations? / What are the investment strategies adopted by retired irrigators who have retained their water access entitlements?

Most of the respondents to the DA survey were from current irrigators, with a handful of responses from retired farmers who continue to trade their water assets separate from irrigation. A large percentage of respondents reported an intention to 'retain water assets separate to farming assets', suggesting they plan to use their water assets to generate income post farming. While not specifically asked in the survey, anecdotal evidence suggests that retired farmers are trading water as a form of superannuation, which reflects the fact stated in the Interim Report (p9) that water entitlements now make up around 25% of capital assets for dairy businesses.

DA Survey Question: <i>If you were to exit dairying (sell, succession planning, change enterprise etc.) what would you consider doing with your water assets?</i>		
Answer Choices	Responses	
	Percentage	Number
Retain water assets with farming assets for sale or use in new enterprises	23%	23
Retain water assets separate to farming assets	29.7%	19
Unsure	23.4%	15
Retain water assets for succession planning	21.9%	14
Sell water assets permanently	10.9%	7
Other (please specify)	10.9%	7
Total respondents for this question: 64		

Water Broker Roles, Practices and Conduct (Chapter 6)

ACCC Questions: *Have you been provided with misleading information by a broker? Provide details. If clear, reliable and timely information about the market was more easily available, would this prevent brokers from providing misinformation to clients?*

Respondents to the DA survey reported the following:

- Almost all respondents use brokerage services at least sometimes, with a majority of respondents using brokerage services always or most of the time.
- Respondents use brokers primarily to purchase water but also to access information on pricing and availability. A few rely on them to develop water portfolio strategies.
- Farmers surveyed reported that the benefits of using brokers included timeliness of transactions, accessing up to date information on pricing, and helping negotiate complex trade rules.
- Of those who responded to the survey, price is a key factor in dairy farmers' choice to use a broker, followed by concerns over transparency of the advice and an inability to ground-truth advice against another information source.

Only a small number of respondents did not use brokerage services at all.

DA Survey Question: Do you use water brokerage services (including exchange platforms)?		
Answer Choices	Responses	
	Percentage	Number
Always	39.1%	25
Mostly	34.4%	22
Sometimes	23.4%	15
Never	3.1%	2
Total respondents for this question: 64		

The majority of respondents used a broker to actually manage the administration of a transaction, with fewer than half of respondents seeking advice on pricing and water availability from their broker.

DA Survey Question: What do you see are the benefits from using water broker services? (Choose all that apply)		
Answer Choices	Responses	
	Percentage	Number
Access to buyers/sellers	66.2%	43
Saves time	47.7%	31
Provides up to date information on price and/or availability	46.2%	30
Helps work through market complexity including trade rules	38.5%	25
Expertise in intervalley/cross border trades	26.2%	17
Access to other expert knowledge	15.4%	10
None	7.7%	5
Other (please specify)	4.6%	3
Total respondents for this question: 65		

Survey results, as well comments from survey participants, reveal a lack of trust amongst dairy farmers of the brokerage industry. Concerns were expressed about whether brokers are able to place illegitimate bids in trading platforms. Concerns were also expressed about fees and lack of transparency around fee structures.

DA Survey Question: <i>What are the challenges of using water broker services? (Choose all that apply)</i>		
Answer Choices	Responses	
	Percentage	Number
Cost of utilising broker service	53.9%	35
Lack of transparency in terms of other interests a broker may have, and who else they may be acting for	46.2%	30
Lack of regulation	35.4%	23
Trust in terms of determining what is a quality service and/or advice	27.7%	18
Lack of independent information to ground-truth broker advice against e.g. price and availability	27.7%	18
None	16.9%	11
Quality of advice or previous bad experience	15.4%	10
Ability to deliver water product	7.7%	5
Availability of local brokers	7.7%	5
Other (please specify)	3.1%	2
Total respondents for this question: 65		

A focus on trust and organisational reputation was a key factor in the selection of a broker. Experience with specific water market products was important for some.

DA Survey Question: <i>When selecting water broker services, what do you look for? (Choose all that apply)</i>		
Answer Choices	Responses	
	Percentage	Number
Trust	72.3%	47
Organisational reputation	55.4%	36
Experience in specific water market products	24.6%	16
Other (please specify)	21.5%	14
Experience in inter-valley or cross border trade	12.3%	8
Insurance	3.1%	2
Total respondents for this question: 65		

In summary, dairy irrigators rely heavily on brokers to access available water for purchase, to negotiate complex trade rules, and to save time in undertaking transactions. However, they have concerns regarding the cost of these services and trust in the quality of the advice.

ACCC Question: *Do you consider you are able to effectively access inter-valley trade opportunities when they arise? Why/why not? For holders of water rights who have traded water into another valley during an intervalley trade opening, did you use a broker to facilitate the trade? Why/why not?*

Survey respondents stated that they would not be able to manage inter-valley trade transactions, given the complexity of the rules and requirements of these trades, without using a broker.

The ADIC notes that the ACCC's analysis of IVT limits and related data is ongoing, and we look forward to the final report for further discussion on this important issue.

Regulatory Settings and Solutions (Chapter 7)

ACCC Question: *Do you think that brokers and intermediaries in MDB water markets should be licensed?*

As discussed above, trust in brokers was given as the top consideration by respondents when *choosing* a broker. Respondents also flagged a lack of regulation, lack of transparency in terms of other interests a broker may have, and who else they may be acting for, and a lack of independent information upon which to ground-truth broker advice as the top challenges when *using* a broker. Overall, dairy irrigators are clearly concerned that brokers may not be working in their best interests and that they may not be legally protected from unscrupulous behaviour.

Water market participants *should* be protected against unscrupulous water broker behaviour and clients *should* have confidence that brokers are working in their best interests, with any conflicts of interest clearly stated. This is required and assumed behaviour in other sectors where financial information is provided, especially given the asset value of water, which the Interim Report noted as being worth around \$1.5 billion Basin-wide. With brokers playing such a large role in facilitating transactions, changes to rules and regulations are essential to ensure confidence and trust in the industry and the market. For this reason the ADIC supports the ACCC's ongoing examination of the brokerage industry as part of the current ACCC water markets inquiry.

However, noting that cost was flagged as the main concern for dairy irrigators when choosing a brokerage service, any market interventions must not impose significant additional transaction costs on brokers and their clients. This is particularly the case in states where small parcels of water are typically traded, such as South Australia, because high transaction costs would potentially render this trade un-viable.

Transaction Costs of Trade and Information Transparency (Chapter 9, 10 &11)

ACCC Question: *What information do you think is critical to your ability to make water trading and investment decisions? How do transparency and data quality issues impact your trading activity? Do you agree with the ACCC's preliminary analysis of the key transparency issues? Is anything missing?*

Survey respondents flagged that they are accessing a wide range of information sources to effectively understand and use water markets and products. This information was largely sought through other farmers and peers, brokerage services, and freely accessible sources such as websites. The survey results, though not a statistically relevant sample, indicate that dairy farmers in the MDB highly value seasonal forecasts and water availability updates, as well as trading bids and offers for particular products.

DA Survey Question: <i>What information do you use to effectively understand and use water markets and products? (Choose all that apply)</i>		
Answer Choices	Responses	
	Percentage	Number
Seasonal forecasts/updates on water availability and allocations	93.4%	57
Pricing in terms of current bids and offers for water market products	78.7%	48
Trade and carryover rules	49.2%	30
Production planning and water budgets	39.3%	24
Historical trading information including water market products and price	34.4%	21
Information on different water products and how they work	26.2%	16
Carryover limits for each valley	26.2%	16
Other (please specify)	0%	0
Total respondents for this question: 61		

DA Survey Question: <i>How do you access this information? (Choose all that apply)</i>		
Answer Choices	Responses	
	Percentage	Number
Water broker services	77.8%	49
Farmers/peers	61.9%	39
Print material, e.g. newspapers	46%	29
State water resource manager websites	41.3%	26
Other advisors	41.3%	26
Workshops/seasonal update events	34.9%	22
Industry Websites	31.8%	20
State water register websites	17.5%	11
Other (please specify)	3.2%	2
Total respondents for this question: 63		

Any changes that improve clarity, timeliness and accessibility of water market information will therefore be of significant benefit to irrigators.

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.

Market Architecture and Impacts of Trade, and Reform Options (Chapter 12 & 14)

ACCC Question: The ACCC seeks stakeholder feedback on the merits and drawbacks of, and the potential to adopt, the options outlined below [including changes to various elements of carryover arrangements]

The ADIC reiterates the importance of carryover for managing risk in dairying businesses. Carryover is an important mechanism that allows farmers to manage water resources year-to-year. In addition, Aither's research has suggested that carryover may in fact buffer market volatility. Of course, this is not to say that carryover arrangements are working as well as they could.

To this end, we recognise the breadth of work that the ACCC has undertaken in examining carryover arrangements. We note that the ACCC has recognised stakeholder concerns. We look forward to the outcomes of this work—in particular, consideration of whether carryover arrangements contribute to the effective and efficient operation of water markets, whether carryover water is being traded for carryover and the effects of this, and whether carryover is being used by investors to increase prices by withholding supply.

Other Comments

Level Playing Field

In our initial submission, we 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, giving them a cost-advantage in water trade (by having an increased ability to pay, because they don't have the network costs to pay as well), and potentially even pushing water prices upwards. If this is occurring, then actual water users are trading at a disadvantage. While the Interim Report contains extensive analysis of transaction costs for trade, including brokerage fees and application fees, there is no discussion of infrastructure network fees, and the impact of these fees on water transactions and water use. The ADIC would be interested to see this issue considered in the final report.

Community Outcomes

A key issue for dairy farming communities not addressed by the ACCC water markets inquiry is the *outcomes achieved by the market*. The market is a tool to allocate resources, and we cannot assume that the outcomes its achieving are necessarily optimal for the economy, community and the environment.

For dairy irrigation communities, an optimally functioning market would be one that is allocating water for irrigation to grow food and fibre efficiently, one that supports food security, rather than commodifying water simply to create opportunities to grow wealth. While it plays an important role

in resource allocation, the water market does not on its own optimise social, economic and environmental outcomes that industries, communities and governments aspire to in the Basin.

Enhancements to the efficient operation of the water market as envisaged in this submission are certainly welcome, however this singular tool must be underpinned by other supportive policy settings aimed at stimulating Basin economies, enhancing social cohesion and recognising river health simultaneously.

Key drivers of dairy profitability in the Basin are productivity, response to volatile and changing climatic conditions, access to a skilled and capable workforce and domestic and global milk markets. The ability to manage a complex water portfolio is increasingly a key skill requirement in dairy farm businesses operating in the Basin. It is in this context that the water market must better assist in making dairy farming more efficient, productive and sustainable.

We understand that the ACCC will be releasing a final report in January 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.** In particular, the issues highlighted in this submission are of key interest to our stakeholders, and we look forward to working with ACCC in those instances where the research to develop policy options is still underway.

Further resources:

- [Murray Dairy Future Focus report](#)
- [Dairy Australia Situation and Outlook Report](#)
- [Dairy in Northern Victoria: Prepared for the Independent Murray-Darling Basin Social and Economic Assessment Panel](#)