



Submission

To the Australian Consumer
and Competition Commission
(ACCC) inquiry into water
markets in the Murray Darling
Basin

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The Murray River Group of Councils (MRGC) welcomes this opportunity to make a submission to the ACCC inquiry into the operation of markets for tradeable water rights in the Murray Darling Basin.

Fig 1. The MRGC region of Northern Victoria



The MRGC comprises six Councils in northern Victoria, covering a significant proportion of the Victorian irrigation footprint. The Group has been working together on water issues on behalf of our irrigation communities since 2006 when early water market reforms around the decoupling of water property rights from land were in development in Victoria.

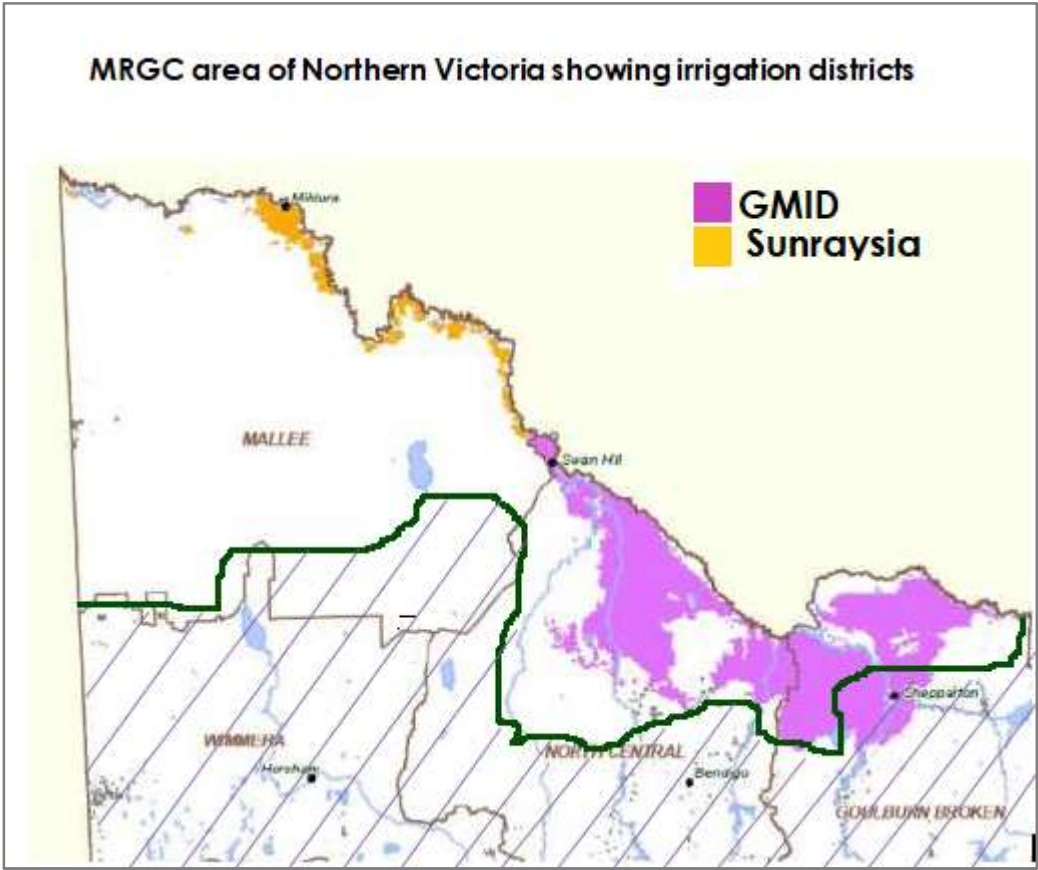
At the time this was recognised as a change that would have deep and lasting impact on our communities. This has proved true as increased trade in water has been a catalyst for substantial change in the economy of the MRGC region.

As a local government grouping MRGC represents communities across northern Victoria. Agriculture, and in particular Irrigated agriculture together with food manufacturing are the key pillars of our economy.

Combined these sectors account for around one in four jobs in the region and nearly 40 per cent of regional output (Remplan 2019).

Overall the opening up of the water market through the southern connected Basin and the ability to trade water rights has seen winners and losers across our region.

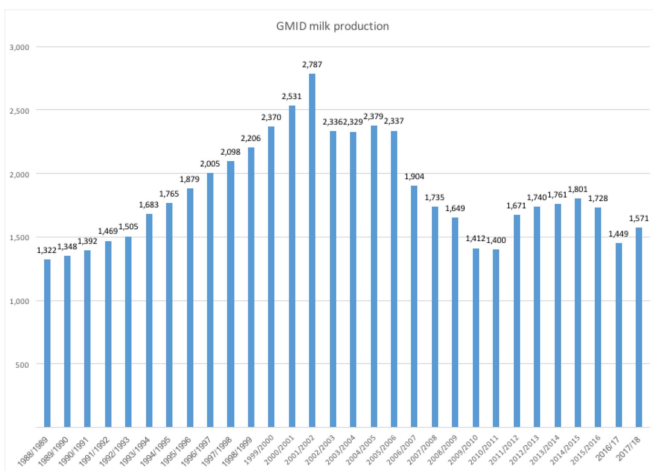
In general terms, the de-linking of water and property rights and the subsequent development of the water market has seen water traded downstream in northern Victoria to support the enormous growth in horticultural plantings in the Mallee.



In particular, the almond industry has benefited from the ability to trade water downstream to where land is less expensive and more available: *Almond's water use has increased from almost nothing in 1999/00 to over 400GL in 2015/16 and is predicted to increase to over 600GL in the foreseeable future. (RMCG 2018)*

Much of this water has come from the dairy sector within the GMID with substantial trade in both entitlement and allocation and a sustained reduction in dairy production in the region.

GMID Milk Production over Time – source: RMCG 2018



MRGC has a number of key concerns in relation to the water market which it urges the ACCC to examine in detail and make recommendations in relation to.

These include transparency of trading and pricing, the impact of water recovery on water pricing, the impact of trading on the long term viability of irrigation districts and the environmental impact of inter-valley transfers.

Transparency

The single most important issue for MRGC is the transparency of the water market. Lack of clear information on water price and availability, leads to inefficiency in the market. MRGC would like to see far greater consistency and transparency in the water trading platforms across the southern connected Basin.

Real-time information on price and the amount of water available as well as on the type of property right being traded, is essential to improve the efficiency of the market and to ensure trust.

The Commission should closely examine the possible benefits of a single "Water ASX" water exchange for the southern connected Basin.

The Impact of Speculation

Of significant concern to many irrigators and others in our communities is the ability of investors to trade water simply for profit without being directly – or even indirectly, engaged in food or fibre production.

MRGC believe the current pricing mechanism for water will likely result in the complete demise of certain agricultural industries in our region. For example; the escalating price of water has moved to a level where the dairying industry in Northern Victoria is economically unsustainable.

The escalated price has already resulted in a large exodus of dairy farm operations and on current trends the 'economics 101' of using water to produce milk simply do not stack up.

The MRGC is of the view that without significant changes to the operation of the water market, the dairy industry will struggle to be viable in the coming years.

Basic economics dictates that with a scarce commodity such as water; controls which reduce the number of buyers in the market will reduce the price. It is the MRGC's contention that the development of rules that ensure the water is physically applied for agricultural pursuits be urgently implemented to mitigate the exorbitant water prices stemming from the impact of speculation and investors that are driven by profit motives rather than agricultural production pursuits.

MRGC urges the Commission to examine this aspect of water trading closely, including the potential impact of limiting water trading not linked to agricultural

production or restricting such trade at particular times such as during severe drought.

Increasing the transparency of such trades should also be considered so there is a clear understanding of the level of trading not directly linked to production and its impact on water prices.

The Impact of Water Recovery

Within the southern connected Basin, northern Victoria has some of the most sought after tradeable water rights – Victorian High Reliability Water Shares (HRWS).

Through water recovery for the environment as part of the Murray Darling Basin Plan, significant amounts of water (approx. 800GL) has left Victorian irrigation districts.

There is substantial evidence that Buy-Backs have had a direct impact on the price of water. There is also evidence that following water efficiency projects, the back

purchase of water – often HRWS, has occurred throughout the southern connected Basin. This has placed additional upward pressure on water prices.

The potential impact of further water recovery on Victorian irrigation districts, either directly through buy-back or water efficiency programs or indirectly through back purchase, is of significant concern to our communities.

Impact on Irrigation Districts

The long term viability of irrigation districts is of immense concern to our communities. Many of our towns rely completely on irrigated agriculture and food manufacturing for their prosperity.

While water trading can increase the efficient use of water and encourage the flow of water to higher value commodities, there are also significant impacts both on industries such as dairy and on whole irrigation districts, as water permanently exits - leaving fewer enterprises to cover increased operational costs of Irrigation Infrastructure Operators.

Environmental Impact of Inter Valley Transfers

The trade of water downstream has had a significant environmental impact on parts of the Murray and the Goulburn River in particular.

Recently the Victorian Government has brought in interim regulations for trade from the Goulburn in an effort to limit environmental damage being done to banks and habitat by unseasonal high flows.

Together with the management of constraints more generally, this is a significant issue for our communities.



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