



# RENMARK IRRIGATION TRUST

Constituted by a Statute of the Parliament of South Australia 1893

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ACCC inquiry into water markets in the Murray-Darling Basin  
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29 November 2019

## **RE: Submission on the ACCC inquiry into water markets in the Murray-Darling Basin**

Thank you for the invitation to provide feedback on the draft terms of reference and issues for the ACCC inquiry into water markets in the Murray Darling Basin. Renmark Irrigation Trust (**RIT or Trust**) looks forward to contributing to this important analysis of how the operation of water markets are shaping the viability of communities and irrigated agriculture in the Murray-Darling Basin now and in the future.

### **Renmark Irrigation Trust**

The Trust services the Renmark irrigation district, which is Australia's first irrigation settlement, and is based in the Riverland in South Australia. The Trust, which was established in 1893 and is Australia's oldest Trust, is a leader in efficient water delivery, salinity management and caring for the River system. It was also the first irrigation entity to sign a partnership with the Commonwealth Environmental Water Holder. Our infrastructure serves approximately 600 irrigation Members and covers more than 4900 hectares. Our Members produce high value crops with a farm gate value of approximately \$80m each year (and a total economic output of approximately five times that amount). The operations of the Trust and its Members have directly underpinned the economic and social wellbeing of the Renmark community, through employment and community spend, for over 125 years.

The Trust is the only irrigation body in the world to be awarded gold certification for good water stewardship under the Alliance for Water Stewardship model, a global membership collaboration comprising businesses, NGOs and the public sector (see <https://a4ws.org/>).

Our mission is to ensure the long term viability of the RIT and its Members through the development and implementation of innovative practices that continuously improve the effective and efficient management of the Trust's assets and water distribution network.

To achieve this mission, and to achieve viable irrigation communities throughout the entire Murray-Darling Basin, it is our position that attention must be given and leadership shown in relation to the current actual and perceived status of the water markets operating throughout the Basin, with analysis focused through both a regulatory and practical lens.

### **Viable agriculture**

RIT has a strong stake in ensuring that the diversity and viability of irrigated agriculture is maintained, along with the communities depending on these industries to prosper. To this end, RIT supports an analysis of reforms in water market trading rules, and greater regulation of brokers and traders, with a focus on transparency and reliability of information available to all market participants.

RIT sees risk in considering the water market in isolation, without considering the issues of river systems constraints, salinity, environmental sustainability, and business viability. As a sustainable irrigation district operating for 125 years, the Trust sees the importance of a need for future thinking and careful consideration of the sustainability of allowing water markets to operate in such a way as to allow water to be applied to areas unsuited or unprepared for agricultural operations, resulting in a potential failure to consider various UN Sustainable Development Goals that Australia is a signatory to.

*Underpinning the economic, social and environmental sustainability of the Renmark Community*





## **Navigating the water market into the future**

### *Property transactions and the decoupling of water entitlements from property*

In the RIT district, properties and businesses are being sold “without water” – that is, without water entitlements accompanying the sale of the land, potentially rendering new owners as long term water “renters”, needing to lease in allocation. Entitlements are leaving both the Renmark and the wider Riverland district, and it is important to consider whether the movement of entitlements away from rural communities and into the ownership of large corporates, public or private, is the future for rural Australia that is contemplated, or intended, under current operation parameters of the existing water market. The RIT submits that it is not.

### *Different regulations and trading/entitlement rules across jurisdictions confuse the market*

The ability for water products to be traded across various districts and jurisdictions that attract different rules and policies means that, no matter the local treatment of water and its characteristics, the best set and intended policies may have little impact on controlling unsustainable prices or aiding entitlement security.

### *Unintended consequences – transition of beneficiaries from primary producers to investors*

The outcomes of water markets have varied to a perverse level where increasingly, beneficiaries of the water market include investors and traders, to the detriment of the participants to whom the market exists to serve, those involved in agricultural production growing high value crops and creating value add economic activity.

### *Water security into the future*

A secure, affordable water supply is essential to the long-time viability and prosperity of Basin communities. Current and future generations cannot plan with confidence to remain in or enter the irrigated agriculture industry without a level of water security. An unregulated, or inefficiently regulated water market increases the power chasm between small and large players in the market. This sees many smaller, but viable, players in rural Basin communities become price-takers in a market with operational parameters that may favour sophisticated operators/those with large amounts of capital deployable at any time of the year.

### *Rural Basin Communities – an important part of Australia’s national identity*

The RIT is an efficient Irrigation Infrastructure Operator that also provides a well-developed salinity management scheme servicing the Renmark Irrigation District. We would like to see viable irrigation businesses expand with confidence in the long-established, viable irrigation agricultural districts that exist throughout the Basin States.

## **RIT’s response to Issues**

Responses to the ‘Issues for Comment’ arising from the Terms of Reference for the Inquiry listed in the ACCC document, along with suggested potential solutions, are contained in the **enclosed** table.



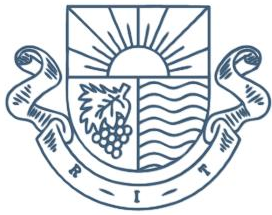
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Please contact James John on (08) 8586 6911 with any queries or clarifications regarding this submission.

Yours Sincerely

Rosalie Auricht  
General Manager



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## Issues for Comment

No.	Issue	Comment
<b>1.</b>	<b>Market trends and drivers</b>	
	<ul style="list-style-type: none"> <li>How water availability and demand are changing over time, the reasons for these changes and the impact they are having on water markets.</li> </ul>	<p>Over time, water availability has decreased for irrigators on the one hand (through environmental water buybacks), while remaining relatively static on the other (through introduced caps and system constraints following these buybacks). However, water demand has increased across the wider Basin. The decrease in the availability of water has had an upward pressure on pricing in the water market, appearing to follow traditional supply and demand principles. Perceived deviations to these principles are covered in other areas of this table, predominantly focused on the evolving makeup of participants in the water trading market.</p>
	<ul style="list-style-type: none"> <li>The factors that have been driving movements in prices for water access entitlements and allocations over time.</li> </ul>	<p>Price factors include traditional supply and demand principles, the decoupling of water entitlements and allocations from land, and the resulting ability to both trade these entitlements interstate, as well as hold and trade these entitlements and allocations as a private or public investor for profit, without a requirement for a holder to deploy the water themselves to increase agricultural productivity.</p> <p>Another factor to consider is the diversity of water products and rules across the Basin States. This complexity can lead to confusion in the different water products available on the market and can result in unsophisticated market users becoming “price takers” at certain times of the year due to supply/demand of particular water products.</p>
	<ul style="list-style-type: none"> <li>Changes to the number, diversity and behaviour of water market participants over time, and how this is affecting water markets.</li> </ul>	<p>It would be unsurprising if the diversity of water market participants has dropped. However, what is apparent in our region and from both substantiated (reports from certain organisations and research bodies) as well as anecdotal accounts is that the market participants appear to have grown in number, with the value of water entitlements and allocations held having also grown. Private owners of permanent entitlement have seen the value of their assets rise significantly over time, leading to scenarios where the value of primary production in some instances only marginally exceeds the profitability of leasing permanent entitlement on the market. The impact of larger market participants trading water as a profit making commodity is also a relatively new market behaviour.</p>



# RENMARK IRRIGATION TRUST

Constituted by a Statute of the Parliament of South Australia 1893

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	<ul style="list-style-type: none"> <li>Changes to the number, diversity and amount of trading activity of water market products on offer over time, and how this is affecting water markets.</li> </ul>	Without a transparent and comprehensive trading activity summary it is difficult to confidently assess changes. However, worrying trading activity commented on publicly, where media coverage focuses on the profitability of water trading as opposed to focusing on the efficient application of the water trading market to meet agricultural production needs, is concerning to RIT Members.
<b>2.</b>	<b>Market transparency and information</b>	
	<ul style="list-style-type: none"> <li>Your use of market information, including the types and sources of information you currently access, the information you would like to access and the methods and tools you use to access it (including whether you get information through public sources, such as state water registers, or private sources, such as through water brokers, and the reasons for using your preferred sources).</li> </ul>	The Trust accesses market information through multiple sources, including government reports, water broker newsletters, and media coverage. The reason for using multiple sources is in an effort to get a picture of the total market, in the absence of a reliable “one-stop-shop” source. A central information depository backed by industry confidence (akin to a Bureau of Meteorology type central information source) would be of benefit.
	<ul style="list-style-type: none"> <li>Whether and, if so, how the availability, accessibility, accuracy, consistency and timeliness of water market information affects your trading decisions or markets more generally.</li> </ul>	Information in any traditional market is key and a more digestible central database across the Basin that could be confidently pointed to as accurate and transparent would be desirable.
	<ul style="list-style-type: none"> <li>Your views on the types of water market information that should and should not be publicly available.</li> </ul>	Identities of parties/related parties trading volumes in excess of 1GL per year should be publicly available. The origin and destination of water products traded should be publicly available. The interests in water entitlements/products held by politicians involved in any water related policy decision making conversations should be publicly available.
	<ul style="list-style-type: none"> <li>How much you rely on the information and knowledge possessed by water</li> </ul>	The RIT does not heavily rely on information possessed by water market intermediaries, but would potentially utilise these intermediaries more if there was a high degree of industry confidence in a recognised, independent central information provider.



# RENMARK IRRIGATION TRUST

Constituted by a Statute of the Parliament of South Australia 1893

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	market intermediaries, such as brokers, exchanges and advisors.	
	<ul style="list-style-type: none"> <li>What avenues you are aware of to increase or improve your knowledge of water markets, and any suggestions on additional information and information delivery methods you would like to see made available.</li> </ul>	Tracking different irrigation district websites, various broker websites. A central depository with a live trading wall and total trades with direction flows would be useful. It is currently not possible to accurately and confidently track market price and activity. A market tool providing real time pricing updates with a cost averaged figure (i.e. average price based off the 50 most recent trades) for each available water product would be useful.
<b>3.</b>	<b>Regulation and institutional settings</b>	
	<ul style="list-style-type: none"> <li>Whether regulation and institutional settings for Murray-Darling Basin water markets are effective and appropriate.</li> </ul>	It is the RIT's position that the regulation of Murray-Darling Basin water markets is not only appropriate, but necessary. On the question of efficient, it is the Trust's position that the water market regulatory and institutional settings are clearly not operating as effective as they could be, as evidenced through examples contained in this submission.
	<ul style="list-style-type: none"> <li>Whether and how regulatory and policy differences between states, Basin catchments and trading zones impact competition, efficiency and access to water markets.</li> </ul>	Differing regulatory and policy positions between states, Basin catchments and trading zones impact competition, efficiency and access to water markets, increasing the imbalance between sophisticated market participants and investors as opposed to families engaged in agricultural production. The vast diversity and complexity of water products available on the market make the task of understanding and monitoring them all an administrative burden that is impractical to manage by smaller scale irrigators. A set of agreed and consistently applied terms would help.
	<ul style="list-style-type: none"> <li>The extent to which market settings, such as trading rules and management of constraints, are positively or negatively impacting efficient and equitable water market activity.</li> </ul>	Information in any traditional market is key and a more digestible central database across the Basin that could be confidently pointed to as accurate and transparent would be desirable. Not all water is equal, in that catchment characteristic, and jurisdictionally specific rules and regulations mean that the treatment of water from a regulatory perspective changes as it moves down (or up via trade...) the connected Basin system.
	<ul style="list-style-type: none"> <li>The extent to which regulatory functions, settings and actions are clear and understood.</li> </ul>	While these are clear to RIT, they are not clear to a majority of irrigators, with this being a potential factor in the overriding poor sentiment and opinion of the operation of the water markets in high price/low availability scenarios.



# RENMARK IRRIGATION TRUST

Constituted by a Statute of the Parliament of South Australia 1893

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<b>4.</b>	<b>Market participant practices and behaviours</b>	
	<ul style="list-style-type: none"> <li>How you use water markets, and your understanding and experience of how other market participants use water markets.</li> </ul>	The Trust is not engaged in the water markets. Some RIT Members hold a multitude of different water products across multiple irrigation/trading zones.
	<ul style="list-style-type: none"> <li>How the practices and behaviours of different water market participants are positively or negatively impacting water market access, transparency, efficiency, and competition.</li> </ul>	As an underlying concept, the Trust supports an even playing field between all participants in the water market. An overriding concern of the Trust and its Members is that, due to the complexity of the water market and its product diversity, the administrative burden of understanding and monitoring the overall market is too high for smaller scale irrigators and may render them as “price takers” in a market skewed in favour of larger scale more resource rich irrigators/companies/investors.
	<ul style="list-style-type: none"> <li>Whether and, if so, how large market participants have influenced water markets (for example, by changing water availability or prices) through their trading strategies.</li> </ul>	<p>It appears, from media coverage and anecdotal accounts, that large market participants with readily available capital have influenced water markets by operating in the same space as smaller, but viable, irrigators who are forced to market at certain times of the year. These accounts and coverage are of concern to Trust Members.</p> <p>New irrigators wishing to establish a viable smaller scale irrigating business are also competing with large market participants for permanent entitlement water products.</p>
	<ul style="list-style-type: none"> <li>How you use different water market products (including carryover, leases, options and forward contracts) and services provided by water market intermediaries.</li> </ul>	<p>The Trust is not a direct user of these products and services but facilitates Member usage of various water market products.</p> <p>The Trust acts as an advocate for its Members in relation to policy discussions involving water market products utilised by its Members.</p> <p>There is concern that some private carryover arrangements may result in entitlement holders receiving reduced allocations, placing upward pressure on the market price.</p>



# RENMARK IRRIGATION TRUST

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5.	<b>Competition and market outcomes</b>	<p>There appears to have been multiple, perverse, unintended consequences of the current operation of the water market. The free market principles and the intent to allow water to ‘flow’ to the highest value has led to a sometimes devastating power imbalance between market players.</p> <p>Diversity in agricultural production and the livelihood and mere existence of Basin and rural communities is an integral part of Australia both from an economic, cultural, and national identity standpoint.</p> <p>A case in point reflective of the current state of the market that can perhaps, even to someone unfamiliar with the water market, sound warning bells, can be seen in a recent release (23 October) from well-known Australian Stock Picker, ‘The Motley Fool’. The release is repeated in italics below:</p> <p><i>Duxton Water Ltd (ASX: D20)</i></p> <p><i>Duxton is the only ASX company directly exposed to water as a resource/commodity – the company leases water entitlements to farmers and other agricultural businesses. With drought gripping much of our rural farmland today and given the effects of climate change will only make water scarcity a more pressing issue in the future, this company might be a great long-term buy-and-hold investment.</i></p> <p><i>Duxton pays a 3.83% dividend yield on current prices, or 5.47% grossed-up.</i></p> <p>If the commoditising of water, a resource that is absolutely essential for the viability and function of Australia’s agricultural sector, coupled with the flow through to stock pick recommendations for Mum and Dad investors to make money off the back of a “drought gripping much of our rural farmland today”, isn’t seen as a perverse and unintended consequence of the current state of the water market/trading market, it would be hard pressed to find one that is. It is not too far-fetched to imagine a not too distant future where Mum and Dad investors are sitting at home empathising with the plight of those battling drought on their television screens while</p>





# RENMARK IRRIGATION TRUST

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		simultaneously cheering on the performance of the water entitlement backed portion of their investment portfolio.
	<ul style="list-style-type: none"> <li>Whether and how competition and efficiency in water markets have changed over time.</li> </ul>	<p>In the absence of thoroughly reviewed data, it is difficult to give metrics based evidence on whether and how competition and efficiency has changed in the water market. However, with the entrance of and increase in parties (both irrigators and non-irrigators) operating in the market as investors and speculators rather than end users of water, it is the Trust's position that the "how", in respect of competition and efficiency changes, is perhaps best highlighted by the movement of water entitlements being traded between irrigator-irrigator in a simple supply-demand dynamic to newer scenarios where water entitlements are being traded between sophisticated investors/speculators to irrigators at times of tight demand and with the main goal of the speculator/investor to maximise individual profit. With a lack of a consolidated and timely updated register and summary of trades throughout the Basin, it would also be hard to consider the market as one that is operating efficiently.</p> <p>What the players in the water market want and what the river systems need may increasingly be at odds. Opening the market to scenarios where competition is not limited between agricultural/irrigating parties, but extends to competition between investors, appears unlikely to contemplate a scenario where the river systems end up better off as a result.</p>
	<ul style="list-style-type: none"> <li>The extent to which water markets are currently operating efficiently.</li> </ul>	See commentary on point above.
	<ul style="list-style-type: none"> <li>How the outcomes of water markets vary between different industries, locations and individuals.</li> </ul>	The outcomes of water markets can sometimes vary to a perverse level where, major beneficiaries of the water market can legally be investors and traders, to the detriment of the participants to whom the market exists to serve, those involved in agricultural production.



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## Solutions

No.	Problem	Solution
<b>1.</b>	<b>Market trends and drivers</b>	
	<ul style="list-style-type: none"> <li>How water availability and demand are changing over time, the reasons for these changes and the impact they are having on water markets.</li> </ul>	<ul style="list-style-type: none"> <li>Transparency on the total availability of water products at any given time, with a live trading wall with the origin and destination of available water products and an accurate executed price displayed</li> <li>Moratorium on new greenfield developments in the absence of careful viability/sustainability modelling on current existing permanent planting water requirements, present and future</li> </ul>
<b>2.</b>	<b>Market transparency and information</b>	
	<ul style="list-style-type: none"> <li>Use of market information, including the types and sources of information accessed, the information would like to access and the methods and tools used to access it (including information through public sources, such as state water registers, or private sources, such as through water brokers)</li> </ul>	<ul style="list-style-type: none"> <li>Information in any market is key and a central source that could be confidently pointed to as accurate and transparent would be desirable. Not all water is equal, in that catchment characteristics, and jurisdictionally specific rules and regulations mean that the treatment of water from a regulatory perspective changes as it moves through the connected Basin system</li> </ul>
<b>3.</b>	<b>Regulation and institutional settings</b>	
	<ul style="list-style-type: none"> <li>Regulation and institutional settings for Murray-Darling Basin water markets are not effective and appropriate</li> </ul>	<ul style="list-style-type: none"> <li>Cap on the size of entitlement ownership by non-irrigating entities</li> <li>More consistent regulations/regulatory application</li> <li>More regulatory constraints and requirements for water brokers</li> <li>Salinity management</li> </ul>
<b>4.</b>	<b>Market participant practices and behaviours</b>	
	<ul style="list-style-type: none"> <li>Water market, and irrigator understanding and experience of market operation is overly complex for small growers competing with larger corporates/investors</li> </ul>	<ul style="list-style-type: none"> <li>Simplistic, translatable, clear database with uniformly adopted terms needed to combat increasing complexity of market tools required to understand the volume of available products</li> </ul>
<b>5.</b>	<b>Competition and market outcomes</b>	
	<ul style="list-style-type: none"> <li>Water market objectives have not been achieved and have resulted in unintended consequences where non-agricultural players are major beneficiaries of market operation</li> </ul>	<ul style="list-style-type: none"> <li>Restriction on volume permitted to be owned by non-irrigator entities/those not involved in agricultural production</li> <li>Scheme for small scale viable growers in rural communities to mitigate burden of competing for permanent entitlement water products and currently leaves them as price takers</li> </ul>