



Australian Competition and Consumer Commission
23 Marcus Clarke Street
Canberra ACT 2601

29 November 2019

ACCC INQUIRY INTO WATER MARKETS IN THE MURRAY DARLING BASIN

Swan Hill Rural City Council has taken a particular interest in the announcement that the Government has directed the ACCC to conduct an inquiry into markets for tradeable water rights in the Murray-Darling Basin.

Council believes that this inquiry will be beneficial to a more transparent, equitable and efficient water market and congratulates the Government for this initiative.

A response has been prepared for the inquiry and is enclosed. While Council understands that the scope of this inquiry does not seek to identify the social and economic impact of water trading on communities in the Murray-Darling Basin and has formulated its response to this effect, Council however urges the Commission to keep in mind that water is a highly emotionally charged issue and that water markets are dictating the livelihood and pride of many rural Australians.

If you have any queries about this submission or wish to receive further information, please contact John McLinden, Chief Executive Officer, at the contact listed above

Yours sincerely

Bill Moar
Mayor



Submission:
ACCC Inquiry into Water Markets
in the Murray Darling Basin

Swan Hill Rural City Council would like to make the following submission in response to the call for the inquiry by the Australian Competition and Consumer Commission (ACCC) into markets for tradeable water rights relating to water in the Murray-Darling Basin as directed by the Treasurer, the Hon Josh Frydenberg MP.

1. Background

The management of water resources in the Murray Darling Basin is extraordinarily complex, involving different regimes in the four states through which the Murray and Darling rivers flow.

In times of plenty, all water entitlements can be taken up to sustain human life and for agricultural production, and enough water remains to keep our rivers and streams flowing and delivering a healthy environment for the Murray Darling Basin.

However, it is generally accepted that water resources of the Murray Darling Basin have been over allocated, and this becomes most obvious during times of low rainfall and drought.

Swan Hill Rural City Council ("Council") in Victoria is located inside the Murray Darling Basin, with the Murray River providing frontage to approximately 500 kilometres of the municipality and several lakes, the largest one being Lake Boga covers 6,116 square kilometres and is home to 20,759 people.

It includes the townships of Swan Hill, Robinvale, Lake Boga, Nyah, Nyah West, Piangil, Woorinen, Ultima, Manangatang, Boundary Bend and Tresco. It is 350kms North West of Melbourne

The Swan Hill Rural City economy is driven by agriculture and manufacturing. Almost 20% of the total economic output from the region comes from agricultural production, or \$525M and the same for manufacturing with an output of \$527M. The total output for the region is \$2,697M with export revenue of \$930M (Remplan economic modelling 2019).

Irrigated farming (including stone fruit, grapes, nuts, olives and vegetable production) accounts for over 11% of the total economic output for the municipality and more than 18% of all jobs in the municipality are directly related to agriculture. The horticultural crops grown in the region include table grapes, stone fruit, wine grapes, processing tomatoes, vegetables, asparagus, nuts, olives, citrus, avocados and nursery supplies.

The growth of the industry undertaken over the past 25 years has been enormous with extensive growth from the development of corporate and family farms. The governments of Australia both State and Federal, together with

industry bodies of the horticultural sector have worked hard to obtain new export markets. This has meant a corresponding increase in the size and scale of Australian horticultural and agricultural enterprises and therefore in increase in the demand for irrigation water.

2. Rationale for Council's response to the inquiry

With the drought taking hold of the Mallee region, leading to more demand and less availability of water and the water prices rising dramatically, the communities in the Swan Hill Rural City Council area are increasingly concerned about the management of water.

Council has for some time been considering the many issues intertwined in the management of the Murray Darling Basin and its effects on the Swan Hill community and has developed a position paper in relation to a number of these issues. This paper, "Management of the Murray Darling Basin – Position Paper October 2019" is available upon request.

Council noted the Terms of Reference pertaining to this inquiry and understands that the social and economic impact of water trading and the effectiveness of water buyback for environmental purposes are matters out of scope for the purpose of this inquiry.

To this effect Council decided to formulate a response better tailored to the purposes of this inquiry, basing its rationale on the aforementioned position paper.

Local Government's expertise is in understanding and harmonising its communities, facilitating economic and social development and ensuring competing interests are not compromising fairness and equity between its residents.

Council will therefore address the following topics as it believes the contribution offered by Council can assist the ACCC form a better understanding of the position of the Swan Hill region:

- ***Water buy backs***
- ***A level playing field for agriculture***
- ***Regulations and communication***

3. Water buy backs

Buyback practices are threatening GMID's financial viability

The indiscriminate purchase of water and targeting irrigation systems to obtain water from the consumptive pool for the environment will continue to have significant negative impact unless there is change.

The GMID has been significantly reduced and now delivers only 1000GL per annum compared to 1700GL only 10 years ago. GMID's operating costs have not reduced in line with this, and so the per megalitre cost of water is now significantly higher in real terms than it was 10 years ago. This threatens the viability of lower value crops and will in time threaten the viability of individual farming enterprises, whole industries and significant sectors in the entire GMID system.

The indiscriminate buyback of water has also drastically reduced populations in a number of small communities in northern Victoria. The buyback program started on the back of the millennium drought. Individual farming operations were carrying higher debt due to drought, and a number chose (or were forced to) to sell their water entitlements. Those enterprises now rely on temporary water on an annual basis to grow their crops and feed. This water comes at a substantially higher price and reduces overall viability to the point where many in the lamb, beef and dairy sectors have exited.

While the CEWH's practice of purchasing water from the consumptive pool is the most price efficient method for the Federal Government, it has caused significant damage to many communities in northern Victoria. Council does not support a return of buybacks in any form.

3. A level playing field for agriculture

Agricultural production supported by water from the Murray Darling Basin is enormous. Australians have been very innovative and successful in harnessing water resources from the basin to produce food and fibre for the world on a global scale.

Victoria's water allocation policies have been more conservative than some others in the Murray Darling Basin, leading to a system that delivers high reliability in the supply of water to irrigators and urban communities. This has resulted in the growth of irrigated agriculture that is highly dependent on this water supply, and it has allowed permanent plantings to flourish.

This responsible approach to water allocation could now be seen as sowing the seeds of our own demise. When the Commonwealth Environmental Water Holder (CEWH) enters the market looking to buy water for the environment from the consumptive pool, it is only natural that it would go to a market where reliability of supply is high.

For this reason, the CEWH targets the in full GMID and extracts large quantities of water from the consumptive pool. The CEWH ceased water buybacks in December 2012 as a condition of the Murray Darling Basin Plan being approved. Water transfer since December 2012 has been from agriculture to agriculture.

Goulburn-Murray Water (G-MW) now delivers approximately 1000GL of water per annum. This is down from about 1700GL that it delivered a decade ago. While G-MW has undertaken significant work to reduce its footprint and

attempted to reduce its operating costs, G-MW has not been able to halve operating costs. This means that the cost of irrigation water and the cost of running the GMID continue to increase on a per megalitre basis. Ultimately, this reduces the viability of irrigation farms that still operate in the GMID.

We should all be concerned when the viability of our economy is threatened.

The loss of water from the GMID cannot be attributed solely to the purchase of water for the environment. The high reliability of GMID water delivery has also been targeted by irrigators outside of the GMID as a good value proposition. Large quantities of water have been purchased and transferred to irrigators outside GMID. This has typically been the practice of high-value horticulturalists who can afford the premium for high reliability water out of the GMID

4. Regulations and communication

Greater transparency in the water market

Water has been scarce in the southern basin in recent times. This has resulted in higher temporary and permanent water prices, with significant trading activity. Irrigators are at a disadvantage due to a significant lack of information regarding the market and an inability to find out whether individuals own water and how much.

There are suspicions around so-called water barons purchasing and hoarding water, and driving up the price.

Water and land were unbundled in 2007. This unbundling was intended to allow water to be traded as a commodity and to go to its highest value and best use. Many irrigators have taken advantage of this, and many entrepreneurial and horticultural developments have been made possible only through the trading of water.

The Council of Australian Governments (COAG) to ensure that all states and their agencies do their fair share of reform

There is plenty of evidence that Victoria has led the way in implementing the reform measures necessary to see the Murray Darling Basin Plan implemented. Victoria has contributed far more water to the environmental pool through buybacks than any other state.

Victoria has achieved significant savings by piping the previously channelised domestic and stock systems.

Victoria has modernised the GMID channel system through the Northern Victoria Irrigation Renewal Project (NVIRP).

Victoria has implemented a very broad scale on-farm modernisation system aimed at saving water and returning the savings to the environment.

Our community should be concerned that Victoria appears to do the heavy lifting. While other states lag behind, the heavy lifting comes at significant economic cost and a loss of prosperity for our communities.

It's incumbent upon COAG to ensure that all states do their fair share of reform and that they do it in a timely way, so that those who are trying to do the right thing aren't unfairly disadvantaged.

Regulation in the Murray delivery system to guard investment in high value horticulture against the indiscriminate issuing of licenses within an already strained system

The past 20 years have seen significant investment in permanent horticultural plantings. These plantings are high value crops and the cost of water, even when the price is high can be afforded

Permanent plantings must have water to survive and thrive. If water is not available upon demand, yields can be severely reduced and plants can die, resulting in economic loss.

With a significant increase in proposed plantings along the Murray from Swan Hill to Mildura on both sides of the river, there is a real fear among established horticulturalists that the Murray River delivery system will be strained beyond its capacity. Constraints in delivery might mean that water rationing is necessary. It is unreasonable to issue additional extraction licenses if they could jeopardise the health of existing investments.

The Victorian Water Minister recently called in all new water extraction licenses on the Murray system downstream of the Barmah Choke. Council supports this and calls on the NSW Water Minister to take similar action.

We seek a mechanism to ensure that all three states that abut the Murray downstream of the Barmah Choke act responsibly and in a way that promotes further development but not at the cost of existing horticulture.

5. Summary

Swan Hill Rural City Council calls for:

- Water buyback from the consumptive pool should not be resumed.
- An inquiry into the effect of the delivery of environmental water on other entitlements holders
- Constraints management to be implemented as a matter of urgency.
- All State and Federal politicians to publicly declare their water holdings.
- A published list of the top 20 water holders in each irrigation system.
- An inquiry into transparency in the water market.
- A basin-wide audit of each state's compliance with its obligations under the

Murray Darling Basin Plan, and this would be publicly reported. Its recommendations should be implemented by COAG.

- Regulation of the Murray delivery system to guard against the indiscriminate issuing of licenses that could damage existing horticultural developments (until delivery constraints are dealt with).
- Compliance, metering and regulation to be uniformly implemented throughout the Murray Darling Basin.