MVFFA represents business owners in the Murrumbidgee Valley. Many of our members are directly engaged in irrigated agriculture, producing a wide range of agricultural commodities. Our membership also includes those engaged in related businesses including processing, marketing and provision of professional services, from towns and cities within the Murrumbidgee Valley. Our focus is on water policy at all levels of government because the ecological, economic and social sustainability of communities like ours is dependent on how water is managed.

MVFFA welcomes this opportunity to submit to ACCC inquiry into the Water Market. This inquiry is particularly relevant to our membership as our community is a purpose built irrigation community and our association focuses primarily on water policy.

We are currently celebrating over 100 years of irrigation and we are highly aware of the benefits and the pitfalls associated with managing water supply for regions like ours.

The identified key issues for this Inquiry are:

- The factors driving changes in water markets and water price
- How market participants (including irrigators, investors, water brokers, water exchanges, water registries and others) use market information; and whether water markets are sufficiently transparent,
- How market regulation, regulatory agencies and policy differences between states and trading zones have affected water markets,
- How the practices and behaviours of different market participants and interested parties impact water markets.
- The extent to which the objectives of water markets have been achieved, and how overall market competition and efficiency have changed over time.
The factors driving changes in water markets and water prices,

The main factor driving changes in water markets and water prices in the Murray Darling Basin is the ever changing rules and regulations by the largest water holders in the system, State Governments (ACT, NSW, Vic, QLD and SA) and the Federal Government.

Since the late 1980’s, government bodies have continuously altered rules and regulations by progressively and incrementally reducing the reliability of access to the bulk water users, the irrigators, particularly, but not only, broad acre irrigators. In the Murrumbidgee Valley, yield on GS allocations has been reduced from 120% on a 90 year average to less than 65% on LTCE (Long Term Cap Equivalent). They have often done this in the name of ‘the environment’ but organisations like ours regularly question where exactly this ‘the environment’ is located, because it has become clear to us that it isn’t in the traditional, purpose built, irrigation agricultural areas in the MDB even though they support a plethora of native fauna and fauna and also contribute significantly to the Nation’s GDP. This has definitely influenced the market and driven up prices through the simplest of market rules known as “supply and demand”. In effect, the market has been shorted by Government rules and regulations and driven up the price of water. Perversely, non-producer speculators and numerous government bureaucracies appear to be the major beneficiaries of this behaviour, not our Australian producers. The most recent example in a long line is the Federal Government announcing it is paying the South Australian Government to turn on its desalination plant in order to “free up” water upstream to then be sold to struggling producers. For practical and experienced water managers in organisations like ours, this concept is fundamentally flawed. Clearly, very clearly, the only true beneficiary in this scenario is the SA government in terms of both revenue and plentiful water supply.

How market participants (including irrigators, investors, water brokers, water exchanges, water registries and others) use market information; and whether water markets are sufficiently transparent,

Water markets are not sufficiently transparent but the major challenge for the end users, the producers, and therefore the actual paying customers, is the reliability of access to their own, and paid for, water entitlement in their planning and planting windows. Often they have no option but to either buy in water at inflated prices to keep their crops and stock or, even more unfortunately for our purpose built communities, they just have to sell water instead of producing anything at all. The flow on negative impacts to our regional communities is now proven through several different independent studies.

However, since water has become a separate property right, MVFFA submits that the ownership and sale or lease or rent of this property should be as equally transparent as other forms of property such as land, buildings, shares and companies. We have recently discovered that people in public office, including Local, State and Federal Politicians, government employees and people in paid representative roles, do not have to declare their interest in water, even though they must declare their interests in all other forms of property and businesses. This needs to be rectified in the interests of transparency, right across the board. A totally transparent water trading platform and water register that follows the same
rules and principles as other property, share and business ownerships in Australia urgently needs implementation as already outlined in the NWI and the Water Act 2007.

- How market regulation, regulatory agencies and policy differences between states and trading zones have affected water markets,

The rules and regulations have become increasingly complicated and all seem to be more about protecting the managing authorities and political aspirations and ideologies rather than servicing the end users of the water.

One glaring example is the introduction of the Voluntary Contributions that were legislated in 2002 in NSW.

These takes were not voluntary, this water was taken from irrigators without compensation nor even the ability to receive on farm efficiency grants. These same irrigation farming businesses are still paying all fixed water charges to the Government and their delivery companies and have been since 2002.

Since 2002, except in years of plenty, there has been a take of:

- 5% High Security (HS) and 15% General Security (GS) water entitlements in the Murrumbidgee Valley. Approx 19,000ML of HS valued at $119,500,000 & 512,000ML of GS value $568,500,000.00 permanent sale value. At current ‘market prices’ on the temporary market the figure is approximately $371,700,000.00.

- 3% High Security and 10% General Security entitlement holders in the NSW Murray Valley. Approximately 5,691 ML of HS and 167,409.6 of GS licence. The current permanent and temporary value of these parcels is also, similarly, in the hundreds of millions.

Before water was separated from land and there was no ‘water market’ there was no way the Government could “allocate” water to the environment without having entitlement and/or land attached to it. Because they could not purchase water entitlements they designed rules (eg. Transparent, translucent and salt dilution flows) which would ultimately impede the amount of water available to the consumptive pool. This water was supposedly taken for “environmental” flows. We have since discovered some of this environmental water was used for “other purposes” with further complicated, overlaying rules and regulations.

The “Voluntary Contributions” were called for after the Snowy Inquiry of 1997. The “Snowy Inquiry Outcomes Deed” identified a number of megalitres per Valley of environmental water believed to be needed. It was noted in the initial Snowy River inquiry report 1997, that water would not be taken without compensation, and until a mechanism (the water market) was established. It asked the valleys to negotiate a deal with the irrigators. These deals were meant to be reviewed with public consultation 12 months, then 5 years and every 10 years after these water sharing plans were developed. No such review was undertaken.

MVFFA submits that since the implementation of the Water ACT 2007 and the creation of CEWH and the MDBP, parcels of water that were previously ‘acquired’ via changes in rules and regulations should be either returned to the current paying owners or, the current paying owners should be fully compensated at current market prices.
Another glaring example is the use of carry over in the system. There is no consistency across valleys or across state borders. Water has been moved around, multiple times, by State and Federal government entities, ILO’s, water brokers, corporates and others in “paper trades” in order to take advantage of the different volumetric rules and to avoid differing spill rules. Multiple trading of the same parcels of water via the different carry over regulations has further shorted the market by jamming up the storage and regulatory systems with water that is not being drawn down. Instead of being a type of insurance for producers, carryover is now being inappropriately manipulated and is further driving up the price of water through a lack of supply at critical times. This is totally counter intuitive and counterproductive. The original intent of carryover was to enable producers to have some access to unused water from the previous season at the start of the next watering season on July 1. It was recognised that they have already planted their winter cereal crops before this time.

A further glaring example is the current debiting costs associated with Capture, Storage, Losses, Transmission and Conveyance. In any other market, freight and storage costs are factored into the end cost of the product and it should also be the same for water.

MVFFA submits that costs for storage and conveyance losses, including those associated with carry over and IVT trades, must be factored into all allocation trades downstream or cross valley from their original entitlement source zone in the entirely regulated Southern Connected System. The storage, conveyance and transmission losses for commercial trades should be based on an analysis of transport through the system and charged accordingly to the end user.

This would be consistent with commitments in the Water Act 2007 and the 2012 Murray-Darling Basin Plan that the policy reforms would not erode the reliability of anyone’s water property rights. Currently, the original entitlement zones, particularly the GS Licenses in those zones are fully exposed to paying costs for all storage, conveyance and transmission losses even when they are at 0% allocation.

In the interests of a transparent, efficient and functioning market, MVFFA submits it is well past time to rectify the numerous inequities in rules and regulations that sees irrigators paying all the storage, delivery charges and conveyance charges for water, whether they receive it or not. There is no financial incentive for State agencies like Water NSW or water delivery companies such as Murrumbidgee Irrigation and Murray Irrigation to actually deliver the product to the end consumer while these inequities are operating in the market.

- How the practices and behaviours of different market participants and interested parties impact water markets.

Between market speculators and government behaviour, the water market has been effectively shorted which means the prices are then inflated. This prices out long term iconic industries like Dairy and Rice as the actual producers can’t produce and make a reasonable profit. Even though the marketing arms of these companies can survive, the flow on effect to our producers and their communities, including job losses in mills, factories and through the logistics chain is of real concern to all of us. The iconic industry “Sunrice” which was built on a highly successful co-operative model has had to lay off approximately 130 employees in the last 12 months. The main driver for that is the lack of timely and affordable access to water and the inflated price of temporary water. While water traders and various government entities may have done well out of this situation, MVFFA questions if it makes long term,
financial sense to endanger our ability to produce export earning, paddock to plate, global staples like rice and dairy.

- The extent to which the objectives of water markets have been achieved, and how overall market competition and efficiency have changed over time.

The main objective of the water market was to free up water so that it could go to “the highest value use.” Even though it is a theoretically reasonable concept, in practice, that is not what is happening. Instead, in the majority of cases, water is going to the most desperate people or the entities and businesses who currently have the deepest pockets to play in the water trade. Farmers are having to buy water in at inflated prices in order to keep their breeding stock alive and producing or to fulfil forward contracts. Even our cotton producer MVFFA members are now getting trapped in this difficult bind and cotton is viewed as a high value crop. It is also concerning that Government entities like ACTEW and OEH are selling water. In many cases this is water that irrigators are still paying all the regulatory fees and charges for. IIO’s like MI, CIL and MIL (who operate under legislative monopolies) are also trading water in direct competition with their shareholders and paying customers. This behaviour could not be considered operating in a ‘free market’ as these entities operate under legislative monopolies.

We’re all on board with being more efficient and Australian irrigators, no matter what they produce, are consistently and deservedly recognised as amongst the most efficient users of water in the world. We have all strived over generations and in cooperation with governments to ‘do more with less’. The very distressing ‘unintended consequences’ of creating a water market have come about because the system and our rivers were not designed to be pushed so hard. It is causing environmental, social and financial disasters. Water is being wasted by being pushed past designated irrigation areas to deliver ‘downstream commitments’ and ‘other purposes’. Farmers, some of several generations, can’t produce but they still have fixed charge water bills looming. With either 0% or very low % of allocation, they can’t pay their bills via production. Water speculators in the market along with government behaviour and rules is shorting the market to the peril of many of our members. It does not make financial sense to our membership to see government protection of the short term water market at the expense of our long term, highly valuable and diverse agricultural commodity markets. Some sensible balance needs to be urgently restored.

The other important issue that needs to be noted is that the original purpose of building the storage and regulatory systems last century has been radically altered. They were built to store water in times of excess so that water could be wisely allocated to inland communities in the inevitable low flow and drought sequences as well as other positive flow on effects like creating hydro power and recreational facilities. Now we all regularly watch various different Natural Resource Management (NRM) departments and Water Authorities, State and Federal, tip our stored water resources onto the back of what they often call ‘freshies’ in order to apparently ‘mimic nature’. What they’re actually doing is tipping stored water resources into already full, flowing rivers which is clearly at cross purposes to the original intent. This has not worked well and in the entirely regulated Southern Connected System we have witnessed one river, the Lower Darling, and its regulatory storage, The MLS, rapidly and inappropriately drained and the other major river, the Murray and its major tributaries, the Murrumbidgee and the Goulburn, being pushed way too hard in order to deliver downstream commitments and causing equal and opposite damage by flooding and salting in places like the Barmah Choke and the country around Lake Victoria. This has also
led to the Lower Lakes in SA being overfull at 102% in October/November 2019. None of that water can possibly, practically be available to the water market or to any other upstream communities as that’s the very end of the system. This behaviour alone has artificially shorted the water market and, from the perspective of organisations like ours, is also highly, highly questionable in terms of sensible, long term, water resource management.

IN CONCLUSION

The Water Act 2007 in the “Basin Market and Water Trading Objectives” and the National Water Initiative identify measures for transparency, efficiency, management of constraints, hydrology impacts, pricing, third party impacts, protection of property rights and etc. Currently, many of these objectives are not being met. Instead the water market has been shorted and negative third party impacts are occurring right across the triple bottom line. While we understand that much of this is due to unforeseen complexities, we would reasonably expect that this particular inquiry will unravel and repair the complexities and inequities that are currently occurring in the water market and causing harm to our regional industries and communities and their diverse agricultural commodity markets.

There are many, many solutions available, both technical and via sensible regulation, that could alleviate the problems facing our irrigation communities and industries that are a direct result of turning water into a commodity. MVFFA has been party to, or aware of numerous submissions over the last 12 years. There are indeed some good reasons to allow a more flexible movement of water and to have some sort of market attached to that, but it must be practical and deliverable and it should not be at the expense of existing producers and industries or, for that matter, their local environments.

Unfortunately that is not the case at present.

First and foremost, water is an essential part of life and is also viewed as an input by our irrigation producers. They don’t produce water, they produce food and fibre. They make a significant contribution to the Nation’s GDP via local and international markets. As their water input becomes too expensive, they can’t produce and they become unviable. Our organisation has questioned many, many times why global staples like dairy, rice and wheat would not be considered ‘high value’ in the long term financial security and financial well-being of our country yet it is those irrigation producers as well as people who produce other global staples like corn, potatoes, fruit and vegetables who are the ones having their livelihoods and markets consistently threatened by the current overarching mindset. They are regularly denied access to their own water entitlement when they need it to produce and then they are regularly priced out of the water market which means their ability to supply to other important Australian markets has been seriously and negatively impacted.