



**Submission to
ACCC inquiry into water markets in the Murray-Darling Basin**

6th December 2019

SUBMISSION TO THE AUSTRALIAN COMPETITION & CONSUMER COMMISSION MURRAY DARLING BASIN WATER INQUIRY

Murray Valley Winegrowers (MVW) represents the interests of more than 300 winegrape growers in the Murray-Darling and Swan Hill regions of Victoria and New South Wales. This is Australia's second largest winegrape production zone, accounting for around 20 per cent of the national annual winegrape crush. The triumvirate of the Murray-Darling/Swan Hill, Riverland of South Australia and NSW Riverina account for about 70 per cent of Australia's annual winegrape production – equating to more than 1.14 million tonnes (subject to seasonal variation).

Headquartered in the regional city of Mildura in North-West Victoria, near the junction of the Murray and Darling Rivers, MVW's principal functions are to provide extension services, inform growers of market and industry intelligence, advocate to protect and promote growers' interests and assist members in their commercial dealings.

Funding is derived from access to grower levies administered under the Victorian Agricultural Industry Development Act, which are collected and supervised by the statutory body, Murray Valley Wine Grape Industry Development Committee (IDC) - a lesser voluntary levy is collected at the same time. MVW applies to the IDC for project funding through a process that engages growers in an annual poll, funding opportunities are also available through Wine Australia.

In 2019, the Wine Grape Crush Report for the Murray-Darling/Swan Hill regions, produced for MVW by Wine Australia, estimated a total harvest of 346,000 tonnes. Grapes purchased by wineries totalled 243,000t, with the remaining 103,000t coming from winery-owned vineyards.

The 346,000 tonnes was made up of 161,000 tonnes Red (47%) and 185,000 tonnes whites (53%). 2019's crush was almost identical to 2018.

The average prices for Red grapes produced in the MVW region, across all varieties was \$584/tonne although the key varieties of Shiraz & Cabernet Sauvignon were slightly above the \$600/t mark.

White grapes averaged \$371/t, with the most commonly grown variety in the region - Chardonnay coming in at Chardonnay \$365/t. The price for white grapes is roughly equal to the cost of production, although that is before we take into account the massive increased cost of water!

Despite the perception the wine industry is in recovery mode, we must consider that 53% of wine grapes produced in this region are white grapes.

We have been advised by some growers they are turning off water in selected patches and focussing their water on the best varieties in terms of financial return. This will have longer-term consequences for the grower and the wine industry, unfortunately desperate times call for desperate actions.

MVW represents a broad spectrum of grower water holdings. There are some who have a full water holding, such as NSW high security (97% allocation 2019) who not only have enough water to grow the crop but possibly some to sell. Then there are Victorian entitlement holders who currently have 52% of their allocation and are relying on carryover and the temporary market to grow the crop. In addition, there are those who are solely relying on the temporary water markets.

In the Weekly Times on the 20 November 2019, an article by Peter Hemphill quotes NAB Agribusiness economist Phin Ziebell that temporary water costs would amount to an additional \$180 per tonne of grape production. For those growers who are solely relying on the temporary water market, the additional water costs are double those projected by the NAB and no varieties are profitable at that price.

As always newcomers to the wine industry are the most exposed, however winegrape prices have improved in recent years but that came after a wine industry depression of a decade. The impact on production is difficult to predict but at a recent industry meeting of the Inland Wine Regions Alliance (MVW, Riverina and Riverland) were expecting a 10% decline in the vintage for 2020 due to reduced water allocations, particularly in Victoria for those growers who battled through this year, are likely to incur significant financial losses in order to deliver a crop to the wineries. If the drought does not break, next year could be a disaster for the wine industry in the Murray Valley.

There is strong competition for land and water in this region and in a time of shortage market forces will see the resource move to more profitable crops, particularly tablegrapes and almonds. There are longer terms issues to be considered if a community becomes singularly reliant on one commodity and one market.

Overview

There are currently a large number of inquiries underway around the Murray Darling Basin Plan. We have had the Productivity Commission Report, we have a socio-economic inquiry underway, we have recent announcements around Mick Keelty's Acting Inspector General role being expanded and undertaking inquiries on issues similar to the ACCC as well as state government reviews around issues such as inter-valley transfers. The timelines on some of these inquiries are shorter than the ACCC's timelines. Murray Valley Winegrowers have concern about the possibility of conflicting outcomes, mixed messaging and the risk of confusion. With all this activity it is very hard to have a submission that will have any currency beyond a matter of weeks.

ACCC's Issues Paper

In the current environment, one of the challenges for the ACCC will be sorting fact from fiction. A social media comment one day, is fact the next and there is very much a culture of somebody is to blame and somebody should pay. In a recent NFF Forum in Mildura Mick Keelty made a comment that there needs to be a single source of truth, we think that sums up some of the dilemma that the ACCC will become involved in. In a time of drought and high emotion, it is very difficult for anybody or any organisation to be able to be heard speaking sense.

Issue 1 – Market Trends and Drivers

Due to Free Trade Agreements, a competitive Australian dollar and the rise of a number of Asian economies there is strong demand for some horticultural products in particular tablegrapes, almonds, citrus and to a lesser extent avocados all of which can grow very well in the Sunraysia region. A number of businesses are establishing themselves with or without a water risk strategy, thus when allocations are low there will be considerable stress on temporary water prices.

There is not a single point where the market can be easily assessed as each state runs its own water register and in the Southern Connected Basin there are inter-valley transfer restrictions thus you have a single

Southern Connected Basin but with a number of submarkets all of this comes under stress when Menindee is offline and thus you have to get a lot of water through the Barmah Choke.

Like any market, there are a number of water products that have evolved. There are pluses and minuses for a number of these products but certainly longer term leasing is a way to provide security for the irrigator as well as the water owner.

Issue 2 – Market Transparency and Information

Farmers are busy people and thus it is fertile ground for disinformation, social media and opinion becoming fact. Against this background there is water information available however interpreting for individual business models can be complex and made more difficult by the lack of credibility around water price reporting across various states. There is a further difficulty because of the lack of both transparency and compatibility of the state based price reporting systems for those needing to know the depth of the market for temporary water and thus understand how the market is operating.

All the information from state water managers, BOM and numerous other sources such as brokers, neighbours, media and social media adds to the complexity of understanding the water market which further highlights the need for transparency reform in the water market.

Issue 3 – Regulation and Institutional Settings

In all the debate that surrounds a drought there is considerable pressure to change, however there are also constant concerns about the constant changes in water regulation. The institutional settings and water markets are effective and appropriate considering the physical constraints that subdivides the Southern Connected Basin such as inter-valley transfers between Murrumbidgee, Goulburn to the Murray and of course the Choke. You simply cannot have an equitable water market when you have physical constraints that subdivide the Basin.

Issue 4 – Market Participants, Practices and Behaviours

Water entitlement is a high cost item and over recent years, the average cost of temporary water has been around \$135 per mgl, therefore the return on investment for Victorian high reliability water is around 2.08%. This has led many farming enterprises to realise that this is much less than bank interest on a business loan and thus to sell all or part of their water to free up capital for debt management or expansion. However when you go into a drought cycle and you are bidding into a thin temporary market, particularly post the Commonwealth water buybacks, then dependency on a temporary water market strategy has a considerable downside.

Issue 5 – Competition and Market Outcomes

There is a lot of talk around the issues surrounding water markets but they also need proof that they are occurring. The Southern Connected Basin is a cap and trade system and with considerable water being bought back by the Commonwealth for the environment. The high value of water has driven water efficiency on farm and in the distribution of water. This has allowed for some additional horticultural development but there is development in excess of the water saved by efficiencies that needs to be met by a temporary market that is thinner than it was some years ago. There is data on land, crop type and water use available through a number of sources but in particular the Mallee Catchment Management Authority and Sunrise 21. Sunraysia Rural Counselling Service has been reporting to the Victorian State Drought Forum in Mildura on client loads and issues resulting from the drought. As we understand they have some

financial modelling which shows how much each of the horticultural commodities grown in the region can pay for temporary water and remain viable. Over time, this organisation has been a trusted source of information.

Closing Comments

At a recent board meeting of MVW, Members discussed the issues around water trading and in particular businesses that have evolved to buy and sell water through the market (water barons).

The following suggestions are for Victoria only and would stop indirect trading of water;

1. All Water Share Holders of both High and Low reliability water with an ABA and AUL in the same financial entity within any business enterprise are able to trade water in and out. They are also able to carryover water within those water shares. Not able to park additional water in other water accounts.
2. All Water Share Holders of both High and Low reliability water with only an ABA in the financial entity within any business enterprise are only able to trade out the current season allocation. They are not able to buy in water or carryover on their water shares.

These are easily identified as investors.

3. Non Water Share Holders with an ABA and an AUL are able to buy water in the current year and are not able to trade out or carry over water into another account.
4. The continued “parking” of High reliability water on Low reliability water shares will lead to the problem we had a few years ago with water parked on AUL. That reduced the security for the Water Share Holders in the following seasons.

MVW would welcome an opportunity to meet with the ACCC and expand upon the issues raised during the course of the Inquiry.

Enquiries regarding this submission can be directed to:

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