

CENTRAL IRRIGATION TRUST

Trustee: Central Irrigation Pty. Ltd. ACN 075 446 810
4 Fowles Street PO Box 34
Barmera SA 5345
Telephone 08 8580 7100
Fax 08 8588 2001



ACCC inquiry into water markets in the Murray Darling Basin
29/11/2019
Australian Competition and Consumer Commission
GPO Box 3131
Canberra
ACT 2601

To whom it may concern,

Thank you for the opportunity to provide a submission to the inquiry.

CIT is an "Irrigation Infrastructure Operator" in the Riverland of South Australia supplying irrigation water to approximately 1200 irrigators, 3000 non drinking water customers and 16 industrial customers. Our customers use between 100 and 120 GL in average years on permanent horticulture comprising wine grapes, citrus, stone fruit and nuts with most of our supply area having been in production for 60 to 100 years.

Water market trends and drivers.

There are many drivers of the water market as outline below.

As a long term operator in the Murray Darling Basin we and our irrigators have been astounded by the rapid, unabated development in the Southern Connected System particularly with perennial crops which was undoubtedly enabled by the separation of water and land. An Aither report titled "Water Supply in the Southern Murray Darling Basin (An assessment of future water availability and permanent horticulture irrigation water demand)" prepared for the Victorian Government indicates that when all the current newly established permanent plantings mature in 2027 there will only be enough water in the southern connected system to supply the permanent plantings in a dry year assuming that all the available water from the other irrigated enterprises is used on the permanent horticulture. A sobering thought.

Since the establishment of the Murray Darling Basin Plan there has also been a recovery of significant volumes of water from the consumptive pool for environmental use. This recovery includes; the water required under the Basin Plan; plus the Living Murray; plus Water for Rivers; and water secured by various other environmental groups; which equates to approximately 30% of the previous consumptive pool used for agriculture.

Currently we are also in a sequence of low flow years with a severe drought in the Darling Catchment and flows in the southern catchment significantly below average over the last 2 years.

Government intervention has also been significant in the Southern connected system with

- The introduction of carryover as a water product in Victoria and South Australia during the millennium drought.
- Inter valley trade limits exceeded from the Murrumbidgee, Goulbourn and Barmah Choke. We have seen trade limits significantly exceeded (up to 100%) for extended periods (years) and then closed abruptly.
- Various environmental water holders trading water during times of surplus supplies.

These government interventions have fuelled the unabated development and then we have seen the same governments restrict the inter valley trade creating a segregated water market with subsequent impact on prices.

The separation of water and land has seen water ownership change with the emergence of corporate owners as well as small investors seeing water as a defensive asset with trends very different from other asset classes such as shares and property. Those that own the water assets are also becoming

Managers of the grower owned

Berri, Cadell, Chaffey, Cobdogla, Golden Heights, Kingston, Loxton, Moorook, Mypolonga, Sunlands, Waikerie
Irrigation Trusts Inc. and the Lyrup Village Settlement Trust Inc.

more aware of the value of their asset, expecting a return from that asset and thinking more about how to maximise that return.

Consequently it is not surprising that with an increased demand from a rapidly growing permanent horticultural footprint coinciding with a shrinking consumptive pool due to environmental recoveries overlaid by further reductions due to drought and low flows exacerbated by government intervention coupled with the owners of water assets expecting to optimise their returns, that water prices have risen to their current giddy heights where allocation prices have increased 500% and high security entitlement prices by 100% in a year. It is also important to note that the current allocation prices are still below the \$1300 per ML of allocation that some Riverland growers paid during the height of the millennium drought.

The Riverland community has constantly questioned “where is all the water coming from for these new greenfield developments?” We believe that the State governments need to take leadership on this issue and restrict the size of the irrigation footprint to match the capacity of the resource. There should be no further development of perennial crops allowed in all jurisdictions and particularly the southern connected system.

Market transparency and information

A water market. It sounds like it should be something very simple and is often compared to the ASX. However water is very complex, some of which is caused by history and the resulting development of irrigation across the Murray Darling Basin; some of which results from the jurisdictional control over water; and some which results from the delivery of that water through a complex hydrological system of rivers, creeks, dams, lakes and streams. Compounding this complexity is the variable nature of the key ingredient rainfall and runoff. It is not hard to see that there are very few people that have sufficient information or understanding to be considered informed on the water resource and markets.

Prior to the establishment of the water market the Basin’s agriculture had a balance that had been implemented by state governments as development occurred across the basin. Some Jurisdictions were more conservative in utilisation of their water resource and established permanent horticulture on a small scale with a high reliability water product. Other jurisdictions were more liberal with their water use but also recognised the variability of the resource and developed less reliable water products that serviced annual crops. The water market cares little for such a balance but a balance between annual and perennial cropping is required for long term sustainability of the water resource and communities that rely on it.

Jurisdictional issues are significant and historical. Who owns what assets (dams and storages), who is allocated inflows from rivers and tributaries, how that is shared across jurisdictions and how that is allocated within a jurisdiction. As well we see fluidity of the rules as conditions change (tiers of sharing) or at the whim of a Government as seen with the Goulburn Inter Valley Trade to address perceived or political state issues. Add to this the variability of inflows and it is easy to see complexity in the rules that share and allocate the resource. As we move into drier times the water sharing arrangements change, making the rules quite fluid.

The flexibility of delivery and hydraulic capacity of the river systems to deliver water has to be a final layer in allowing water to be delivered from a storage or stream and flow to its destination.

On the demand side there is also a lack of information. What is current and future demand with the developments that are occurring? What is the buying profile and geographical locational requirement of the increased demand? What portfolio of water do the larger consumers have of entitlement, allocation, forwards, long term leases and carry over? None of this information is available but these buyers can influence the market and have significant market power particularly in times of average and low water prices.

How can such a system be simple when only a few people understand all of the rules and processes? Some of this information such as water price is readily accessible through a number of channels particularly water brokers. Much of the other information can be obtained after searching and connecting with the appropriate website, person, publications or notifications. Some of the material is not available due to a lack of information, privacy or commercial in confidence.

As a consequence of the above it is difficult to predict how much water is, or likely to be, available in your market place at any time. In dry conditions are we bidding for the last drop of water or is there more water that could still come onto a market? What is the unsatisfied demand?

For water pricing information we regularly view water broking websites and advice from customers on what price they are prepared to sell and buy. The platforms developed and run by brokers are very effective and informative with accurate and timely information. A number of the brokers have been very innovative in developing these systems and we should not impede this innovation and development. There are also a number of over the counter trades or peer to peer trades and this should not be discouraged. In fact in the energy industry in South Australia most of the trades are over the counter non reported trades.

For information on allocations and forecasts we use the information provided by the state governments in their announcements updates. We subscribe to their notification emails as well as broker notifications that also provide the government notifications in their update emails. The state government's announcements are timely, accurate, useful and presented in a manner with probabilities that are very informative in assisting to make decisions.

With broader or more specific inquiries we will contact the relevant agency to seek information or clarification and find their responses timely and accommodating.

The BOM short term outlooks (3 months) are also useful in adding to the information required to make decisions.

Many people compare the water market with the ASX or the real estate market however we believe it is more aligned with the energy market and the review should look to the energy market for solutions and participant experiences.

Whilst a single portal with all of the information in real time is Utopia the Federal Government has attempted to build and establish such a portal and failed in the past after spending approximately \$50 million.

Regulation and Institutional Settings

Regulation and institutional settings are complex and make the water market complex however with the enactment of the Murray Darling Basin Plan, only the partial referral of powers to the Commonwealth and the fact that each state's water resources extend beyond the Murray Darling Basin indicates that the institutional settings are unlikely to change in the near future. Again the energy system has similar characteristics with a national market overlaying state based systems.

The current arrangements are also not always detrimental. Irrigators can own a portfolio of water products with different reliability and yield characteristics which can spread their risks and ability to carry forward water. The broking community have also been very innovative in developing products to exploit the best of each jurisdiction's system and offering those across the basin. This works particularly well in the southern connected system.

However some improvements can be made. Interoperability of state based registers and electronic trading processing would enhance the process immeasurably and reduce costs significantly.

The inter valley trade limits and the operation of such limits need attention. Firstly are the trade limits supported by evidence or are they in fact a barrier to trade. As both the Murrumbidgee and Goulburn Valley have seen their limits exceeded by 100% for a number of years it would suggest that such limits are conservative or artificial. We have also seen Goulburn Murray Water and Lower Murray Water allow tagged trades across the IVT above the IVT limits but only to Victorian customers. Such behaviour has significant third party impacts especially to South Australian Murray River Irrigators. The IVT trade process is incredibly complex and only a sophisticated operator with high speed internet can successfully process trades across these valleys in times of tight supply effectively excluding smaller traders from the market. I suggest the panel should gain an understanding of the difficulty and attempt to trade some allocation across the Goulburn IVT as experiential learning.

Market Participant Practices and Behaviours

The Commonwealth Water Act, The Murray Darling Basin Plan, The partial referral of powers from the States to the Commonwealth and the States' Water Sharing Plans have set the legislative framework for the water availability and subsequently the water market. After significant debate with the communities of the Murray Darling Basin there is little appetite to make further significant changes to

these instruments or arrangements. Consequently it will be difficult if not impossible to change the water products or water resource plans which are the foundation of the water market.

The separation of water and land has allowed the development of a water market, recovery of water for the environment and for ownership of water to be diversified. It has also allowed developers to establish new irrigated farms or current irrigators to expand, without owning water and in many cases land as well. However for irrigation enterprises to operate without owning Water Entitlements requires someone else who is not an irrigator or consumptive user to own sufficient water entitlements to trade to the irrigation enterprise.

We have seen significant development occur in years of high water allocations without recognition that the finite available water resource for consumptive use is reducing. If the development continues at its current pace and we expand beyond the capacity of the resource the outcome is clear and all will be impacted. We believe that the State governments need to take leadership and restrict the size of the irrigation footprint to match the capacity of the resource otherwise the market will do so in a brutal manner which may see significant dislocation and stranded assets.

In the infancy of the water market the water traded was generally surplus allocation that growers had been allocated and was treated more as a surplus product. The market has given the water a value and entitlement holders now want a return on that investment that is equivalent to returns obtained elsewhere.

Overlaying this are the changes that we have seen in commodity prices including the surge in prices for commodities such as citrus and table grapes that are now capable of paying more for water than during the last drought.

For over a decade we have administered thousands of trades for our customers and we have been seen many transactions occur between irrigators and; other irrigators, large corporate water owners, small water owners and environmental owners of water. To date we have not seen any evidence of market manipulation or unconscionable behaviour.

The prices of temporary water and permanent entitlement are closely linked consequently anything that can lift the price of water allocation can have a corresponding impact on the entitlement value. One way to minimise possible speculation in the temporary allocation water market is to remove carryover as a product. This means that all allocation has to be consumed in the water year it is allocated or the product is lost. This would increase the risk for any speculators significantly as weather conditions and demand can change quickly so the appetite for a speculator to trade water diminishes significantly as the risk of holding water late in the season increases dramatically.

Another method of reducing the possibility of speculation would be that only irrigators can purchase water in the temporary allocation market up to the limit of their "site use approval". Such a system would be difficult to implement, monitor and maintain but would minimise any possible speculation.

Water brokers have developed the water market to the sophistication that we see today. It is their innovation and investment that allows us to trade electronically and with the suite of products available today. We often hear loud calls about poor broker behaviour but there is very little evidence to support the calls. There have been a number of reviews, such as the water act review, which have looked into regulation of water brokers and have found no evidence to support the introduction of regulation. Through our business we have facilitated many thousands of trades through various brokers and have experienced very few issues with water trades. Brokers are often unfairly blamed for the impacts of others decisions.

Many like to compare the water market with the share market or the real estate market where regulation of the market occurs but we like to compare the water market with the energy market (where we are a participant in both) where we see a functioning market involving brokers without any regulation.

The cost of any regulation if introduced would have to be passed on to the buyers and sellers of water and this may impact on water holders who trade small parcels of water or the ability of a broker to serve thin markets. In our region there are many who hold and or trade small parcels of water and when water prices are average the cost of trading water can be an impediment of trading that water and it may not be put into the market.

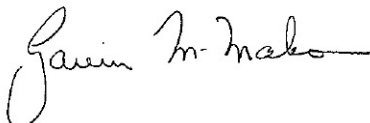
We do not believe there is sufficient evidence to support any increase regulation in the water market. The energy market provides confidence that such a system works.

Solutions

- The Riverland community has constantly questioned “where is all the water coming from for these new greenfield developments?” We believe that the State governments need to provide leadership to restrict the size of the irrigation footprint to match the capacity of the resource. There should be no further development of irrigated agriculture allowed in the Murray Darling Basin in all jurisdictions.
- The inter valley trade limits for the Murrumbidgee IVT and the Goulburn IVT should be set at 400GL each and the inter valley trade process opened to a more transparent and equitable process.
- A single portal with all of the information from both the supply and demand side would be beneficial.
- Remove carryover as a product to minimise possible speculation in the temporary allocation water market.
- Only irrigators can purchase water in the temporary allocation market up to the limit of their “site use approval” as another method of reducing the possibility of speculation.
- Interoperability of state based registers and electronic trading processing would enhance the process immeasurably and reduce costs significantly.
- We do not believe there is sufficient evidence to support regulation in the water market. The energy market provides confidence that such a system works.

If you would like any further information please feel free to contact me.

Yours Sincerely,



Gavin McMahon
Chief Executive Officer