

About Fruit Growers Victoria Ltd

Fruit Growers Victoria Limited (FGVL) is the Victorian peak industry body for apple, pear and stone fruit growers and represents and furthers the interests of more than 300 fruit growing, packing and exporting businesses across Victoria.

Our members grow fruit in the Goulburn Valley, Murray Valley, North East, Gippsland, Yarra Valley, Bacchus Marsh, Mornington Peninsula and Harcourt districts of Victoria.

FGVL also provides the secretariat for a number of other organizations including the Victorian Cherry Association, the Canned Fruits Industry Council of Australia, and the Australian Nashi Growers Association.

Victorian orchardists grow 40% of Australia's apples, 30% of Australia's stone fruit and 90% of Australian pears. Of this production nearly all the pears and two thirds of the apples are grown using water from the Murray Darling Basin.

Response to the inquiry

1. Market trends and drivers 5. Competition and market outcomes

The inquiry will receive detailed evidence regarding demand and supply drivers in the market and their effect on market behaviour and trading activity. We do not intend to replicate these publicly available sources of information in this submission, but note the following factors that have contributed to recent market trends:

- Commonwealth water acquisitions under the Basin Plan have reduced the supply of water available for consumptive use, increasing the price of entitlement and allocation water.
- Ambitious end of system flow requirements required under the Murray Darling Agreement place significant pressure on upstream supply. This is particularly the case during drought periods when prescribed volumes reduce in proportional terms much less than the effect of reduced catchment inflows. The effects will be exacerbated if the climate is in a drying sequence.
- The separation of land and water title has enabled water demand to shift quickly across the landscape. This has enabled water to be allocated/traded to highest value use and increased demand across the system as new locations for irrigated production are developed.
- Highest value use is typically for uses that require fixed water demand. Rapidly increasing fixed demand from horticultural developments in the lower Murray has created the need for large, inflexible volumes of trade and delivery to the lower parts of the system.
- A disproportionate level of fixed demand in the system creates significant supply concerns during periods of low inflows into the system.
- Fixed demand is also leading to changed market behaviour, visible in higher reliability entitlement types and use of carryover facilities to underpin supply reliability.
- The combination of end of system flow requirements and lower Murray demand are putting pressure on the natural constraints and the ability to efficiently deliver water through the

system. We are seeing increased transmission losses, particularly through the choke, which are borne by upstream irrigators as foregone allocation.

2. Market transparency and information

Our view is that many of the problems in the water market, either real or perceived, could be resolved by improving the transparency of market information.

1. Price discovery and trade transactions

Currently, the water market operates as a series of fragmented markets based around water broker firms. Some parcels available for sale are listed on multiple web based platforms, though many transactions are also facilitated by brokers verbally contacting their client base to match counterparties to trade.

The system is inefficient because it takes too much time for irrigators to establish prices for like for like water in the market, the price spread between markets can be substantial, and irrigators pay for the cost of brokers monetising (via commission) what should be a more automated price discovery, counterparty matching, and transactional service.

Although FGVL claims no evidence of it occurring, the current lack of transparency increases the likelihood of market participants to engage in market manipulation, particularly where trade is thin.

We would favour the introduction of a single exchange for water trading in the southern Murray Darling Basin.

2. Broker conduct

We have concerns that a lack of transparency in the market permits water brokers to act as both trade facilitator and active trader of their own (or related party) water. It is unclear under current regulations when brokers are conflicted to the detriment of one party to the trade. This is particularly concerning in a water market where many participants are unsophisticated and reliant on brokers for market information that isn't fully available and transparent.

Brokers should be legally required to disclose if themselves or a related party are the counterparty to any trade they facilitate.

3. State registers

The current state-based water register system is not working. Problems include:

- too much of a delay in the publishing of key trade information
- a mish mash of manual and electronic processing and reporting systems
- inconsistent data capture across systems, including the nature of different trade types and varying visibility of the parties to a trade

- an inability to differentiate between different transactions such as temporary trade, zero dollar related party trades and the delivery of water against prior leasing and forward water agreements.

State based registers should be harmonised, which could be undertaken in conjunction with the introduction of a single trading platform.

At the point of trade, consistent and more accurate data recording systems should be operating across agencies managing trade processing in the southern MDB.

4. Inter valley trade

Current intervalley trade rules are opaque, confusing, and the opportunities for extracting price premiums currently limited to the most sophisticated participants in the market.

In particular, the lack of notice for impending trade openings (especially choke trade opened via government agency transfers) make this trading option very difficult for those mostly engaged in day to day farming activities or without reliable mobile/internet access. We would recommend that impending openings are communicated in advance to the market, and rationed among those applying to trade water across zones at the flagged time of opening.

3. Regulatory settings

FGVL considers that the following amendments to regulatory settings should be investigated and, if feasible, be implemented.

1. Carryover rules

Carryover is an important tool for fruit growers to mitigate early season water availability risk by carrying over a modest proportion of their HRWS entitlement allocation from the previous season.

FGVL is concerned, though, that the ability to carry over 100 per cent against Victorian low reliability water share may be permitting water owners and users (including environmental holders) to hold too great a volume of water from one season to another, increasing the risk of dam spills (either physical or internally to NSW). We are also concerned that water investors, who are not subject to the same fixed cost burden as irrigators, may be able to use carryover facilities to unduly influence allocation markets.

However, we are aware that this is a complex issue that requires further investigation to understand the possible negative effects of any change to entitlement characteristics pertaining to carryover. If a decision were taken to limit carryover provisions attached to entitlement, then these changes should only be introduced after significant consultation and an incremental implementation period.

In our view, increased transparency about trading activity in the market, particularly from large water holders, would help determine the extent of any problem with the use of carryover facilities, and the most appropriate remedy.

2. Goulburn IVT limits

Current trade and operational use out of the Goulburn has caused significant environmental damage to the Goulburn River. The quantum and timing of water able to be transferred out of the Goulburn 1A zone should be reviewed to rectify this issue.

We recognise efforts the Victorian Government has made to remove tagged trade loopholes and review operational management options to limit the negative effects of excessive reliance on the Goulburn to deliver water downstream. However, FGVL suggests consideration be given to tightening the current 200GL IVT limit by setting the volume at a lower number.

This would limit the environmental damage currently occurring in the system. It would also incentivise a shift to production within the Goulburn 1A zone, rather than relying on the Goulburn River as a delivery channel for further expansion of lower Murray demand.

3. Transmission losses

The shift in irrigation demand patterns, increased end of system flow requirements, and natural system constraints are generating increasing volumetric requirements for river operations. In 2018/19 these 'transmission losses' reached unacceptable levels as overbank flows through the Barmah Choke were required for an extended period of time during summer. The losses associated with this event were very high (in excess of 400GL) and not debited against environmental accounts.

Exacerbating this problem is a reducing capacity through the choke as the system is pushed and river banks erode.

FGVL recommends that the following options be examined:

- IVT and choke trade limits be amended to guide a shift in demand to upstream production areas; or
- a transmission loss conversion rate be applied to use in parts of the system where it takes an increased volume of operational water to deliver orders there.

4. Market participant practices

Our view is that the role of major market participants should be further scrutinised and governments consider changes to any distortions they create under the current system.

1. Water fund investors

FGVL considers that water entitlement holders that do not undertake irrigated production, are likely to be operating in the 'water system' without an equitable requirement to contribute to the costs of running the physical delivery system. Policy makers should review the apportionment of the cost burden across the whole system (including irrigation network maintenance) and develop mechanisms to improve equity. Requirements for water owners to contribute through ownership of delivery shares should be one option considered.

2. Commonwealth Environmental Water Holder

The option for the Commonwealth Environmental Water Holder (CEWH) to trade surplus allocation is tightly regulated and has been scarcely used. This creates a 'use it or lose it' approach to CEWH using allocation against their held entitlement, particularly in instances where a) reserves across years are prudently maintained to underpin planned events, but rainfall events intervene to provide the outcomes sought from held water or b) sustained drought would have seen decreased natural flows, but high reliability water has been allocated to the CEWH.

FGVL is of the view that the legislative settings and policy guidelines governing CEWH trade should be reviewed with a view to enabling the CEWH to be more flexible in either a) trading water to irrigators or b) leaving water for the allocation pool where its use is not clearly environmentally beneficial. We are aware that there are potential risks associated with increased CEWH trade, and these should be fully assessed before any alteration to their permitted trading arrangements is implemented.

FGVL does not support CEWH water being allocated to specific irrigators for a specific purpose, such as ad hoc fodder production.

Contact

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