

## **ACCC- Inquiry into water markets in the MDB**

### **Background -**

- Diploma of Agriculture 1960 - Hawkesbury Agricultural College, Member Australian Property Institute 1967 - Certified Practising Valuer, Justice of the Peace 1969
- Valuer with the Rural Bank of NSW 1961-1973 , Senior Field Officer , Water Resources Commission NSW (WRC ) - Griffith Office 1973 - 1987 , Private Valuation Practice Griffith 1987- 2003
- Service in NSW included Bathurst, West Wyalong, Taree, Leeton, Goulburn, Griffith
- Valuation for 1st mortgage lending, Rural Bank acting as Government Agency for concessional finance for farm/ livestock improvement, major agency was Rural Reconstruction Board ( now Rural Assistance Board ). Assessment of flooding claims against WRC for compensation,. Family law asset valuation, valuation of various property types for mortgage purposes. Establishment of a Water Trading business as broker and participant..Development of a 40 ha irrigated vineyard.
- Member of interdepartmental committees investigating government land settlement and finance schemes. Executive Officer Murrumbidgee Irrigation Areas & districts ( MIA & Dists.) Land and Water Management Plan ( 9 years ), implementation of Volumetric Water Allocation Scheme MIA & Dists. , member of Anomalies Review committee Murray River NSW. Study Tour of government sponsored land settlement and water banking/trading western states of USA 1982.
- Ownership of irrigated land,development of drip irrigated vineyard and water trading 1996-2016, sale of vineyard 2016 - retained water entitlement in a water only account with Murrumbidgee Irrigation Ltd. (MIL ), water trading and leasing.

### **Market Trends and Drivers**

1. Variations in supply (climatic conditions ) and river operational procedures , changes in demand via crop types, new entrants to irrigation, scale of new developments, irrigation of land previously considered “non irrigable i.e. above gravity supply and/or remotely located from a water source combined with irrigation constraints on supply capacity. E.g. development of large scale vineyard developments in the MIA and new plantings of nut tree crops in the MIA and along the river systems.
2. With the separation of land and water (Water Management Act 2000 - WMA ) demand for water increased providing opportunities not previously available eg. new developments , larger on farm irrigation infrastructure via land forming including land considered unsuitable because of difficult topography or suitability, reduced drainage , on farm storages and an increased use of recycling, installation of water supply and water use monitoring equipment.
3. Increased access to farm produce markets - domestically and overseas ( Free Trade Agreements ) , widespread interest in investment in agriculture creating

incentives and opportunities. Improved technology and innovation, better crop types and selection, improved harvesting, storage and transport, government financial assistance - in my case ...subsidising the installation of a drip irrigation system with auto control, liquid fertigation and flow meters - cost \$ 180K.

4. New entrants particularly corporation water account only holders some for investment purposes only. ( statistics indicate that the majority of water entitlements are held by irrigations ). The corporations have the capacity to hold allocations, target demand locations and influence prices as funding is generally more flexible and on a larger scale compared to a single farm business.
5. New water products provide conditions allowing water trading to be more accessible and flexible eg. term leasing vs annual trading vs forward selling.. My case - leased 212 ml HS of entitlement in MIL for 3 years with a renewal option including annual CPI adjustments for nut tree planting. Lease commenced 1/7/2017 to 30/6/2020. Original lease rental \$ 165 /ml p.a. , now \$ 173/ml p.a. If renewed, rental will be 5% of the value of HS entitlement in MIL and based upon current prices rental would be about \$ 400/ml p.a. If not renewed, the parcel will be placed on the open market. This product provides security of funds for the holder ( rent paid one year in advance ) and the lessee as there is certainty in pricing although the lessee bears the risk of variations in annual allocation with no concessions from the holder.

### **Market Transparency and information**

1. Most of my information is obtained from the internet platform provided by my broker. A comprehensive up to date listing of all available types of water products together with timely information on river operations, constraints, allocation announcements, products for sale, volumes, price or auction, location ( zone ) and presentations at various locations throughout the southern basin plus webinar presentations on water trading principles and the like. The brokers themselves are very well informed and helpful in making decisions, many have lifelong experience in buying /selling and negotiations with irrigated properties. Additionally, my water entitlements / allocations are available on-line at state or irrigation authority registers. There is confidence in these records particularly the level of security and accessibility .

2. The records generally suffice my requirements. As the market is demand / supply driven, it would be very helpful if the volume, type and location of traded water as a percentage of the total allocation in those categories were available to the public without breaking privacy rules.

3. There are private consulting agencies who analyse water market trends some for the purpose of advising government in the task of water management. The role of the

Commonwealth Water Holder- CWH (to me ) is unclear. This function is clearly a “ participant “ in the water market with the potential to impact trade at any time without notice. As part of the annual management of water resources the CWH should publicly declare in detail its intentions for that water year to give water holders the chance to assess the likely impact of those plans.

### **Regulations and Institutional Settings**

1 At a glance , the Murray river and its tributaries are an homogeneous entity and superficially should be controlled by the one authority. The historical make up of control does not allow such simplicity even though the overall reference is generally about “ the Murray Darling Basin “.

It is perhaps time that the historical ties are examined as to their appropriateness and effectiveness given recent poor reporting and dissemination of information ( not based upon facts ) in the public arena. Such reporting has made the usefulness of the ACCC inquiry all the more difficult especially the ultimate implementation of its findings at government level. My guess is that most politicians have limited knowledge of the water market if comments at the pub test / dinner party level are any indication. Many irrigators who rely on water availability and in many cases the opportunity to trade water , are not conversant with all the implications of multi -state / authority controls even though their livelihood depends on a high degree of certainty and clarity.

Information is power only when it is true, accurate and honest.

### **Mark participants and behaviours**

- a. As mentioned , my use of water markets is via a broker who I've observed over 30 years experience of his ability and integrity. This is a most satisfactory arrangement given the size of my water portfolio and risk investment profile..

Other participants are as described in the ACCC briefing notes. I am aware of how some participants use the markets however my experience clearly suggests that the factors affecting the use of money /assets is very personal and I'm unable to generalise especially when it comes to corporate behaviours.

- b. See earlier comments. It might be assumed that large water holders have the greater influence on availability and pricing but smaller holders at times can have significant affects especially if a farm product(s) is in high seasonal demand or overseas contracts have been secured.
- c. My use of water markets has been noted previously. My limited experience in water trading demonstrates the vagaries of the industry hence the majority of

my portfolio is in a term leasing arrangement to avoid wild fluctuations in demand and prices.

### **Competition and market outcomes**

At the early outset of the consultation about the separation of land and water ( circa mid 1980's ), the outcomes were unclear and some irrigators and government personnel predicted a negative affect on such policy. Banks particularly were nervous about property values and were quick to secure charge over water entitlements.

Few envisaged the ways in which the irrigation industries would react. For example, in the MIA , farms designated as suitable for horticulture (permanent plantings ) were given a generous 12ml per hectare planted of HS entitlement . Typically this was 180 to 240 ml. Within a short time from the WMA 2000 ,landholders sold the unused portion of the entitlement ( in many cases 50% of the entitlement ) representing a significant windfall . At current high prices , some horticulturalists have sold the remainder of the entitlement choosing to buy their annual water requirements ,lease water or forward purchase, all products historically were unavailable and many left the industry as farm profitability failed.

Interestingly, when I sold my vineyard in 2016 , the water entitlement of 212 ml HS was worth more than the real estate, vines, trellis , pump and machinery sheds and irrigation system respectively 40 ha sale price \$400,000 , 212 ml HS( value ) \$ 850,000 to \$ 1,000,000. This disparity has narrowed a little with improvements inthe wine industry but water prices have also dramatically increased with the 212ml HS now having a value of \$ 1,800,000.

My understanding is that the water markets are generally working efficiently . Any commodity market has its failings but I opine that the premise of separating land and water so that water would move to a higher and better use holds true. There are numerous examples of this objective being met including better irrigation techniques away from the wasteful systems used before the WMA 2000. Emergence of new crop types and expansion of some industries albeit some have put pressure on available resources. The secondary benefits to irrigation townships and businesses with much increased demand for goods, services and personnel.

Public reporting on the water market has been less than professional ,inaccurate and untrue. Some would have certain crops reduced or prohibited because of their “ high “ water use. The concept of the volume of the total basin's water entitlement remaining largely unchanged and finite is difficult for those on the seaboard to accept.....I worry about the understanding of politicians.

Like all schemes, the rules surrounding the current water industry require examination. My experience in irrigated agriculture from 1966 to date ) clearly shows that the introduction of volumetric water allocations, removal of restrictions on the ownership of crown land in Irrigation Areas and districts, the separation of land and water with the development of water trading especially the security of ownership of water entitlements , have allowed beneficial

development ,higher production and importantly exceptional improvements in water use and management ( on farm and by supply authorities ).

In summary :

The water market is working as planned.

Transactions are transparent noting privacy laws.

Movement in and out of the market is easy and safe.

Foreign ownership of entitlements in “water only accounts “ was not intended and is not acceptable.

Who ever receives the ACCC report....be careful....be very careful....not to throw the baby out with the (marketable ) baby water.



