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SUBMISSION

TOPIC:

Water Market Transparency Options Paper

MANAGED BY:

Department of Environment, Land, Water and Planning
Victoria State Government

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Introduction

Citrus Australia appreciates the opportunity to provide a submission to the Victorian Government's Water Market Transparency Options Paper.

Citrus Australia is the peak industry body for citrus, representing over 1,500 growers across the nation.

It is one of Australia's largest fresh produce exporters, with export volumes increasing from 158,000 tonnes in 2014 to 252,000 tonnes in 2018.

As a result, the Australian citrus industry contributed in excess of \$800 million to the GDP through farm gate sales in 2018, including \$480 million in citrus exports alone.

While the industry's size and output is significant in Australia, it comprises less than 3 per cent of global production and is one of the highest cost producers in the world, relying on its reputation for quality and safety to command premium prices in high paying export markets.

The Australian citrus industry is one of Australia's largest horticulture industries, with commercial production (26,000 hectares) in five states and one territory.

It is a major employer in regional and rural Australia, with an estimated 25,000 people employed in citrus production, and more employed in allied businesses.

The Riverina, centred on the towns of Griffith, New South Wales (NSW), and Leeton, NSW, is the largest citrus producing region, with 30% of the nation's area under production.

The Riverland in South Australia, including Renmark and Loxton, and the Murray Valley in Victoria and NSW, including Mildura and district, both comprise approximately 25% of the nation's area under production.

Although smaller in size, Queensland, centred on the towns of Mundubbera and Gayndah in the Burnett region, Emerald in the Central Highlands and Mareeba and Dimbulah in Far North Queensland, is Australia's largest producer of mandarins, lemons and limes.

Citrus Australia facilitates market access for growers and export expansion by eradicating barriers to export markets through Government liaison; driving the Australian Citrus Quality Standards to maintain fruit quality; and developing more effective export promotion programs.

It also works with growers and Government departments to improve biosecurity, agrichemical best practice, awareness and adherence to Maximum Residue Limits, and coordinates industry research and development.

Current situation

In a period where the citrus export market is at its peak and achieving some of its highest return on investment¹, in the Murray Valley growing region growers are turning off irrigation to their permanent plantings every day².

Some growers are currently paying as much as \$970 per megalitre to keep their orchards alive, against the average annual median price from the Victorian Water Register of \$165 per megalitre. The last time water reached these prices in Victoria was during the Millennium Drought when water cost \$1,200 per megalitre and made an exponential impact on communities and the agriculture industry. It should be noted that at the time of writing the phenological stage of the citrus trees in the lower Murray Darling Basin is flowering and fruit set, critical periods for setting a viable crop for at least two thirds the national area under production.

These prices are making it unfeasible for growers to maintain their orchards, which contribute almost \$500 million to the national economy in exports alone.

A recent AITHER report suggests that directly available consumptive surface water supply within the lower Murray may only meet approximately 40 per cent of total existing permanent horticulture demand at full maturity under an extreme dry water availability scenario³. A similar scenario would be that of the 2007-2008 drought which brought extreme dry and hot conditions in the Murray-Darling Basin.

The Bureau of Meteorology has predicted a "warmer and drier" spring and summer for 2019/2020, which will primarily affect the areas of eastern Australia already in drought. Last summer saw the Darling River with so little flow that it was the catalyst for the mass fish kills in Menindee, NSW. Lower Murray Water (LMW) has initiated their Drought Response Plan and at the LMW Grower's Conference hosted in Mildura on Thursday, 24 October 2019, it was announced that the seasonal outlook for 2020/2021 is much worse than this year.

Legislation surrounding an unregulated water market has enabled speculators to take advantage of our most important resource, water, a means for sustaining life. These loose regulations allow foreign ownership not linked to production of food or fibre and some water traders to behave unconscionably speculating on the water market, artificially driving up water prices, whilst regional communities suffer, families lose generational farms, and unemployment and mental health issues rise.

The purpose of water markets is to efficiently manage the allocation and reallocation of water among competing users, given scarcity and increasing demand, and in the context of a cap on total water extractions⁴. By definition a speculator is not a water user; their purpose is to derive profit from the market, not to add value to communities or the environment. In the interest of a market made for the water users, there is an opportunity to make legislative changes, and to create a compulsory central trading platform to allow regulation, compliance and uniformity across all states impacted by the Murray Darling Basin.

On Friday, 11 October 2019, Citrus Australia members in the Murray Valley region were invited to attend an industry consultation at the Citrus Australia office in Mildura, to discuss the options paper. The following summary communicates the points raised during this consultation.

1. Citrus growers peeling off the profits as exports boom, Sydney Morning Herald, 27 November 2017 - <https://www.smh.com.au/business/citrus-growers-peeling-off-the-profits-as-exports-boom-20171124-gzs993.html>

2. End of fruit cropping along lower Darling River a 'big loss' for industry, as growers pushed to brink, ABC Broken Hill, 29 September 2019 - <https://www.abc.net.au/news/2019-09-29/citrus-industry-mourns-end-fruit-cropping-lower-darling-river/11556106>
3. Water supply and demand in the southern Murray-Darling Basin, An assessment of future water availability and permanent horticulture irrigation water demand, A Final Report prepared for the Victorian Department of Environment, Land, Water and Planning (DELWP), AITHER report, 7 June 2019.
4. Water supply and demand in the southern Murray-Darling Basin, An assessment of future water availability and permanent horticulture irrigation water demand, A Final Report prepared for the Victorian Department of Environment, Land, Water and Planning (DELWP), AITHER report, 7 June 2019

Option 1 – Full market transparency

In summary, attendees at the consultation indicated that those who would benefit most from full market transparency would be brokers. They are employed to have a thorough and current understanding of the market, and would have the time to watch growers' trades and access their personal and business information. This could lead to further predatory behaviour from traders who may already be acting unethically. Attendees felt that full transparency is not what they are seeking, the primary need is regulation and compliance.

Some further points that came from this discussion are listed below.

- Solicitors and conveyancers performing permanent water trades aren't inputting accurate trade values when transferring allocation. This information could be misleading and distort the market, therefore brokers are having to constantly amend this. Citrus Australia calls for a review of these practices, and for steps to be taken to improve accuracy of reporting.
- Some growers commented on the lack of transparency associated with \$0 trades; some felt these could hide discounted trades or the fall of the water price. In an effort to create an easy way to manage transparency for \$0 trades and show their purpose, a drop down menu could be created with a description of the trade (i.e. inter account trade, or allocation with permanent trade). Everyone should be reporting why a \$0 trade is happening. Regulation for this could be done by auditing.
- Full transparency would provide a greater insight into whether water funds have the ability to cover forward positions, however this could also be detrimental to growers. If traders can estimate what the demand is, and find it is higher than what they can supply, they can bump their price up excessively and create a bidding war, which will naturally push the rest of the market up.
- Growers would like to be able to see when big players in the water market are buying up at specific times, and particularly early in the season.
- Growers are diversifying their risk by putting water entitlements into their superannuation funds, or alternative entities. These super funds then technically become 'traders'. The attendees were conscious that some traders could be current and retired growers, and want to avoid changes that may impact them negatively.
- Growers don't feel it's worth putting too much thought into the possibility of full transparency, as the Privacy Act will likely reduce the level of information that can be made available. This is likely to be a long and protracted course of action with a low likelihood of the desired outcome.

- Average reporting is a seven day median price. The reported price has been \$100/ML behind for the last two weeks of October, with two \$50/ML jumps occurring in a two day period. There are six week delays for permanent entitlement trades that are made on paper to appear on the Water Trade Register, and therefore a six week delay on accurate volume availability. Real time volume, and therefore prices, would create a more steady market.
- In terms of trading on the allocation market, everyone is limited to carryover to the maximum of their entitlement share, including non-water users. In Victoria, any land holder that owns an entitlement share can carryover up to 100% of their entitlement. In NSW, land holders can only carryover on general security entitlement licences up to 50% of the volume. South Australian landholders can only carryover when they have approval from the South Australian Minister for Water. Changing of carryover to only be allowed by water users would allow this to be a risk mitigation tool for irrigators rather than a trading management tool for traders to profit upon.

Option 2 - Publish information on large market participants

Whilst growers feel that full market transparency would have the reverse effect of its intent, and further victimise smaller to medium sized businesses, they are still interested in a formula that would enforce transparency around the major players in the market. This may be similar to the Australian Stock Exchange (ASX), where traders must publically declare when they own over five per cent of a company. Compliance and regulation would be a significant factor, and traders would need to declare linked accounts or conflicts of interest.

Attendees at our consultation suggested that, in drought conditions, traders should only be able to trade to those with an annual usage limit (AUL), in an effort to ensure that there is enough water for agriculture.

They also felt that water traders without an AUL should not be able to carryover between seasons, to prevent hoarding water in an effort to raise prices. Carryover should be a product reserved for those with agricultural businesses, for financial and risk management.

Some further points that came from this discussion are listed below.

- In order to decide at what point traders would need to be transparent in their ownership and trades, DELWP needs to provide clearer information on what level of water holding or trade capacity would unnaturally influence prices.
- It should be compulsory to report carryover, if it is over a certain percentage of licence volume.
- Water trades should show if the water is traded to a property with crops or livestock for the purpose of farming, regardless of what mechanism is used.
- A review of AULs is tied up in delivery share reviews. The actual volume of the range of AULs would provide a better indication of area and volume that can currently be irrigated, as opposed to land developers just going on a whim and applying for more AUL.

- Recent estimates in terms of ownership (Ruralco Water estimates 2018):
 - Irrigators 62%
 - Commonwealth & State Governments 22%
 - Non Irrigators 10%
 - Water Authorities 6%
- Temporary Allocation Market generally drops around \$10 overnight if the State Government says they are going to release water back into the market.

Option 3 – Improving price and market depth information

A point that all attendees at our consultation strongly agreed on, was that the market should provide price and volume information that is timely and accurate, and that a central trading platform for the tristate area may be able to provide this in a simplified way. The trading platform should bring uniformity to the tristate area in terms of data, regulation and compliance, but not attempt to affect uniformity of entitlements and allocations.

Secondly, anyone can currently apply to the Victorian Water Register to be a broker, and there is no accreditation system. Brokers should have to apply for a licence, similar to real estate agents, where they can risk having their licence revoked if they are found to be acting unethically. Statutory declarations for broker use of the trading platform should also be tightened. In the current system, brokers are able to buy for one price and sell for another, without being transparent to their clients. They have the ability to take their own profit in addition to commission, rather than acting in the best interest of their clients to find the most appropriate price and pass on that savings, depending if they are working for the buyer or seller. In a lot of transactions they are working for, and charging, both sides of the trade.

Some further points that came from this discussion are listed below.

- Brokers should have to provide itemised accounts when passing trades through their personal account, to show how much they paid for the water they purchased, the total, and what their commission is.
- There is support for expansion of an automated trade rules assessment across the southern Murray Darling Basin to provide consistency.
- There is support for an expansion of brokers who use automated systems, to achieve an additional degree of regulation.