



MEDIA RELEASE

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Water for production, not hoarding: governments must act

This press release is authorised for release by the following industry commodity representative bodies: Australian **Grape and Wine**, Australian **Almond** board; **Citrus** Australia, Australian **Olive** Association, Australian **Table** Grape Association, **Pistachio** Growers Association, Australian **Walnut** Industry Association, **Summerfruit** Australia, **Hazelnuts** Growers of Australia and **Chestnuts** Australia.

The States and Commonwealth must act immediately to free up water being purchased by water traders at the expense of irrigators growing food and fibre.

Industry groups say interim measures must be introduced to free up water or risk a mass exodus from the land and greater hardship for drought-stricken communities, towns and small businesses.

“Water needs to be made available to those who use it. When water becomes a commodity for speculation, putting rural and regional Australia at risk, I think it should be obvious to all that Australia has a problem,” warned John Argiro, Chairman of Australian Table Grape Association.

“We are not asking to limit water trade – quite the opposite. We want governments to intervene to allow water already allocated to be put to consumptive use.”

“Australia’s drought-stricken communities are in peril and we need to government to act now” said Tony Battaglione, CEO of Australian Grape and Wine.

“We can’t wait for more government inquiries. Time is critical and interim measures to stop non-irrigators slowly starving irrigators of much needed water while keeping prices high are needed urgently.”

When a single company buys around nine per cent of the total water allocation traded in the southern Murray-Darling Basin in 2018-19, we have a problem.

“Carryover” rules allow speculators to hold over allocation purchased in one season into successive seasons. Carryover was originally designed to help irrigators manage risk. It was never intended to allow investors to withhold water from the market across seasons for profit.

“Many irrigators with permanent trees or vines, dairy cows or customer supply contracts have limited choices when it comes to water. They try and purchase the water, or they face the choice of losing their business and assets. There is no middle ground for them.

“Speculation on water during a drought, a vital part of irrigated crop production may be legal but it enforces hardship on other entities and may have long term consequences for some sectors and flow on impacts to regional communities.

“There is no time to delay. There is no room for politics. For many, this is an issue of survival.”

-ENDS-

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Understanding water markets

Water rights usually exist in two different forms:

- 1. Entitlement (Permanent Water).** This is the legal right in perpetuity to an ongoing share of water each year. Over the last 15 years, entitlements have been separated from land ownership in a process called ‘unbundling’ and can now be bought and sold by anyone. The federal and state governments now own about 28 per cent of southern Murray-Darling Basin (sMDB) entitlements for the environment, most purchased under the 2012 Murray-Darling Basin Plan.
- 2. Allocation Water (Temporary Water).** This is the volume allocated for use against permanent entitlements each season. The volumes vary depending on the entitlement type and seasonal conditions. For example, in very wet years, all entitlement holders with high or general security entitlements are allocated 100 per cent of the volume on their entitlements. In very dry years, the general security entitlement holders may get zero per cent, whilst Victorian high security entitlement holders may be allocated less than 50 per cent.

No limits: Before 1 July 2014, only entitlement owners could buy and sell allocation water, and trade was mostly between irrigators. After 1 July 2014, anyone could buy and sell allocation, without having to own a water entitlement, or land, or ever using water to grow food and fibre.

Carryover: Allocation water prior to unbundling of water from land to use or lose in the year it was allocated (1 July to 30 June); Entitlement owners’ unused allocation was returned to the collective pool for reallocation the following water year. Now, Entitlement owners can carry over their unused water in their accounts for use or trade the following season. Many Entitlement owners also buy water to carry over for the next season. Carryover varies greatly between States, irrigation districts and water entitlement class and anyone carrying over water must obey these rules and conditions.

Ownership versus use: Due to capital restraints and/or a focus on investment in farm development, many irrigators do not own Permanent Water entitlements, or do not own enough to meet their water needs. In years of low allocation percentage against entitlement there is a significant reliance on the spot water market to buy more water allocation.

Sellers include other irrigators. For example, rice and cotton growers may decide to reduce or forgo a crop and instead sell their allocation water to orchards. Dairy farmers may decide to sell water to buy feed, rather than use it all to grow pasture and fodder. Many sellers, however, are non-water using investors selling water allocated against entitlements they own, and/or additional allocation water they have bought.

Southern Murray Darling Basin (sMDB)

The sMDB relies mostly on government storages (e.g. Hume, Dartmouth, and Lake Eildon) and grows the majority of the higher value permanent type crops e.g. (almonds, citrus, wine grapes, table grapes, stone fruit) as well as other annual crops or livestock such as dairy, rice, cotton and cereals.

Water market investors: Owning permanent water entitlements is very capital intensive: high security entitlements, for example, can cost up to \$8,000/ML. Increasingly non-water-using investors have purchased entitlements in the sMDB.

This has worked well for many irrigators as an important source of capital and flexibility. Non-water-using entitlement owners need irrigators to purchase their allocation water to make a financial return. Likewise, irrigators need investors who own entitlement water to sell their allocations in a timely manner so they can water crops.

The price should fluctuate based on normal supply and demand market drivers such as storage levels, rainfall outlook, and water allocation percentages against Permanent Water entitlements.

However, the sheer scale of the impact some non-irrigators including traders and financial investors are having on the allocation market is alarming. Recent analysis shows one ASX-listed company has purchased ever-more allocation water in direct competition with irrigators. In the year to 30 June 2019, this company purchased an estimated **140,000 ML** of allocation water, in addition to the volume allocated against the company's 73,666 ML of water entitlements.

To put this in context:

- In **Victoria**, the estimated Lower Murray Water districts total combined water use in 2017-18 was **104,000 ML**¹. Total annual irrigation use for the Mildura and Red Cliffs districts was approximately 94,000 ML in 2017-18²;
- In **New South Wales**, according to the ABS the total estimated water use in NSW Murray and Riverina districts for "Fruit trees, nuts or plantation berry fruits" in 2017-18 was **111,900 ML**³
- In **South Australia**, the estimated total irrigation applied to almonds in 2019 was **122,930 ML**⁴.

Source: MDBA and Victorian Water Register

Irrigators are **NOT** trying to impact any rights of Permanent Water entitlement holders (large or small) or their ability to sell allocations to irrigators to generate a return. It is also important that all irrigators stay in business to provide sustainable long term demand for water. It may well be very painful for investors in water entitlements after the drought breaks if the demand side for Temporary Water materially reduces. There is no doubt that non-irrigator investors and traders are purchasing Temporary allocation water because they think it will keep going up and be worth more in a few months or to carry it over to next year if they think prices will be higher at that time. They may be right, but this then means more and more buyers without a consumptive use or need are bidding against each other (and irrigators) pushing the value relative to irrigators returns and needs beyond reach.

It is such a serious issue for irrigators who have no choice but to buy water to keep their business going and is particularly devastating for family farmers who often don't have the financial resources or options available like corporates...many family farmers are already in a desperate and dire situation. The flow-on effect to rural communities who rely on irrigators cannot be overstated.

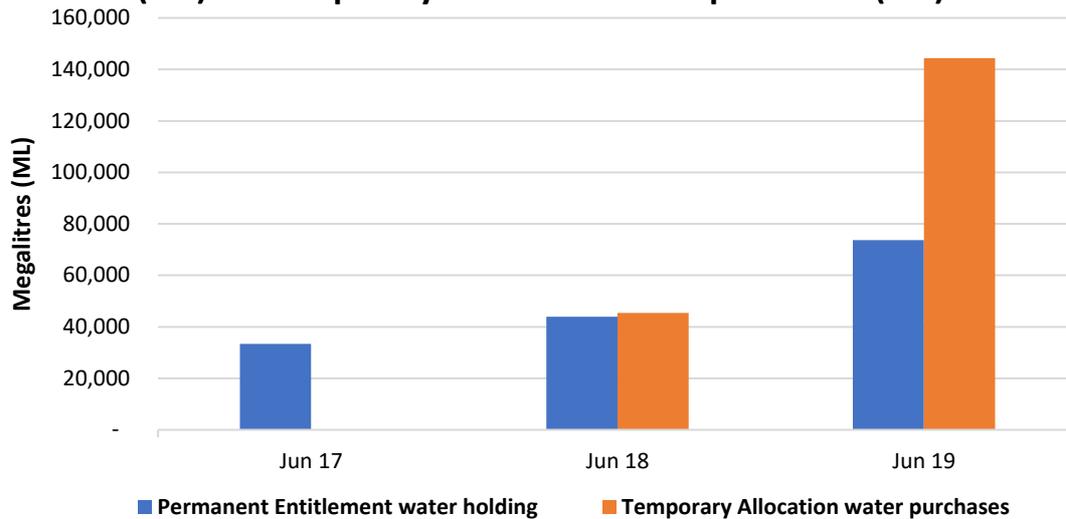
¹ https://waterregister.vic.gov.au/images/documents/Water-Market-Trends-Update-2018_web.pdf, p2.

² Lower Murray Water Annual Report 2017-18; https://www.lmw.vic.gov.au/wp-content/uploads/2018/09/LMW-2017_18-Annual-Report-Full.pdf

³ Australian Bureau of Statistics 46180DO001 201718 "Water use on Australian Farms 2017-18"

⁴ PIRSA, Pers Comm

One Investor's Permanent Entitlement water holding (ML) vs. Temporary Allocation water purchases (ML)

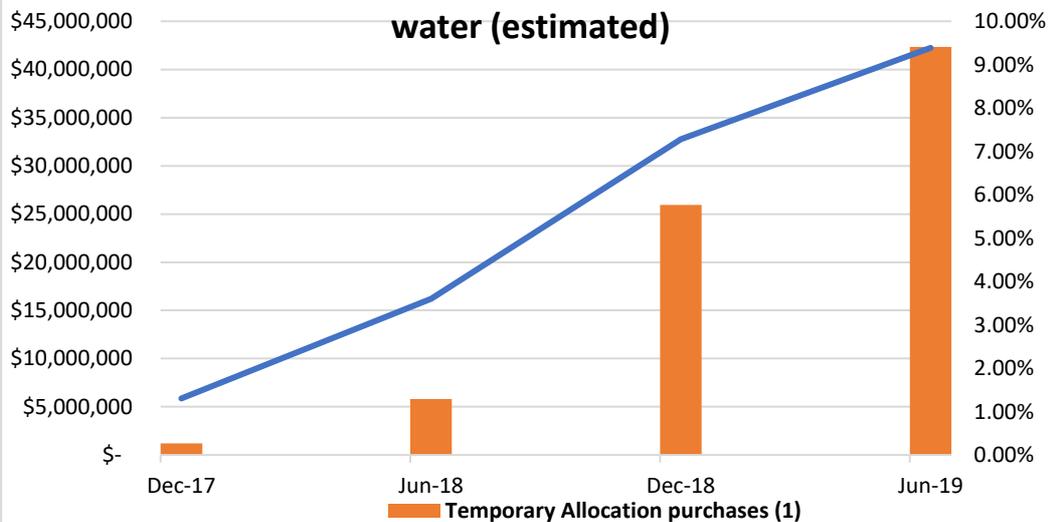


Source & assumptions:

Permanent Entitlements are the megalitres (ML) of permanent water entitlements held by the company as at the end of the period (source: Public company reports)

Temporary Allocation purchased during the 12 month period - Temporary Allocation \$ purchases (source: Public company reports) divided by the average or median Temporary Allocation price per ML for the relevant December or June month (Source: State Water Registers)

One Investor - purchases of Temporary Allocation water (estimated)



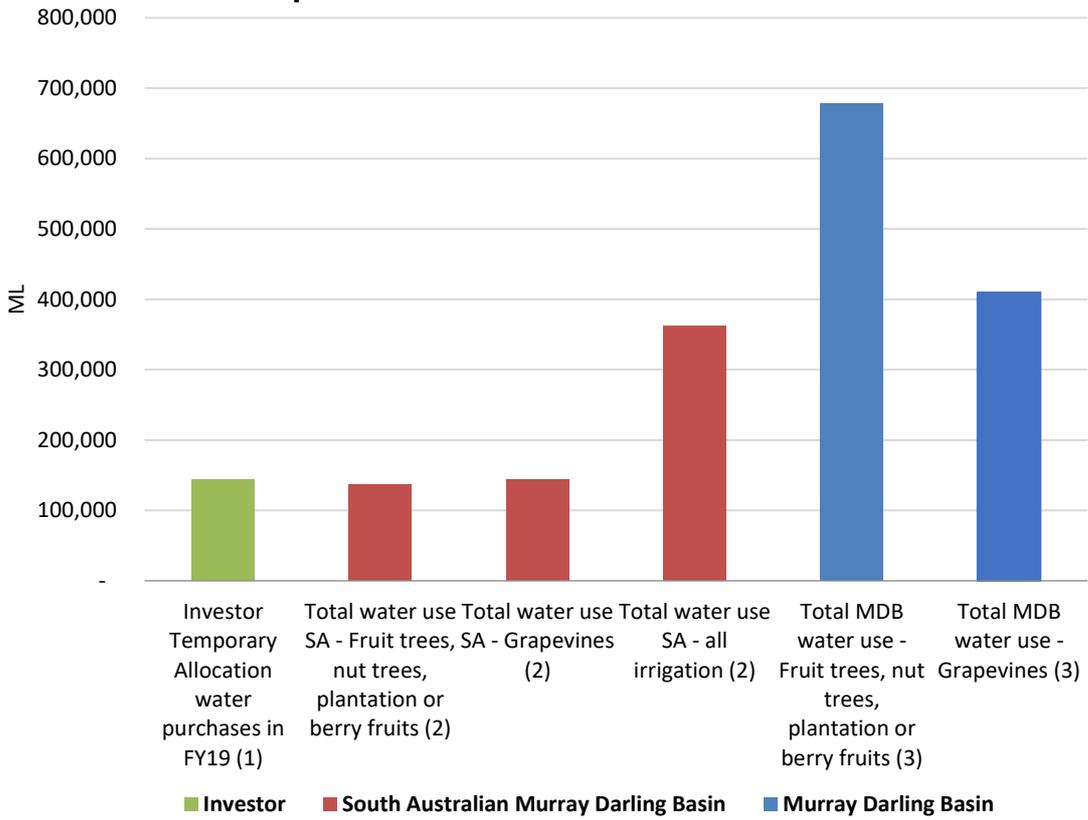
Sources & assumptions:

(1) Temporary Allocation purchases for the 6 month period (Source: Company financial reports)

(2) % share of Temporary Allocation trade is the estimated megalitres (ML) purchased by the company, divided by the total traded volume

- Estimated ML purchased is equal to the Temporary Allocation \$ purchases

One Investor - Temporary Allocation water purchases vs Comparative Water Use on Australian Farms

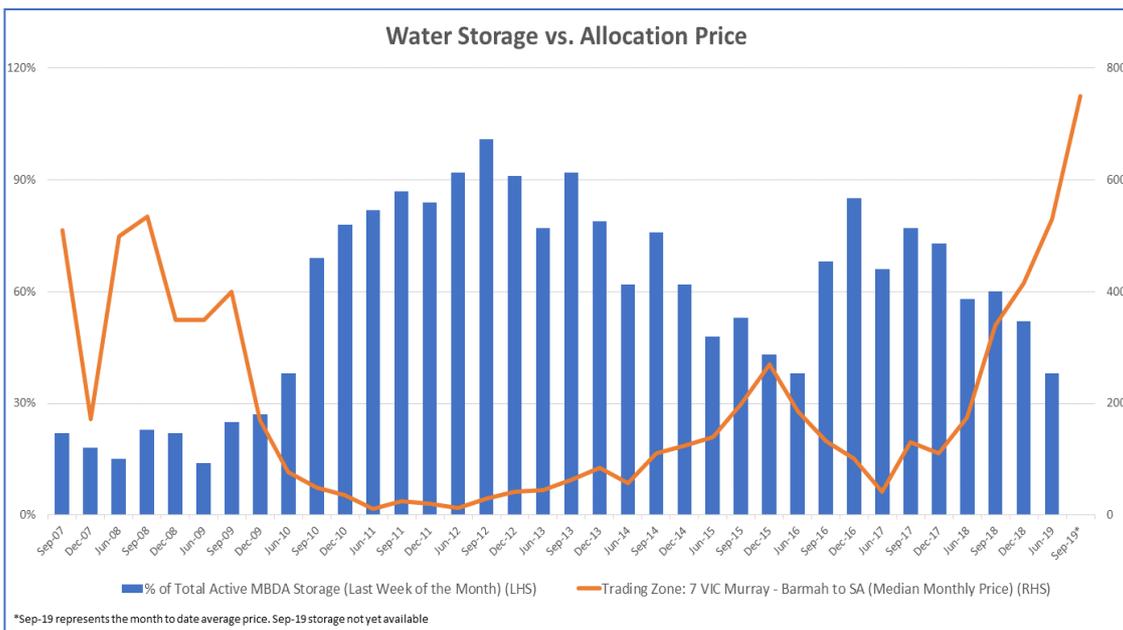


Source & assumptions:

(1) Investor Temporary Allocation water purchases in FY19 - Temporary Allocation \$ purchases (source: company reports) divided by the average or median Temporary Allocation price per ML (Source: State Water Registers) for months of December 2018 and June 2019.

(2) Total water use SA - (source: South Australian Murray Darling Basin; Australian Bureau of Statistics, Water use on Australian Farms–2017-18)

(3) Total MDB water use - (source: Murray Darling Basin; Australian Bureau of Statistics, Water use on Australian Farms–2017-18)



*Sep-19 represents the month to date average price. Sep-19 storage not yet available