Bonlac Supply Company

Farmers representing farmers

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Submission to the Inquiry into the Murray Darling Basin Plan

Submission to:

Select Committee on the Murray-Darling Basin Plan
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Context

The introduction of the Murray Darling Basin Plan, particularly reductions in Sustainable Diversion Limits (SDLs) has had a dramatic affect on dairy farmers and the dairy processing companies that they supply, notably in the southern part of the MD Basin.

This submission to the Senate Inquiry highlights some of the social and economic impacts of these SDL reductions and argues that the SDL Adjustment Mechanism can be used to reduce these negative impacts and yet maintain an equivalent set of environmental outcomes.

The Problem

The cost of production for many of the dairy farmers in the Basin has increased dramatically. This makes milk production less competitive in this region. It also reduces the ability of the region to attract further investment in dairy processing. This is particularly problematic given there are many other good reasons to invest in dairy farming and dairy processing in the Southern Basin, provided the water inputs are reasonably well managed.

We believe the deep social and economic impacts of the Plan are now only beginning to become evident as water scarcity increases in a drying period. Now is the first real dry period in the Southern Basin since the MDB Plan driven SDL reductions and current market forces have led to significantly increased water prices. In some cases the costs of irrigation water rights have risen by 300% in just 2 ½ years[1].

This level of price volatility is particularly distressing and many prudent risk managers have been caught in this rapid cost increases. SDL reductions may not be the only cause but clearly they have exacerbated the impacts.

The scale of these impacts is only now becoming truly evident. The majority of the Basin communities such as employees, processors and service businesses are unable to access MDBP funds for buybacks or on farm efficiency.

Whilst we support the environmental outcomes sought in the Plan we believe the current timetable and reliance on a largely "volume based" solution is difficult to justify in light of the increasing social and economic impacts of SDL reductions.

[1] Waterfind pricing reports at www.waterfind.com.au

Key points

The Sustainable Diversion Limit Adjustment Mechanism must be re-designed to also account for both the:

- catchment constraints that limit benefits of increased environmental flows, and
- greater consideration of the socio-economic effects of reducing irrigation water volumes and especially the adaptive capacity of basin communities to respond within the current timetable.

Water reform fatigue is now reducing confidence and investment in businesses, communities and individuals across the Basin. A period of consolidation is needed to allow reforms to properly "bed down" and for their impacts to be better understood.

Who we are

Bonlac Supply Company (BSC) is a farmer representative body representing the 1,200 dairy farmer suppliers to Fonterra Australia (throughout Victoria, SA, Tasmania and NSW).

Of these suppliers, over 250 are located in the Murray-Darling Basin region, supplying over 300 million litres of milk annually with a farm-gate value of A$165million.

The Bonlac Supply Company Board, six of whom are dairy farmers, provide active representation of all supplier interests at a local, industry and government level.

Our other key activities include development of the next generation of dairy industry leaders through the BSC Leadership program, oversight of the BSC Fonterra Supplier Forum which provides direct farmer feedback to the BSC Board and Fonterra Australia, and the development of other initiatives in conjunction with Fonterra to support farmers.

Fonterra collects and processes this milk at its Stanhope, Echuca and Wagga Wagga sites where it's made into household dairy brands such as Ski yoghurt, Bega and Perfect Italiano cheeses and Riverina Fresh milk. A portion of Fonterra's Australian dairy products from the Murray Darling Basin (primarily cheese and milk powders) are also exported.

Bonlac Supply Company and Fonterra are part of the Australian Dairy Industry Council and fully supportive of the ADIC submission to this Inquiry.

The value of dairy in the Murray Darling Basin [2]

Dairy is the largest irrigation-based livestock industry in the Murray Darling Basin. The Basin accounts for 28% of Australia's total milk production from 1,730 dairy farms, in which 98% are family owned.

The Basin dairy industry's 2014-15 farmgate milk value was A$1.3 billion, with regional processing worth $3.25 billion in value-added dairy products. More than 12,000 people in the Basin rely on dairy for their livelihoods, including farms, processors and local service industries.

Water availability and affordability are key issues. Reduced water availability is constraining the dairy industry's capacity to recover milk production to the pre drought levels in 2001, much less grown to meet growing export demand for high quality, safe dairy products, particularly in China.

Competitive advantages of dairy farming in the Murray Darling Basin

Bonlac Supply Company is a passionate believer in the natural benefits and competitive advantages for dairy farming in the Murray Darling Basin - with its many natural advantages (over other key dairy regions in Australia) and current irrigation infrastructure giving more control to farmers on the farming methods employed.

Irrigated dairy farmers in the Murray Darling Basin are better able to manage their milk curve (flatter production profile) when compared to other dairy regions in Australia as the warmer temperatures and access to water gives them a longer season.

Irrigation also enables dairy farmers to better manage the variability in the climate and pasture growth using irrigation as a buffer for dry periods and for being able to choose not to use irrigation in wet periods to prevent waterlogging and soil structure damage.

- If water is available and the timing of water availability is predictable, production can be better managed. Over time this allows milk volumes to adjust better to milk price signals.
- This flexibility helps to reduce many farming risks and gives the potential to better manage margins and lifts confidence for additional on farm investment.
- A more consistent crop and a better return on investment in fertilisers and inputs are achievable when you can manage water being applied as required.

The irrigation infrastructure is already in place in the Basin and is a sunk cost that should continue to be a provider of shared value. There is also a lot of dairy knowledge, with skilled service providers and labour in place in the Basin. If this skills and labour base continues to decline it will be irrational and difficult to rebuild it in any other region and so will be irreparably lost.

[2] ADIC submission to the Water Amendment Bill 2015 (Provisions)

Additionally, much of Australia's supplementary dairy feed is grown in the nearby areas (Mallee / Riverina areas) and hence cartage costs are generally lower as supplementary feed can be sourced locally.

All of these benefits of farming in the MDB region are based on accessibility to water, at a reasonable price, when required and when profitable to do so.

Impacts of the MDB Plan on our farmers

Bonlac acknowledges the need to return water to the environment and, in general, BSC support a well-managed reduction in SDLs. However BSC do believe the responsibility for the over allocations largely rests with successive Governments of all jurisdictions, yet the impacts are unfairly distributed upon today's irrigation businesses and communities.

As highlighted in the ADIC submission, water availability and affordability are our key issues. More than 1160GL (long term average) has been transferred from the pool allocated for irrigation across to the environment so far under the Basin Plan, through buybacks and on-farm upgrades.

More than 950GL of this water has been sourced in the southern connected Basin, where it represents about 13% of the annual average water availability. It includes about 20% of Victoria and South Australia's high reliability entitlements, which underpin those States' high-value dairy industries.

Our primary concern is that the rate and extent of the changes in water allocations are in excess of the adaptive capacity of the businesses, communities and individuals who are directly, and indirectly, affected by these changes. There is likely to be some lag effects from earlier changes that is yet to be fully realised and this should preclude further change until these lag effects become evident.

BSC are also actively supportive of improving the efficiency of irrigated agriculture. As responsible stewards of water we aim to increase the economic and social returns from every litre used on farms.

Responsible use of environmental water by Governments is needed and any further water identified for achieving SDL reductions should not be done by buybacks or compulsory acquisitions. BSC is further concerned that the impacts of water sales to Government following farm efficiency programs are essentially the same impact as buybacks.

Ideally water recovery should be done by innovative works and measures to maximise environmental benefits per litre used and improving infrastructure management.

BSC also contend that water reform fatigue has reduced the adaptive capacity of our suppliers and the communities that they live and work in. Any additional water removals should be put on hold until other parts of the reform agenda are in place and working properly. These include:

- Finalisation of designs for channel rationalisation and automation in the Goulburn Murray Irrigation District of Victoria (GMID).
- A transparent water registry to give irrigators protection from speculators, brokers and other “ticket clippers”.
- Increased availability and predictability of any surplus environmental water managed by CEWH.
- A better understanding of the actual social and economic impacts of SDL reductions.
- Increased understanding of the ”adaptive capacity” of Basin communities, businesses and individuals.
- Increased confidence that the proposed SDL reductions has a worthwhile environmental benefit and is not diminished by physical or anthropogenic constraints in the Basin.

Confidence on farm is needed to maintain and lift milk production. This confidence on farms is essential to underpinning milk volume that may be needed as Fonterra decides on the rebuild plan of its Stanhope cheese plant following the recent fire.

Water reform fatigue and uncertainty have been compounded by the concurrence of the MDBP and the GMW Connections project.

BSC have countless examples of the delays in finalising the GMW Connections project and increasing water costs as drivers of inaction on farms. Investments in pastures, cows, skills development, training and succession planning are on hold whilst uncertainty continues driven by water reform.

Over 67% of Bonlac farmers in Northern Victoria now rely on temporary water for either some or all of their water consumption. The steep price increases driven mostly by lower water supply are a genuine catalyst for accelerating farm exits at worst and a serious hit to business profits at best.

This season may be the first really dry year in GMID following the recent buybacks in the system and the level of exposure is only now really becoming evident.

Specialist farm service industries are affected and perhaps more so than irrigators. At least irrigators who have sold up in a buyback have used this money to retire from farming or to pay down debts, however service providers such as vets (refer Case Study 1), stockfeed suppliers, contractors and retailers have no access to these funds and yet the impacts of reduced farmgate returns are directly felt.

The key issue for our farmers has always been water security, including access to temporary water and confidence in the current and future operations and decisions of GMW.

Water security is always a concern for our farmers, and whilst the water available for irrigation varies in line with seasonal conditions and inflows, overall the water available to our irrigators is significantly less due to the proportion allocated to the environment (Fig 5). The uncertainty around the size of this shrinking pool of available water and increased competition driving up prices for temporary water (Fig 2) has created significant additional risk for the majority of our farmers.

Our key submission points centre on the simple premise that as the water that has been taken out of the system (via the CEWH buybacks) this has permanently increased the dependency on everything else working well – the connections program, infrastructure, water trading and overall farm profitability.

Our overall conclusion from this submission is that the following key issues all need to be addressed and improved or remedied before any further reductions in available irrigation water is to be considered.

Community Impacts

Bonlac held a number of discussion group sessions with our dairy farmers during September 2015 on the impacts of the Murray-Darling Basin Plan.

The key areas of impact were:

The increasing levels of under-utilised land (ie major sections of land where irrigation has ceased and the area represents a 'wasteland', with high levels of weeds and vermin evident). Our farmers spoke of previously irrigated land that was purchased, the water rights sold, and now the land is idle and unproductive. Many farmers felt pressure (especially from financiers) to sell their water rights in the first buy-backs. These buybacks have contributed to the underutilisation of land as the temporary water prices increased.

There has also been a continual overall reduction in the numbers individual dairy farms and direct dairy related employment, with the consolidation of smaller farms (in particular after drought periods) in order to achieve the required scale to continue to operate.

This consolidation has meant dairy families have left the farm (and in many cases have also completely left the dairy industry) as well as many families leaving the region.

Continued hardships from high temporary water prices and the associated additional uncertainties this adds to a farming business is placing increasing pressure on all smaller scale dairy farming operations.

This reduction in dairy farms and jobs has also impacted the wider community. The impacts of SDL reductions are felt much more broadly than by just irrigators. The processing and service industries that relay on irrigated dairy have no real access to the "buyback" funds that exiting irrigators may access. The following case study details these impacts.

Case Study 1: Border Vet Clinics[3]

BSC spoke with Jason Wright, the owner of Border Vets, a privately owned veterinary practice of 18 staff, in four locations in north central Victoria, for his thoughts on the dairy industry. Jason was clear that his practice has had to diversify as the demands for his specialist services for dairy have reduced over the time he has owned the business.

Jason explained how the number of dairy cows he has under care has fallen from approximately 80,000 eight years ago to 50,000 today. He is also currently seeing existing customers moving cows outside of the district as they wait for conditions to improve – knowing that if conditions do not improve in the next 12 months that those cows will never return.

At the business level, the reduction in the number of cows in the region has led to a clear reduction in the overall skill sets and service levels Jason's practice is now able to provide to dairy. New vets joining the practice (which are increasingly hard to attract) are far more likely to be mixed practitioners, and not cattle specialists, which in turn leads to a "dumbing down" of the dairy specialist skills and services he is able to offer to remaining dairy farmers.

The reduced demand for specialist diary has had a big impact on Border Vets, in terms of both skills and services offered, and financially. If the reduced demand for dairy services continues, then clearly business decisions would need to be made, initially with a viability review of the clinics that Border Vets have in the smaller towns. Any closure or amalgamation of these local offices leads to more losses of both direct and indirect employment and also convenience to local farmers and families.

Works and measures funding has helped encourage one farm back into dairy - combined with significant current concerns on temporary water prices.

Case Study 2: Reghenzani Family [4]

The Reghenzani Family in the Numurkah District have supplied BSC/Fonterra for more the 30 years before they ceased dairying in 2010.

The GMW modernisation program commenced on their farm three years ago. As part of the program the farm relinquished 100 ML of high reliability water, leaving 110 ML.

Largely in response to the GMW Modernisation program and the capital funding it made available, Braden Reghenzani started up the farm again as a dairy operation in March 2015, and is now milking 140 cows (with plans to peak at 150).

[3] Interview with Jason Wright, owner of Border Vets, September 2015

[4] Fonterra area manager meeting with the Braden Reghenzani – September 2015

The farm is 90 hectares with 70 useable hectares, and has been laser levelled. The shed is an eight aside double up with a 4,500 litre vat. Braden will need to purchase temporary water this summer, with volumes dependent on both seasonal conditions and water pricing. Braden, like many of his fellow dairy farmers, is concerned about the potential of having to buy temporary water at the current high prices.

Braden says that the modernisation included the installation of pipes and risers on about half the property with Padman Stops on the remainder.

The modernisation benefits are quicker more efficient watering and reduced water losses, with the offsetting consequence now being increased uncertainty due to an increased reliance on high cost temporary water.

Farm Efficiency is improving – Successful modernisation 2014

Case Study 3: Gary and Anne Budge [5]

Gary and Anne Budge have an irrigated dairy farm at Nanneela. As part of a combined GMW Modernisation and a farmer funded buy-back and efficiency project, the Budge's decommissioned a channel and four dethridge wheels and replaced them with a pipe from the main channel. Water leakage / evaporation from the de-commissioned channel was eliminated and new outlets were installed with manual wind down paddles.

This improvement provided them both the cash and the incentive to laser level a block that was otherwise under-utilised.

This in turn gave them an area of land that then gave them enough production to commit to, and invest in, setting themselves up for maize production and ensiling. That then gave them the cropping production, both in terms of dry matter and timing, to become self-sufficient in feed. They now run a very effective cut and carry operation in conjunction with grazing and feeding silage.

Thus the story is a win-win for both GMW and Gary and Anne Budge, with the benefit to the Budge's of giving them the ability to leverage the financial investment and to complete their long term feeding strategy. Production is overall approximately is now 2 tonnes dry matter per Ml applied

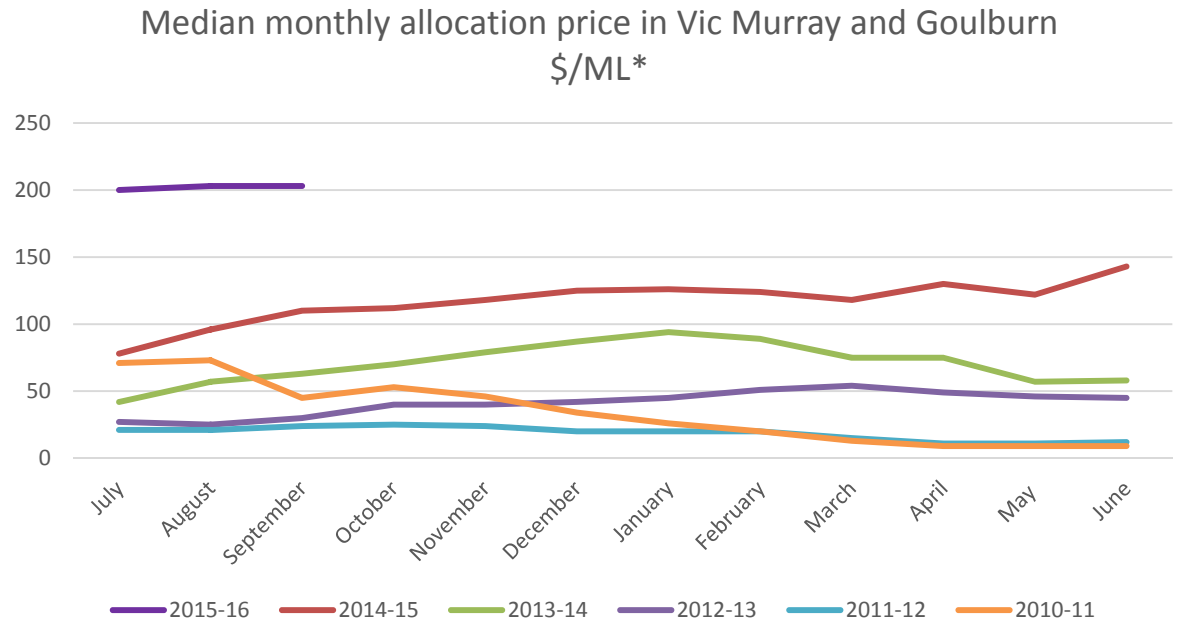
There are clear environmental and farm profitability benefits from improving efficiency on farm and with infrastructure but these benefits can be diminished if the exposure to temporary water price becomes too large.

[5] The Budge family are Fonterra suppliers. Interview for case study completed in September 2015

Impacts of water market volatility

The current high price (> $200ML) for temporary water is not sustainable for our average dairy farmer.

Figure 2: Temporary water prices over time[6]



Dairy farming systems are changing. There has been a high dairy participation in State and Federal on-farm water-saving infrastructure programs, to increase productivity, with the trade-off being reduced permanent water holdings on farm.

Our Suppliers are telling us that they are reaching limits of adaptation now – with water scarcity and affordability constraining the recovery of milk production to pre-drought levels.

A large portion of our farmers felt compelled to divest some or all of their permanent water holding to manage their debt levels during the last drought. This means that dairy farmers are now more exposed to the temporary water market.

Also, as we see farmers leave the industry and sell their water rights separately from the land, most properties are now sold without water, so new entrants or farmers looking to expand are then reliant on temporary market to irrigate the properties.

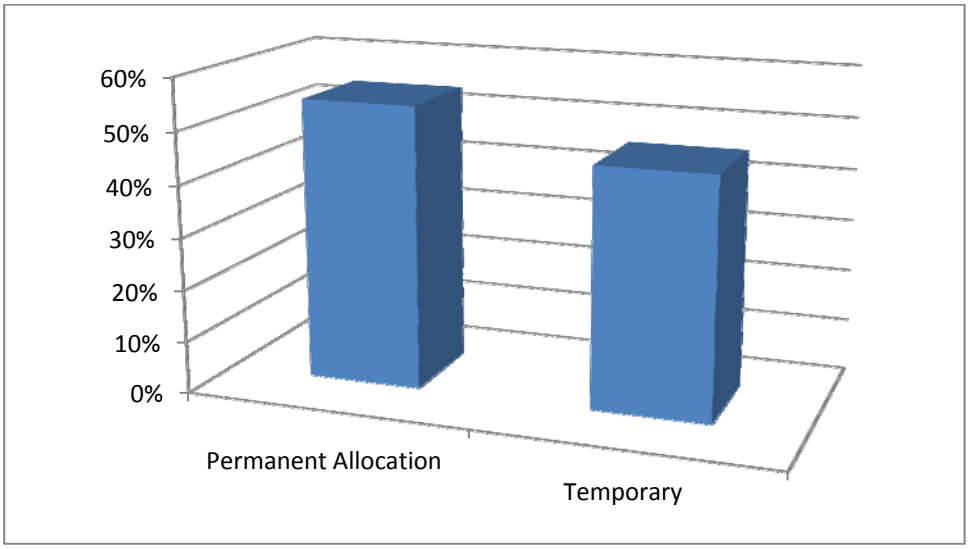
With more farmers competing for less water in the productive pool and on the market, due to volumes held by environment (refer Fig 5), in high carryover and public reserves as drought insurance. We are seeing more and more suppliers relying on the temporary market to meet

[6] DA reports – median monthly price $/ML in Victoria (source Victorian Water register)

needs, having sold some or all permanent entitlements - meaning that there is not enough water on market to meet demand, thus increasing prices.

67% [7] of our dairy farmers must now source some or all of their water from this increasingly competitive temporary market, in competition with their fellow dairy farmers and new market entrants for this increasingly scarce resource. A total of 46% [8] of BSC milk production in the Basin is dependent sourced on the temporary market. .

Figure 3 - Proportion of milk production by surface water source [9]



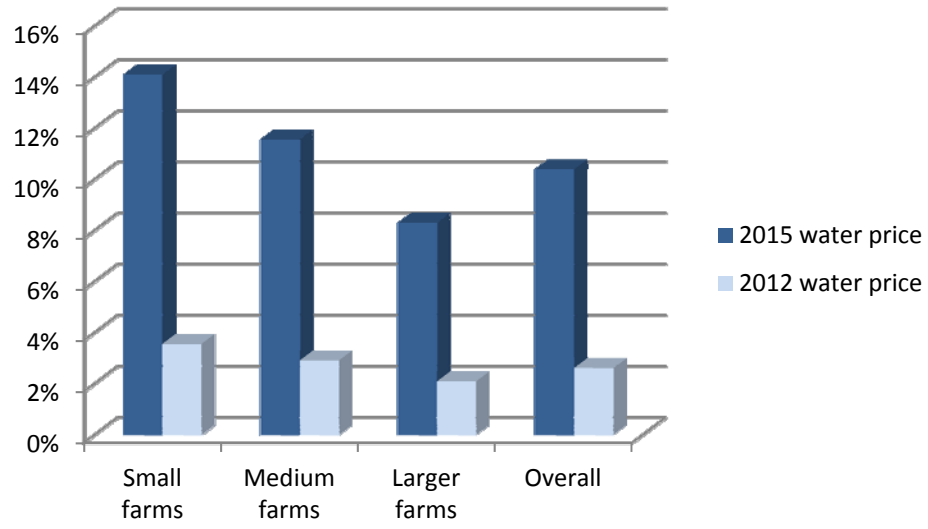
Many farmers are now suffering financial hardship as a result of having to regularly buy temporary water market at unprecedented costs. Dairy farmers are essentially price takers in both domestic and export markets and cannot pass on increases in water and other related costs associated with adapting to a future with less water.

It is our opinion that whist the water trading model was an inevitable part of the water reforms, we do not believe that the full extent of the average dairy farmer's exposure to the temporary water market is fully appreciated.

Our survey results show that on average, with a A$5.60 peg kg of milk solids farm gate milk price (current price as at October 2015) and a $200 ML temporary water price, our farmers will on average be paying 10% of their milk revenues out as temporary water costs. This increases to 13% for our smaller farms. Such a high water input cost burden will not be sustainable for many of our suppliers, exacerbated by the fact that they have no control over the price they receive for their milk.

[7] September 2015 Fonterra survey of 111 (45% of suppliers) of Murray Darling Basin dairy farmers into their average annual water sources.
[8] ibid
[9] ibid

Figure 4 –Changes in percentage of farm income paid out in temporary water costs.[10]



Case Study 4: Jarrod O'Sullivan [11]

Jarrod and Melissa purchased their farm (just north of Mooroopna) in August 2010. Jarrod had been exposed to the dairy industry whilst working as an engineer in the dairy regions in Tasmania and could see the potential opportunity to make a good return. They spent three months looking at farm options before purchasing.

Having worked in irrigation engineering on dairy farms helped Jarrod build his confidence that he could run an irrigation dairy farm

He believes the biggest risk is a combination of feed price increase and a high water price - if grain, fodder and water prices are all high then it's much harder to make a profit in Northern Victoria and it is harder to expand when water prices are high as pasture is the cheapest feed.

Jarrod has done the numbers and determined that there is not enough margin for his business to grow their own grain. He knows there is a margin in producing his own high quality fodder because often the transport costs are so high it is not worth buying in. He would eventually like to lease or buy land within 20km to grow his own high quality protein fodder.

Even with increased export hay prices for quality oaten hay last year, Jarrod could still get good quality oaten hay for $200 p/t. He can't see the value in growing maize because by the time you grow, cut and feed out of a mixer wagon you are looking at $220 p/t – and usually any pasture crops grown after a maize crop do not seem to perform as well - so the final cost ends up being higher.

[10] September 2015 Fonterra has survey of 111 of their Murray Darling Basin farmers on average annual water sources. Assumes constant production and milk prices over the comparison period .

[11] Jarrod O'Sullivan is a Fonterra supplier. Interview for case study completed in late September 2015.

Jarrod is concerned that if water prices stay high, the opportunity for growth diminishes significantly. He believes the water infrastructure costs needs to be put back on all water holders not just irrigators. Currently water owners who don't also irrigate have no obligation to sell and because they don't pay any delivery cost it doesn't push them to sell, so they hold on to it to sell to the highest bidder.

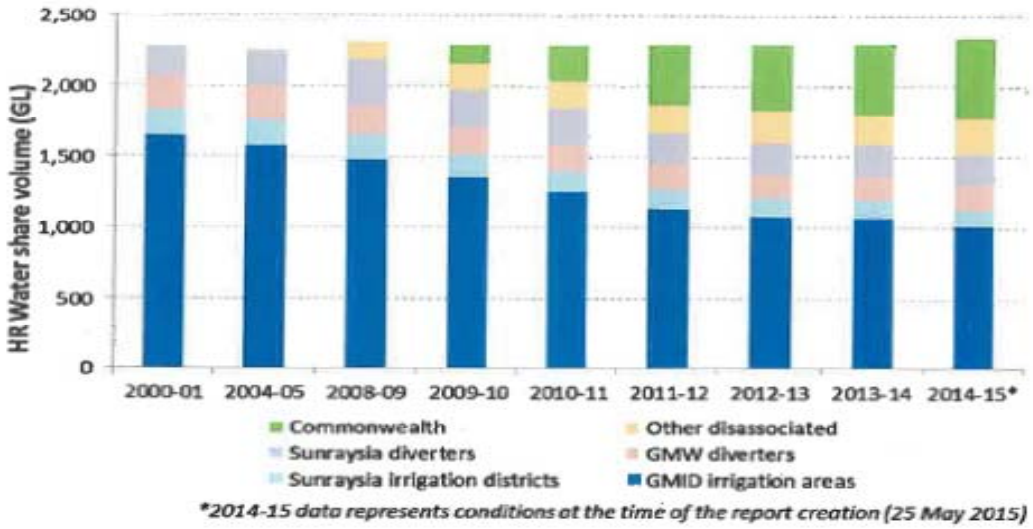
Jarrod's fixed costs for water is $30,000 before he even purchases and applies 1 ML of water on the farm - which makes it a $200 per hectare cost. Depending on what the grain and other commodity prices are doing he won't go above $150 per ML water. At the moment he requires 500ML of temporary water every year. Some very hard decisions will need to be made if temporary water stays at current levels.

Table below is from the ADIC submission to the Water Amendment bill 2015 to support our commentary.

Figure 5:

High reliability water shares in Northern Victoria (2000/01 to present)

The graph below shows how the volume of high-reliability water shares in northern Victoria are divided between customers in the irrigation districts, private diverters and those who have disassociated their water shares from land[1].



**2014-15 data represents conditions at the time of the report creation (25 May 2015)*

Temporary water prices are rising year on year (Figure 2), making it difficult to control costs and plan production with any certainty.

At the same time, the volume of entitlements held in shared irrigation districts has declined dramatically, mostly due to water recovery for the Basin Plan in recent years (Figure 5). The less water delivered in these collective systems, the less revenue to cover fixed maintenance and operating costs, and the greater the upward pressure on water charges on irrigators.

In short, a significant adverse impact of adjustment is already being felt across the dairy industry, even if no more water is transferred from the consumptive pool across to the environment.

Changes to the utilisation of environmental water

BSC fully support the overall endeavours of the CEWH, however we also believe that the water held by the CEWH, in particular in times of high need - especially where there is carry over or excess volumes, that a portion of CEWH volumes should be made available to irrigators in dry times when environmental flows are generally not optimal.

Our current view is that a portion of the CEWH carryover could be released onto the temporary water market in times of high cost/demand to ease price pressures caused by SDL reductions. CEWH should also be able to sell water with the explicit intent to affect the market price and use this revenue for works and measures and not just for more buybacks.

We also believe that this water should be only made available to those with delivery shares for use in the current season, and hence it should look to ease a high cost in the temporary water market.

We acknowledge that the current CEWH policy, should it enter the temporary water market as a seller, is to not have an influence on the market determined price. We would like to challenge the CEWH to investigate a pricing model where, in times of high need, such as the current high temporary water prices , that the CEWH could enter the market in a way to have either a stabilising or a downward impact on the temporary water prices.

BSC then acknowledge that the Water Act s106(2) requires this revenue to go towards buybacks, however we believe this income would be better utilised if put into infrastructure and works and measures and related ongoing efficiency projects, requiring a change to the Water Act.

Other proposed changes to MDB Plan

BSC is also fully supportive of the recommendations of the Australian Dairy Industry Council and these are reiterated below.

Realistic timelines, transition and structural adjustment

1. Pause further water recovery to meet Basin Plan targets for three years, to allow time for the socio-economic and environmental effects of the water recovery and structural adjustment measures so far to become clear and be properly assessed for an informed review of the SDL. This will require additional funding for robust monitoring of outcomes and achievements.
2. Amend timelines in the Basin Plan consistent with the above recommendation. For example, the Sustainable Diversion adjustment would be done in 2019, not 2016, and Sustainable Diversion Limits would come into effect in 2022, not 2019.
3. Implement a community consultation program involving small teams of social, environmental and economic specialists embedded in Basin communities for extended periods to create bottom-up, local structural adjustment programs reflecting that community's particular circumstances.

4. Design farm upgrades programs in consultation with the States and industry bodies to ensure they are economically viable for farmers, and will achieve the regional structural adjustment required to sustain irrigated production in a water-scarce future. Ensure adequate funding for timely completion of key programs such as the Connections Program.

The Water for the Environment Special Account – 450GL of 'upwater'

5. Amend the Water for the Environment Special Account Act 2013 and the Basin Plan 2012 by inserting the words 'up to' in front of all references to 450GL in 'upwater'
6. Amend subparagraph 7.17 in the Basin Plan to broaden the socio-economic neutrality test for 'upwater' projects to include collective impacts on irrigation districts, community and water affordability and availability on the market.
7. Amend the Water for the Environment Special Account Act 2013 and the Basin Plan to ensure that the 2750GL target is achieved first before any 'upwater' under the Water for the Environment Special Account Act 2013 is counted toward a 3200GL target.
8. Amend the Water for the Environment Special Account Act 2013 to allow funding to also be directed to projects optimising environmental outcomes, for example through environmental works like fish ladders, CEWH activities, and feral fish, animal and weed control, and other catchment management activities.
9. Amend 85D(4) in the Water Act 2007 to ensure that the 1500GL cap on buybacks includes the 450GL in 'upwater' in the Water for the Environment Special Account Act 2013.
10. Determine the full costs and socio-economic effects of relaxing or removing operational and physical constraints to deliver an additional 450GL 'upwater', *before* any 'upwater' is recovered.

Greater flexibility to trade environmental water

11. Amend Section 106(2) in the Water Act 2007 to enable proceeds from environmental water trading to be reinvested in works and activities to improve environmental outcomes, and to cover the CEWH's storage and other costs. The environment should pay its way, when it has the means through trade to do so.
12. Amend Section 106(2) in the Water Act 2007 to enable environmental water trading when the water is not needed for environmental purposes, regardless of whether it can be carried over to the next season.

The Sustainable Diversion Limit Adjustment Mechanism

13. Design the Sustainable Diversion Limit Adjustment Mechanism to also account for constraints and the socio-economic effects of reducing the volume of water available for irrigated production.

Other concerns - the water trading issues

Water users bearing the bulk of the water costs (when compared to pure water holders)

BSC is concerned over the high fee structure for irrigators, and would like to see water holders pay a greater share than they do at present – ie BSC would like to see steps undertaken to reassess the cost sharing mechanism.

One key area of focus is that pure water investors (up to 15% of GMID Volumes) and other non irrigators (including the CEWH) can own water but are not required to own delivery shares. Our view is that too much of the overall allocation of the cost base is directed towards water users, when it is ultimately the water users that the pricing construct should look to protect (ahead of simple water owners).

Water market transparency and water being held by non water users

BSC believe that the water trading rules are currently not working well – with temporary water increasing from A$40 to A$207 in several years. The water scarcity created by the buybacks and water ownership by pure water holders, combined with increased demand from new 'high yield' industries and desperate small farmers as highlighted in Figure 5 above.

Having a price on water is appropriate, but not where it exposes the users to such price uncertainty. All current factors are pointing towards increased water scarcity, and increased prices / price volatility, whereas farmers need more certainty if they are to invest in their business for the future.

BSC believe that there should be no additional water to be taken out of the system until the trading rules in place now are fixed as BSC believe that the mechanism for trading water is not working properly, and is not constructed properly to deal with increasing water scarcity.

BSC, ML