STOCK & LAND

Water leasing helps irrigators and investors

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The principals of a Bendigo based agribusiness company believe by leasing irrigation water, they are attempting to build a capital management product.

WATER LEASING: Cullen Gunn Kilter Rural chief executive said the company leased about 90 per cent of its water entitlements, for between three to five years.

Kilter Rural chief executive Cullen Gunn said the company leased about 90 per cent of its entitlements, for between three to five years, to irrigators across a diverse geographical region and agricultural sectors.

“This is not about trading allocation, it’s about building risk and capital management product for irrigators,” Mr Gunn said.

“It’s not just flicking water out into the market.” He said leasing had a major role to play, in the Murray-Darling basin, especially in the light of climate change.

“To our mind, its happening, and its happening a lot more rapidly than people expect,” Mr Gunn said. “We are absolutely confident the Murray-Darling basin is almost as good as any other system in the world, for water security.

“How you manage water, that’s a challenge, but we are coming up with all sorts of ways to manage that.”

Kilter Rural water general manager Euan Friday said lease products were one such way of meeting demand.

Kilter Rural managed more than $214 million of water, farmland and ecosystem assets, mainly in the area south of Swan Hill. He said the organisation was set up to “generate returns for investors, by providing solutions for irrigators.

“We just thought the market would evolve, in terms of irrigators looking for alternative ways to access their water requirements.

“By being innovative in coming up with products, we could generate returns for our investors.”

Dairy farmers were the biggest users of leased water, and Kilter had 250 clients in three states, with about 70 who were active.

“They are prepared to pay a price to lock in their water volume, and we take on the risk of delivering it,” Mr Friday said.

“That allows them to budget pretty precisely - they are not exposed to the ups and downs of the allocation market.

“It’s a different model to our competitors, which has pretty much been a buy and trade; we trade, very, very little allocation.”

Mr Friday said the closest comparison was to a commercial property lease, which might have consumer price index increases.

“It’s driven by the market; we can’t force people to pay a lease rate.”

Investment in irrigated agriculture meant budgeting on a higher cost of water.

“The underlying forces, which make water investment a good thing, are going to affect all of the water users,” Mr Friday said.

“Those forces are increased scarcity, ongoing implementation of the Basin Plan, climate change and ongoing demand from higher value water use

“At the moment there is roughly 200 gigalitres (GL) upcoming demand from plantings of perennial horticulture, which is not even being absorbed, as these plantations come to maturity.

“That’s the ones we know about, and there is plenty more to come, that’s a $600 million entitlement at the moment.”

Their comments were echoed by Waterpool chief executive Peter Lawford, who said security was the most important reason for leasing water.

“It enables planning, particularly around higher value crops, but the dairy industry has also embraced leasing, as well.”

“A lease, at $150 a megalitre (ML), is better than the long term average of water, but sometimes it’s more about the security, than the price.”

Waterpool had lease volumes of about 16,000ML.

Leases were based on a limited terms transfer, with the lessee owning the entitlement for the period of the contract.

“The payments predicate the delivery of the water, it gives them the same access as if they owned the water,” Mr Lawford said.

Some farmers had reverted to selling their own permanent entitlements, and leasing water, to free up working capital.

Leading northern dairy farmers Tom Acocks, Rochester, and Tim Humphris said leasing had a role, although neither was currently acquiring irrigation water that way.

Mr Acocks said he generally traded water, buying it when needed.

“A lot of horticultural guys use it, they know what the cost will be,” Mr Acocks said.

“I would rather buy the allocation, so I know I get the megalitres I want.

“If it was low enough, and the price was guaranteed for the life of the lease, you would probably look at it; it comes down to what sort of risk you want.

“It’s got a place, it’s just based on the price.”

Mr Humphris, Tongala, said the current least price was too high.

“If it is priced at $100 to $125 it is worth considering,” Mr Humphris said.

“Our business is not sustainable if we lock in water at $190, when it still has a risk of not getting 100% allocation.”