



Murray-Darling Basin water markets inquiry public forum – Dubbo

18 November 2019

This document is not a verbatim record of the forum but a summary of the issues raised by forum attendees.

The views and opinions expressed are those of the attendees and do not reflect the ACCC's views or position on the issues summarised.

Monday 18 November 2019, 10 am to 12 pm
Returned Services League Club,
Crn Brisbane and Wingewarra St, Dubbo, NSW

Attendees

Australian Competition and Consumer Commission

Mick Keogh, Deputy Chair

Bruce Mikkelsen, Executive Director

Other ACCC staff.

Interested parties

Approximately 40 interested parties attended the forum

Opening of forum

Deputy Chair Mick Keogh opened the forum by welcoming the attendees.

He noted that the ACCC's Murray-Darling Basin water markets inquiry has two key information gathering components: firstly, the public forums, and secondly, the obtaining of information and documents from market participants through the ACCC's information gathering powers. He outlined the ACCC focus in conducting its public forums is on assessing the water market and not the Basin Plan and other social and economic effects of water reform.

Deputy Chair Keogh informed attendees that the ACCC would take notes of the matters discussed and publish a summary on its website, but that this summary would not identify or attribute comments to individuals.

Summary of issues

Attendees discussed the following issues during the forum:

Issue 1 – Trends in water markets and prices

Stakeholders shared a range of views about changes and trends in water markets. These included:

- The current drought is the worst on record for the catchment. This makes it hard to tease apart different causes and effects because everyone is having to adapt to a level of scarcity never before encountered
- Concerns about the ‘drought of record’ used by the government for water planning purposes
- Some water users had used the Commonwealth water recovery programs to sort out their balance sheets following the drought and banks and consultants had encouraged some entitlement holders to sell their entitlements and rely on the temporary market instead.

Issue 2 – Water market transparency

Stakeholders shared views about transparency in the market, including:

- There is a reasonably good degree of transparency on market information in the region and they did not suffer from a number of issues that people have been concerned about in the south
- Information about trades is fairly well known and understood via WaterNSW who report on transfers and sale and who has data going back a number of years
- More could be done to make price reporting more timely and reflective of the market. However, even small operators can get reliable information about the market, either via the WaterNSW website, from brokers, or through word-of-mouth
- The water user community is relatively small in the Macquarie catchment and as such most people know who they are trading with. Stakeholders explained that several water brokers operate in this region so there are multiple avenues for people to discover water available for sale
- There are not a lot of large corporate enterprises dealing in water in the region.

Issue 3 – Regulation and institutional settings

A range of views were expressed in relation to market regulation and institutional settings, including:

- Widespread concern about sovereign risk
- Concern over a recent decision by WaterNSW to suspend access to 30% of carryover this season. Many stakeholders had concerns with the way this decision was made, especially in the context of the ability of water users to make confident business decisions. It was noted that irrigators in the region make forward commitments for their crops and secure their water ahead of time to meet those commitments. It was expressed that most people in the region take a conservative

approach and reduced their planting area rather than chase the market upwards. This year, many were relying on carryover to meet those commitments (before WaterNSW announced the 30% reduction to carryover)

- While there is an element of risk for any water product, ultimately water users are buying the assumption that the rules will stay the same. Some stakeholders expressed that there needed to be a guarantee that when an allocation is bought, the rules will not change between when buying the water and using it. For example, it was stated those who bought allocations this season before the water sharing plan was suspended have been unfairly treated
- A caution that policy and regulatory interventions should be carefully considered, especially given that the current market is 'robust'. Stakeholders generally did not want to see the ACCC coming up with blanket solutions that apply to the whole Basin, but which are largely proposed to solve issues in the southern connected system
- Stakeholders commented that in the south there was a tendency to demonise carryover, but in this catchment everyone understands and relies on carryover. Stakeholders were concerned that any changes to carryover rules could disrupt people's business models
- Concerns about processing times, with stakeholders noting that the problem was largely understaffing. It was expressed that temporary trades are taking too long, especially given most of these trades are routine and should not require additional assessment (for third party impacts). It was generally the view of attendees that more could be done to streamline application processes.

Issue 4 – Water market participant behaviour

Stakeholders shared a range of views and concerns about water market participant behaviour, in particular:

- Water brokers operating in the area are well known and reputation is an important part of building a successful business and brokers would not be in business long if they started acting unethically. It was noted that most information is shared via word-of-mouth and word would quickly get around if deals were done to advantage particular clients
- Some stakeholders stated that they were not concerned about non-water users holding water licences in the Macquarie
- There are not a lot of large corporate enterprises operating in the region
- Retired farmers constituted the majority of water licence holders who do not use water
- Other non-landholder participants may be gradually accumulating enough water to get an operation up and going
- Water allocations eventually have to come back to the water market or investors don't make any money
- There is a cost to carrying over water, both in terms of evaporation losses and in bearing the risk of spills (where carryover is lost first if the dam spills) so speculators carry a lot of risk
- There are few opportunities for using the system rules for arbitrage because the Macquarie is a closed system, so water users can't profit from more advantageous rules in other systems.

Issue 5 – Water market competition and objectives

Stakeholders expressed their views about competition and market outcomes as follows:

- The water market in the catchment worked well and was a useful tool to manage year-to-year water needs and manage risk
- There are issues about the behaviour of industrial water users like mining in the region, noting that because mining is such a high value product, they are prepared to pay whatever price to secure water for projects. The concern was focused on the ability of these players to outbid other water users rather than alleging misconduct or anticompetitive behaviour
- A number of stakeholders raised concerns about environmental water purchases reducing the pool of water available for temporary trade and the effect this has had on price
- Stakeholders suggested that the Commonwealth had exceeded its water recovery obligation in the Macquarie and that when it comes time to correct this excess it should be done using the market to return the water to the consumptive pool.