



Murray-Darling Basin water markets inquiry public forum – Kerang

12 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.

Tuesday 12 November 2019, 6:00 pm to 8.45 pm
Kerang Senior Citizens Meeting Room
190 Deakin Avenue, Kerang, VIC

Attendees

Australian Competition and Consumer Commission

Mick Keogh, Deputy Chair

Gabrielle Ford, General Manager

Bruce Mikkelsen, Executive Director

Other ACCC staff.

Interested parties

Approximately 110 interested parties attended the forum.

Opening of forum

Deputy Chair Mick Keogh opened the forum by welcoming the attendees. He outlined 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 compulsory information gathering powers.

Deputy Chair Keogh informed attendees that the ACCC will 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

Attendees noted that the market has changed fundamentally in recent years. In particular:

- A common observation raised was that since water was unbundled from land, water has become a commodity, speculators have entered the market, and prices have increased. It was suggested that water should not be treated as a commodity as demand and supply do not respond like regular commodities given supply is naturally constrained. Although one stakeholder noted that before water was unbundled from land, it was used very inefficiently on crops such as barley grass
- Several attendees observed that water allocations and prices are no longer reflective of climatic conditions. These attendees indicated that even in wet years, general security/low reliability licences are still receiving low allocations, when they would previously have received nearly a full allocation
- Another stakeholder noted that there has been a fundamental change in the consumptive pool and that prices are no longer reflective of water market conditions, noting that a small change can push prices above \$500 per ML
- A common theme was concern over the impact of environmental water purchases, particularly within the Kerang region. A number of stakeholders noted that this had reduced water availability in the catchment, including through the sale of sleeper licences
- One attendee disagreed with concerns about water prices being manipulated, and indicated that the market was over allocated. It was noted that the main drivers of high water prices are a lack of rain, lack of inflows from the Darling River to the Murray or from Queensland into NSW, environmental water purchases removing water from the consumptive pool and the rise in permanent plantings demanding water
- Concern was raised about the rise in permanent plantings without permanent water holdings, including almond plantations. It was noted that this increases reliance on the temporary water market. Crops like almonds, table grapes and citrus have higher gross margins, while rice and dairy do not have the commodity price to fund high water costs. If the commodity price for almonds drops significantly, they may not be able to afford to buy water.

Issue 2 – Water market transparency

There was a general view by stakeholders that transparency should be improved in the water market. In particular:

- A lack of transparency regarding how environmental water is being used. One attendee noted that Lake Meran has been dry for 10 years, but they are unsure where a parcel of water for social, cultural and economic purposes has gone. Another attendee stated that a public register of environmental water holdings should be made available

- There were concerns regarding a lack of transparency about how much water is available in storages and what water is being released and for what purpose. Attendees said they were unclear about where South Australian water is kept and who owns floodwaters
- Conversely, an attendee noted there are sources of information, such as the Victorian water register, which show how much water is owned by different groups, such as environmental water holders, but noted the register does not distinguish between zones 6 and 7. The attendee indicated that NSW and South Australia are behind Victoria in terms of register capability, and questioned why these states do not use the Victorian platform as a model
- Attendees considered government decision making processes to be unclear, and that there is a lack of accountability for mistakes made. One attendee called for public and objective trigger points for the release of water to be established, because currently ministerial intervention is hindering the ability of participants to forecast the market conditions
- Stakeholders noted that some water brokers pressure irrigators to purchase water by indicating the price is rising and supply is very limited
- A common theme among forum attendees was that if water is to be traded as a commodity, it should be subject to the same transparency rules as other commodities. Several stakeholders indicated water should have the same rules around transparency as the share market
- Several stakeholders raised concerns with the water holdings of politicians and policy makers. It was argued that politicians should be required to declare an interests in water, as they do for other pecuniary interests.

Issue 3 – Water market regulation

Attendees raised a number of issues with regulatory and institutional settings in the Basin. In particular:

- losses due to management decisions and conveyance of water to downstream demands
- It was argued that only those that have a direct link to agriculture, or own land should be able to trade water. An alternative view was that a 'one trade rule' would require water to be used after being traded once to prioritise the trade and use of water for agricultural purposes
- Concerns were expressed around the water released through the Murray mouth, high evaporation losses caused by keeping the Lower Lakes artificially high, and flooding of the Barmah-Millewa forests. One stakeholder noted that a 2007 report found that the Lower Lakes were originally freshwater lakes, but that the report was changed in 2009 to declare the lakes were estuarine
- Concerns were expressed about increased transmission losses as a result of water being traded downstream and further from storages. In particular, concerns that these losses are socialised which reduces the allocations to general security/low reliability entitlements
- Another common view was that the reliability of allocations to these general security/low reliability entitlements had been eroded by rule changes. Attendees noted several changes in Victoria such as the removal of sales water and pre-season allocations, as well as attaching carryover to water shares rather than annual use licences, had affected allocations to these entitlement classes

- Several stakeholders also indicated that carryover rules were having a negative impact on water markets, by reducing the availability of water and increasing prices. One stakeholder also noted the discrepancy in carryover rules between States, noting that in NSW, irrigators are not getting an allocation, while in Victoria, they are able to carry over 200%. However, several stakeholders argued against removing carryover, stating that it is an important risk management tool for irrigators
- Stakeholders also noted complications with the division of responsibility for water between different governments and government agencies. One stakeholder indicated that water should not be managed by states, but rather responsibility should go entirely to the Commonwealth. Another stakeholder commented the MDBA and the Commonwealth are not good at running water
- Several stakeholders raised issues with paying water [infrastructure] charges in years that they are not receiving an allocation
- Stakeholders also proposed changes to the way environmental water is regulated. One attendee suggested that water resource management should allow water to go to farmers in times of drought, and another that environmental water holders should be able to sell water back to the market
- Some stakeholders indicated they believed the market should be managed by the Australian Stock Exchange with the ability to impose severe pecuniary measures for breaches.

Issue 4 – Water market participant behaviour

Stakeholders raised concern over a number of alleged market participant behaviours, including:

- A number of stakeholders noted that unbundling water rights from land ownership allowed speculative and overseas-based investors to enter the water market. One stakeholder noted that the water market is particularly easy to speculate on, as the price spikes just before it rains
- Smaller farmers are unable to compete with large investors, who are backed by significant funding, such as from overseas superfunds. Conversely, one attendee explained investors offer water market products that are less capital intensive, allowing farmers to spend more money on their businesses and less on water. Another stakeholder also noted that there is a growing number of retired irrigators who are holding their water entitlements as a form of superannuation
- Brokers maximise their profits by pushing prices up. One attendee argued that market participants should not be allowed to trade water with themselves or associated entities to prop up water prices
- Some farmers are subject to high temporary water prices after acting on financial advice during the Millennium drought and selling their entitlements to pay down their debts and restructure their businesses
- Another stakeholder provided an example of a sale of water by the environmental water holder, that brokers did not appear to be aware of, shortly after which the price jumped from \$400 to \$560 per ML.

Issue 5 – Water market competition and objectives

Stakeholders raised a range of concerns regarding the water market competition and objectives including:

- The water market has had a significant impact on the dairy industry, with a large number of dairy farmers having exited the industry. One attendee noted that if water prices remain where they are, the dairy industry and towns in the Kerang region will soon collapse
- Several attendees noted that with current market conditions, they have either not planted a crop this year, or for several years
- Attendees also raised concerns with the diversity of crops that will be grown in the Basin, if the market keeps moving towards just producing almonds
- One stakeholder also noted that with the price of water currently, new farmers cannot afford to buy both land and water
- Numerous attendees noted socio-economic concerns with water markets, and highlighted that markets have high economic and social cost to local communities.