



Murray-Darling Basin water markets inquiry public forum – Shepparton

13 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.

Wednesday, 13 November 2019, 11.00 am to 13:30 pm
Fairways Reception Room, Shepparton Gold Club
15 Golf Drive, Shepparton, Victoria

Attendees

Australian Competition and Consumer Commission

Mick Keogh, Deputy Chair

Bruce Mikkelsen, Executive Director

Gabrielle Ford, General Manager

Other ACCC staff

Interested parties

Approximately 135 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

Many stakeholders raised concerns about water prices being too high. Stakeholders put forward various reasons and trends to explain increased prices, including:

- The ongoing drought and low inflows into the system, resulting in lower supply
- A structural change in agriculture over the last 10 years from farms holding permanent water entitlements to relying more on the allocation market. This was driven by significant selling of permanent water entitlements during the Millennium drought to lower debt and allow investment in on-farm water efficiency infrastructure, which has led to increased demand for temporary water
- The expansion in permanent plantings in the south has contributed to stronger demand for temporary water
- The growth in corporate owned farms with greater access to capital that can afford to pay more for water
- The introduction and increased use of carryover allowing people to hold water off the market until the next season, which forces farmers to pay higher prices this season or face not having access to water for crops
- The greater use of carryover also means that unused water at the end of the season is no longer socialised back into the consumptive pool resulting in low reliability licences getting nothing, reducing allocations and contributing to higher prices
- Alleged hoarding of water by some market participants, particularly investors and speculators, causing reduced liquidity
- Transmission losses reducing NSW general security reliability, reducing allocations in the area and contributing to higher prices
- Increasing complexity of the water market over the last 10 to 15 years in terms of participants, regulations, opportunities and risks. This has led to reduced confidence in the integrity of the market itself and a lack of understanding of how the market operates that has impacted some participant's ability to engage with confidence.

Issue 2 – Water market transparency

The general view was that while some market information was available there needed to be more transparency and consistency in the reporting of trade information. In particular:

- Some stakeholders supported the concept of a single trading exchange in the southern Basin, noting that costs of a whole of Basin register may be prohibitive
- Some stakeholders also highlighted the need for more transparency on the movement of physical water around the system. One stakeholder supported live reporting of water movements, including what water is moving where, by who and for what purpose
- Other stakeholders highlighted the need for greater transparency around what large traders in the market were doing, noting that in shallow markets larger buyers and

sellers may be able to influence quantities and prices to their advantage. One stakeholder suggested public reporting requirements for anyone who held more than a threshold percentage of water or for anyone who engages in more than a threshold number of trades

- Some stakeholders highlighted the growth in the number of brokers in water markets and suggested that brokers needed to be registered. Given the potential for conflicts between broker and client interests, broker trading also needed to be made more transparent
- Some stakeholders highlighted that smaller participants needed more market information to allow them to get a better idea of what's happening so they can participate more effectively. This could include trade prices, quantities, who is trading, what their water holdings are, and for what purpose the water is used.

Issue 3 – Water market regulation

There was widespread concern that aspects of water market regulation were facilitating market distortions and harming some farmers. In particular:

- There were strong concerns about the impact of overly generous carryover rules in Victoria, the impact of allowing non-land owning investors to operate in the market and the disconnect between water trading and infrastructure charges
- Conversely, some stakeholders highlighted the benefits of carryover, water investors and a flexible water market and cautioned against too much government interference.

Stakeholders also raised specific policy and regulatory suggestions, including:

- Changes to carryover to reduce the amount of water sitting in carryover accounts that can be held off the market in any one season
- Requiring carryover be tied to delivery shares or a water licence
- Investors who are not buying water for productive uses should face limits
- Reattaching water to allocation bank accounts (ABAs) so a trader who buys water must either have an ABA or buy land
- Water trading needing to bear a fair share of water infrastructure charges to ensure viable irrigation infrastructure is maintained
- Water ownership should be reconnected with a delivery share
- A planning or approval process for new permanent plantings
- Stopping tag trades out of the Murrumbidgee and Goulbourn valleys around the IVT cap.

Issue 4 – Water market participant behaviour

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

- Under current carryover rules investors can hold off selling significant holdings of water in a given season, forcing farmers to pay higher prices or to risk not getting water to grow crops
- Larger buyers operating in shallow markets may be able to influence market quantities and prices to their advantage

- Brokers may be using ABAs to consolidate smaller parcels of water into larger parcels with potential to engage in insider trading in the process
- A number of farmers noted that they had sold their permanent licences to keep and better manage their farms. However, now they cannot buy water on the temporary market as the price has risen and their farms are dormant.

In the discussion it was also noted that many farmers and retired farmers use water markets to their benefit, including:

- Retiring farmers who sell farms and keep water entitlements to sell allocations to generate retirement income
- Farmers who use water products like forward contracts and carryover rules to manage risks
- Farmers who sell water allocations and do not farm in uneconomical years to generate an income for that year.

Issue 5 – Water market competition and objectives

Many stakeholders stated that water markets are delivering unwanted social, economic and environmental outcomes.

- Some participants noted that the overall costs of transporting water through the river system, such as conveyance losses, are not being properly accounted for in the water markets, and as a result the market is failing to allocate water to where it will be most efficiently used
- One participant noted that water markets have facilitated irrigation occurring in temperate climates where more water is needed. It was questioned whether the southern basin expansion of permanent plantings was really the highest value use for water or whether there was something distorting the market
- Another participant noted that while the cost of water was higher, milk prices were staying the same. It was suggested that the cost of water should be viewed from the perspective of the costs of producing farm outputs and the price for those outputs
- Some participants stated that water markets should exist to grow food and fibre as a priority, and should not exist to allow investors to earn high profits at expense of productive farming
- Many participants highlighted the social and economic impact of allowing water trading. One participant noted that 117 farms in the region had shut down and this had flow on effects for their community. Their local school that used to have 700 students, now has less than 200
- A number of participants noted that water markets were working well in allocating water to highest value uses, and that markets had brought many benefits to farmers including helping them to survive the Millennium drought, allowing them to earn an alternative income and adapting their production
- Some participants noted increasing complexity in water markets that was harming people's confidence in the integrity of the market. They stated that better information is needed on how the market operates to help people understand what is going on and participate better
- One participant questioned if carryover was anticompetitive as only the entitlement holder could carry the water over, sometimes to the detriment of others. They suggested that carryover should be tied to delivery shares or a water extraction licence.