Submission to ACCC inquiry into water markets in the Murray-Darling Basin

Australian Competition and Consumer Commission
29th October 2019

By email: waterinquiry@accc.gov.au

Re: ACCC inquiry into water markets in the Murray-Darling Basin

To Secretariat,

RFM welcomes the opportunity to provide our submission to the ACCC inquiry into water markets in the Murray-Darling Basin.

Summary

From the introduction of the National Water Initiative, water markets in Australia have experienced significant changes in water market participants, land and water use, availability and entitlement ownership. Overall, RFM’s view is that the water markets are generally functioning as intended, but small changes in price transparency and water market information will improve the functioning and efficiency of the water market.

Issue 1 – Market trends and drivers

The availability of annual water allocations in the southern Murray-Darling Basin (sMDB) markets is influenced by two main drivers, rainfall and resultant storage volumes, and price signals to water entitlement holders.

As recently reported by the Australian Bureau of Meteorology, the 33 months from January 2017 to September 2019 has been the driest on record averaged over the Murray–Darling Basin. The lack of inflows has seen water storages in the sMDB reach extremely low levels and reduced annual allocations across the sMDB.

Allocation water prices have increased due to the dry conditions (low annual allocations) and stable / increasing demand. Due to this, water entitlement holders that have historically planted annual crops (rice, and grains etc) are increasingly selling rather than using water allocation. Increased permanent horticulture plantings without sufficient ownership of water entitlements across the sMDB has reduced flexibility in demand for annual allocation purchases. Historically, large quantities of water allocations were purchased by annual cropping industries (rice, and grains etc) that were flexible with annual planting decisions. If annual allocations were low, few hectares were planted, and low quantities of water allocations were traded. Permanent horticulture does not have the flexibility to reduce plantings or water use, increasing the demand for the available water allocation for sale.

Water entitlements price movements have been driven by the productive use of the water allocations derived from the entitlement, increasing productivity, cost of capital of market participants and long-term outlook for allocation prices. All these elements have contributed to entitlement prices increasing over the short term.

Since water and land decoupling, there have been new water market participants enter the market in the form of environmental water holders, non-landowning individuals and corporates (including retired farmers), new industry individual and corporate farmers, and liquidity providers / speculators. In general, all market participants have become more sophisticated considering spot, forward, and carryover transactions, in addition to physical trade limits (IVTs, and Barmah Choke trade restrictions). Overall, the water market has become more efficient, and water has moved to its highest and best use. Entitlement and allocation prices have increased to a truer value, leading to a reallocation of value from land to water.
Trading activity for allocation has historically increased in times of high annual allocation and decreased in times of low annual allocation. Trading activity for entitlement has not materially changed the period.

**Issue 2 – Market transparency and information**

RFM uses water market information everyday including spot and forward prices, historical trade volumes and allocations, and current status of trade restrictions.

The ways in which RFM currently access market information include:

- multiple broker websites, and phone calls
- water exchanges
- state registers
- state websites for current trade restrictions
- consultants
- private information aggregators
- local advocacy groups
- irrigation scheme websites and phone calls
- state and National Irrigators Councils

RFM would value access to accurate daily price data. Key considerations for price data are:

- mandatory reporting of all trade prices
- as close to real time price data as possible
- ability to report related party trades, that is, transfers between same beneficial owners
- ability to report forward trades
- ability to report annual trades derived from leases

RFM uses all information sources as required. The analysis provided by consultants is extremely useful but not timely, and State registers are the most frequented source. RFM would support movement towards a single trading platform, or single state-based platforms for allocation trading.

Timely access to reliable data is imperative to RFM’s trading decisions, particularly trade restrictions. All trade volumes, prices, trade restrictions and Government market participation should be clearly publicised. RFM’s view is that increased transparency is the best way forward for water markets. Registers of entitlement location, annual allocation usage by location, and allocation trading should be made public and searchable to increase informed investment decision making.

**Issue 3 – Regulation and institutional settings**

RFM’s view is that the regulation of the Murray-Darling Basin water markets is adequate. The trading rules and policy settings in each state are well defined and broadly understood by market participants.

The administration of opening physical trade restrictions needs to be refined. When there are large pricing differentials between valleys the current process requires daily monitoring of trade limits and sophistication to have trade forms ready to be submitted at 10am on the day of trade, with trade fees paid in advance. RFM’s view is that this process could be improved by increasing the time that a proposed trade remains in the application queue, currently this is 7 days. This would reduce the requirement for daily monitoring of trade limits.

**Issue 4 – Market participant practices and behaviours**

Like most users, RFM uses water markets primarily to provide an input for its irrigated agricultural enterprises. RFM has not seen direct evidence of behaviour by other market participants that have negatively influenced water markets through their trading strategies. RFM supports any market participants found negatively influencing water markets being held to account. There have however been large scale horticultural plantings that have not been supported by water entitlement purchases. The operators of these plantings are now having to pay higher than expected allocation prices. These investment decisions may have been different for some if there was increased transparency in entitlement location and annual usage.
Issue 5 – Competition and market outcomes

The objectives of water markets are to:

- maximise contribution to efficient use of resources within catchment constraints
- facilitate the efficient trade of water property rights independent of land titles
- improve cross-border trading

Water market reforms have been practically achieved. Water entitlement and annual allocations are free to trade from low value commodity or inefficient producers to high value commodity or more efficient producers increasing the national income. Water entitlements are increasingly being valued separately to land and sold independently. Both the number cross border trades, and ease of trade completion has increased, particularly VIC/NSW.

Conclusion

Overall, RFM is of the view that the water markets are functioning efficiently and as intended but there are refinements and improvements that would assist in water markets maturing. RFM welcomes the opportunity to further engage with the ACCC inquiry into water markets in the Murray-Darling Basin.