



The Goulburn Valley Environment Group Inc.

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ACCC inquiry into water markets in the Murray-Darling Basin

The Goulburn Valley Environment Group (GVEG) is one of the peak environmental organisations in northern Victoria and has been actively involved protecting and enhancing our natural environment, flora and fauna for over 25 years in what is one of the most highly cleared and modified regions in Australia. It is from this context, our engagement in the development of the Murray Darling Basin Plan and member's expertise in the irrigation water industry that we offer the following Submission.

GVEG have elected to respond in relation to the ACCC issues paper

Market trends and drivers

The development of new horticulture industries, the movement south of the cotton industry and reduced inflows have all added to both the need for water trading and market growth. The capacity of entitlement holders to carry-over water allocations has tempered this growth to a degree

The key driver of price movement remains the availability of water resources and the profitability of irrigation industry sectors.

Increased market participation, more skilled participants, innovative market products and the ability to carryover allocations have decreased the wild market fluctuations of early markets.

Market transparency and information

Most irrigators rely on trusted private markets for selling, purchasing and pricing information, for many this being the only information used. Prices can vary widely across markets. State water registers offer some but unreliable information on prices paid.

Timely and accurate market information is critical for production decisions on-farm.

The equitable spreading of information across regions is not assisted by diverse and dispersed selection of water markets and brokers spread across the southern basin. **A single National platform similar to the ASX share market is required.**

Regulation and institutional settings

Clearly water markets have failed in their operation to prevent third party impacts.

Inappropriate hydrological management of flows and monitoring has led to severe damage to many rivers.

Upstream water entitlement holders also argue third party impacts with inappropriate accounting rules that fail to consider waters losses in the delivery water traded. With many of these regulations and policies being State responsibilities, addressing third party impacts is

proving problematic. **Only with the total co-operation of the States will the issue be equitably addressed.**

Trading rules between irrigation areas are becoming better understood however much mystery remains in the regulations surrounding inter-valley transfers.

Water regulation, settings and actions are poorly understood by most in all States, despite actions to simplify, rationalize and align products over many years.

Market participant practices and behaviours

Water markets are a bundle of many differing products ranging from leasing to forward purchasing arrangements. Most in the market simply purchase on an as needed basis, with very few "traders playing the market" as is the case with shares on the Stock Exchange.

Many irrigators leaving industries or retiring have for various reasons retained water entitlements and trade these annually and are in effect no different to outside investors in the resource.

As water markets have become more "sophisticated" many new market products have been developed. Leasing of water supplies, options, forward purchases and their many variations have allowed many industries to free up capital preciously tied up with water entitlements. All of these practices have the incremental effect of reducing the traditional annual temporary volume of trade.

We see no evidence of market manipulation by large brokers or investor groups really taking place but consider a larger problem to be conflicts of interest impacting the trading of water. Cases of single entities owning productive farms and water while owning and operating water Markets whilst advertising as brokers clearly lacks transparency is likely to be fertile grounds for exploitation. Intermediaries all have a place in the water market providing carryover, leases, options, forward contracts and other services ... Carryover has been an important management tool in the hands of both irrigators and the CEHW. For irrigators this has added flexibility to decision making and risk management, for the CEHW it allows for sufficient early season supplies to be available for spring watering's.

Competition and market outcomes

There has been a serious market failure to manage the third-party impacts. Environmental, social and economic impacts of changes in the timing and location of water use that arise from water trading activities have been ignored by State Governments

Substantial environmental damage is being experienced by rivers due to high summer flows (IVT's) needed to deliver increased traded allocations to downstream developments.

High flows and sandbar inundation have social impact on campers, fishing and local communities.

Random water transfers have disadvantaged some irrigators (swiss cheese effect)

Water markets have been most effective during drought periods and low allocation seasons.

Trading has enabled the transfer of water between industries to the benefit of all.

Competition in water markets is forever changing as profitability of industries ebb and flow resulting in large scale new developments and new green-field sites and regions transitioned.

It is difficult to believe that the myriad of small to medium size water markets and brokers across the basin could be efficient. They can provide local individual advice but the risks of this model far outweigh the associated governance risks.

Potential solutions

Third Party Impacts must immediately be addressed. Not to take into account third party impacts is a market failure and clearly not the sustainable management required to ensure the ongoing health and productivity of the Murray Darling Basin. Seasonal flow limits must be assigned to rivers at risk similar to the limits on the Barmah Choke.

A National Water Trading Exchange along the lines of the Australian Stock Exchange should be strongly considered.

The current governance risks associated with a myriad of private exchanges in a lightly regulated industry is a too large to be allowed to continue.

Market restrictions: investors who do not physically use water should be limited to selling into the temporary market only and not be able to “speculate” by purchasing temporary water allocations.

Increased Federal responsibility / oversight for the alignment of State regulations and policies is required. Many of the third party impacts are the result of, or enhanced by state divisions.

GVEG remains available for further information or interrogation if required.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Pettigrew', is centered on a white rectangular background.

John Pettigrew GVEG President

Protecting the environment for generations to come