

Aware Water Group Pty Ltd
Level 31 / 367 Collins Street
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28 November 2019

Director
Murray-Darling Basin Inquiry
Australian Competition and Consumer Commission
GPO Box 3131
Canberra ACT 2601

By E-mail: waterinquiry@accc.gov.au

Dear Director

RE: Submission to ACCC Water Markets Inquiry

Introduction

Aware Water Group Pty Limited (**'Aware Water'**) is a private company which owns water entitlements across the southern Murray-Darling Basin. We welcome the opportunity to make this submission in response to the ACCC's Issues Paper dated 17 October 2019.

Aware Water has been supplying water to irrigators through short term and long term arrangements for over a decade. The company's water products include spot water allocation, water leases (high and low security), forward water allocation (single year and multiyear arrangements) and carryover parking.

Water Entitlement Framework

The Australian water market was established under the National Water Initiative (**NWI**) agreed by COAG in 2004. The objective of the NWI was to establish a water resource management and trading framework that would allow water to transition to its 'highest and best use' via a reliable market mechanism — namely price.

Over the last 12 years, the water market has achieved this objective, with water transitioning to higher value uses such as horticulture and cotton in the southern Murray Darling Basin. The market has also worked to efficiently allocate water resources in drought and flood conditions. Throughout this period, the market has proven to be robust and well-regulated means of facilitating the most efficient allocation of water for use.

In particular, Aware Water considers the Australian water market has enabled water to be allocated and used by industries with the highest economic output in agriculture, depending on the climatic conditions.

Given its strong historical performance and procompetitive outcomes, Aware Water considers that the current water entitlement framework and its regulations should remain the backbone of the Australian water market. The framework should be maintained and strengthened.

The water entitlement framework underpins the management and allocation of the physical water resource. The framework has attracted and facilitated capital investment into Australian agriculture and, in order to preserve that investment, it is paramount there remains high levels of certainty as to water entitlement rights and attributes.

Water entitlements are an important asset, similar to land, for Australia agriculture. A critical factor in preserving current investment and attracting new investment is certainty in relation to the features of a water entitlement, the manner in which a water entitlement will be regulated, the basis on which the water entitlement is valued, and the ways in which the water entitlement can be traded. In Aware Water's submission, changes to the water entitlement attributes and framework have the potential to lead to uncertainty amongst industry participants, which may lead to a reduction in investment into Australian agriculture.

Market Transparency and Information

Whilst preserving the current water entitlement framework, Aware Water considers that there are means to improve the way in which that framework operates for the benefit of all industry participants.

The water market in the southern Murray Darling Basin has experienced an increase in sophistication and diversity of market participants over the last decade. This has included the introduction of new products such as forward agreements, options and carryover parking.

As a principle, Aware Water is supportive of increased transparency within the water market across the southern Murray-Darling Basin in order to facilitate efficient access to timely, accurate and comprehensive price and volume data.

Aware Water considers that the implementation of a central exchange could achieve the above objective by increasing the transparency and efficiency of the water allocation market.

The following are potential benefits that may arise from a central exchange:

1. Increase market efficiency and confidence by establishing a single reliable source for price, volume and liquidity;
2. Better regulate the behaviour of all users, including brokers;
3. Reduce counterparty risks; and
4. Drive lower costs over time.

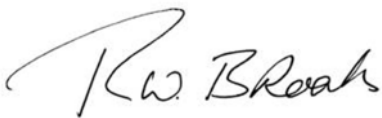
Aware Water is of the view that every water allocation transaction (both commercial and non-commercial (\$0) transactions) should be processed through the central exchange to ensure there is one source for all water allocation transactions.

Market Integrity

Aware Water recognises that in order to operate efficiently and fairly, economic markets require an appropriate level of independent regulation.

Accordingly, Aware Water considers that a market integrity or compliance function should be part of the central exchange organisation. This regulatory function would identify, question and, if required, refer unusual transaction activity to the relevant authority. For example, high frequency trade of water allocation between inter-company accounts or via associate accounts.

Yours Faithfully

A handwritten signature in black ink that reads "RW Brooks". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Robertson Brooks

Aware Water Group