



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

19 October 2020

Re: Murray-Darling Basin Water Markets Inquiry - Interim Report

goFARM Australia (goFARM) is pleased to have the opportunity to contribute to the Australian Competition and Consumer Commission (ACCC) Inquiry into Water Markets in the Murray-Darling Basin. goFARM is supportive of efforts by the ACCC and regulators to improve the transparency, fairness, and efficiency of water markets.

About goFARM

goFARM is a long-term Australian agricultural investor focused on growing high-value, healthy, and nutritious food crops for both domestic and export markets.

The goFARM business owns and manages assets throughout the southern Murray-Darling Basin with exposure to the grains, dairy, cotton, grazing, citrus and almond industries.

We are proudly an Australian family-owned business, based in Victoria. The owning families hold multi-generational connections with Australian agricultural and horticultural production and marketing.

Our investments generate a range of positive benefits for the communities in which we invest, including the creation of new jobs and the requirement for service provision from a broad range of local businesses.

A robust and efficient water market is critical to Australian agriculture and the operation of our business. As an irrigator, we support a water market regulatory regime that:

- Protects property rights,
- Provides long-term certainty,
- Facilitates the productive use of water, and
- Provides transparency to all market participants.

Like all agricultural producers, goFARM faces a myriad of serious challenges including, but not limited to: climate change, access to labour, and fluctuating water costs. In response to these very real challenges, we are seeking to invest in transitioning land and water towards high-margin, high-value produce.

goFARM's position on the ACCC Interim Report

goFARM supports the key findings of the Interim Report: Australia's water markets have provided substantial benefits to water users but there are major changes required to improve current governance, regulatory and operational frameworks.

Australia's water market and regulatory framework is well regarded internationally. It provides irrigators with competitive advantage over those in other jurisdictions (e.g. California), where unsustainable water use and complex property rights are being challenged by the introduction of new regulation.

The breadth of issues analysed and potential solutions canvassed in the Interim Report make it difficult for industry to provide specific and timely feedback. Given the level of detail provided in the report, it's difficult to determine the exact magnitude of the problems identified to be able to appropriately assess what is a proportionate response. We also note that many of the potential solutions are interlinked. For example, the merits of changes to market governance and regulation are intertwined with potential improvements to improved trade processes and information. The length and detail of this comprehensive report is likely to discourage many market participants from providing feedback.

goFARM encourages the ACCC to consider engaging with industry through a range of other consultation processes to ensure recommendations in the Final Report are relevant and informed by a wide range of market participants. In doing so, the ACCC could identify 'quick wins' that are easy to implement, while outlining a longer-term reform agenda that addresses governance and market architecture challenges.

The following comments summarise goFARM's response to the topics raised in the ACCC's Interim Report. I would be happy to speak further with you about our submission.

Quick wins: Improving Trade Processes and Market Transparency

To facilitate the 'price discovery' process, information post-trade must be easily accessible and timely.

There are big gaps in the amount of information available from each state water register. For example, it is particularly challenging to access information from the South Australian and Queensland water registers, whereas, accessing basic water trade information from the Victorian and NSW water registers is more straight forward.

goFARM believes simple changes to post-trade reporting could deliver valuable information to improve price discovery. Simple changes include:

- The recent addition of 'Reason for Trade' information on New South Wales and Victorian water trading forms will help to address issues with zero-dollar trades. This should be replicated consistently in other Basin states.
- Allocation transfers in all states should specify whether the transfer was associated with a lease, forward, related party transfer, or a commercial allocation trade.
- Environmental transfers should be identifiable on water registers in real-time.
- The reporting of entitlement and allocation trades within Irrigation Corporations (e.g. Murray Irrigation, Murrumbidgee Irrigation) should be dramatically improved as this is one of the major sources of opacity in the market in the southern MDB.

The same reporting and disclosure rules should apply to all water holders regardless of their size. It is not clear what outcome regulators are seeking by proposing to make commercially sensitive information public, nor can it be supported. A key tenant of the advice provided by the ACCC to the Australian government in the establishment of the Murray Darling Basin Plan Trading Rules is open and non-discriminatory access to water markets. Any moves that require different reporting and disclosure rules for some water owners should be evaluated against this principle. Publishing information on who owns and uses water could lead to perverse and unintended consequences. For example, it could encourage speculation and market manipulation, not prevent it.

Education and training has an important role in ensuring all market participants understand factors influencing water markets (e.g. allocation policies, carryover) and how to access information (e.g. recent trades) that will assist them to make informed trading decisions. Changes that increase the complexity of Murray-Darling water markets may benefit sophisticated market participants.

Views on more complex solutions

Improving Market Transparency

goFARM supports the ACCC's preliminary view is that while governance is currently distributed between Basin States and other actors, options which deliver "harmonisation" and "co-ordination" are more suitable than options which deliver "centralisation" to the Commonwealth. Responsibility should remain with the states wherever possible supported by effective inter-jurisdictional arrangements where necessary to ensure harmonisation, market integrity and effectiveness.

Additional aggregated real-time water system information on the supply demand balance is required. The existence of multiple water entitlement classes and trading zones can make it difficult to understand the supply and demand drivers of water markets. The Murray-Darling Basin Authority and state authorities should publish real-time information for each water system/ trading zone including:

- Carryover Balance (ML)
- Allocation to Date (ML)
- Usage to Date (ML)
- Trade In (ML)
- Trade Out (ML)
- Current Water Available for Use/ Trade (ML)

For all of this information, the volumes held by urban water corporations, environmental water holders and irrigation users should be clear. Currently, information that reports environmental water and consumptive water together is providing a misleading picture around water availability that is likely to be confusing to many market participants. While there have been improvements in some areas (e.g., [the new water ownership dashboards from the Victorian Government](#), consistent reporting across states is key). Furthermore, improved clarity and predictability around allocation announcements through open and transparent processes would significantly enhance market confidence, particularly in New South Wales.

There needs to be standardisation of Basin State registers, including the implementation of standards for trade processes and reporting requirements and reporting of contracts for leases, forwards and carryover parking to registers. This could be achieved through greater interoperability between Basin State registers or the creation of a single water market information platform for publishing water availability and trade information. An information portal that links state registers and IIO trade data in real time would be beneficial and a relatively low-cost solution to provide whole of market information across the southern MDB compared to some of the other options presented in the Interim Report.

Improving Market Architecture

There are physical constraints in the Murray-Darling Basin water supply and river system, which have become more evident during recent drought periods.

Trading water between different systems/zones allows water to be moved to its most productive use. Intervalley trading is an important feature of the connected Basin, providing benefits for water buyers and sellers across in different regions. The current process governing Intervalley Trade windows is not transparent or fair. Currently, the 'fastest finger' wins when trading windows open, with water brokers often jostling to reserve all available Intervalley trade volumes. This process favours a few and disadvantages many. The ACCC should further investigate options to ensure all market participants have fair access to Intervalley trading opportunities.

The Interim Report flags the potential creation of formal markets for storage capacity. goFARM is cautious of this suggestion, which risks undermining the value of existing water entitlements. Many entitlements include provisions for carryover and this is priced into current entitlement values. Most

parties understand the carryover (storage) attributes and factor these into investment and divestment decisions around entitlements. It is not clear what problem the ACCC is trying to solve here.

Carryover is a critical risk management tool; it helps water users manage water supply-side parameters, and in doing so helps to smooth out price peaks and troughs as well as facilitate short and medium-term investment certainty. In the absence of carryover, the market could become more volatile and a 'use it or lose it' approach could see water applied to inefficient uses.

Changes to Market Governance

The complexity of water governance in the Murray-Darling Basin is deep-rooted and institutionalised in a web of state and federal authorities. However, the creation of new national authorities could help address gaps in current governance arrangements. goFARM supports the ACCC's investigation of a water market oversight body (potentially modelled off the Australian Energy Market Regulator) and a national focus on water market enforcement and compliance activities, whilst leaving day-to-day water management with the states.

There are also major differences in how state government authorities consult with industry. The recent rush by some states to complete new 'Water Resource Plans' (WRPs) in line with Basin Plan rules meant there was often limited consultation with industry about significant changes to water sharing rules.

In New South Wales it remains difficult to access 'public' consultation documents or identify contact points at the multiple agencies (Department of Planning, Industry and Environment, WaterNSW) involved in water licencing and management. There remains ongoing regulatory uncertainty about how the New South Wales Water Minister will address future instances of groundwater over extraction in the Lachlan and Murrumbidgee Valleys, which risks undermining the confidence of irrigators to make long-term investment decisions. New WRPs do not clearly outline what steps will be taken by the Water Minister if extractions continue the historical trajectory and long-term average annual extraction limit (LTAAEL) thresholds are exceeded.

Other Comments

Outside of the Murray-Darling Basin, there is an opaqueness of information about water systems and markets that makes irrigated agriculture riskier and undermines the confidence of irrigators. It is beyond the scope of this Inquiry, but attention by federal and state authorities is needed to ensure that Tasmania, Queensland, the Northern Territory and Western Australia have fair and transparent water markets.

Thank you for providing this opportunity to comment. Please do not hesitate to contact me with any queries regarding this submission.

Yours sincerely,



Liam Lenaghan
Managing Director
goFARM Australia Pty Ltd