

Analysis of Water Market Inquiry Submissions

Report April 2020

April 28

WATERFIND

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Background

The Australian Consumer and Competition Commission (ACCC) released an issues paper on 17 October 2019 seeking views on the key issues affecting markets for tradeable water rights in the Murray-Darling Basin.

Waterfind's submission provided to the ACCC can be viewed [here](#).

The ACCC anticipates to release a Draft Report to be made available to the public by late May/early June 2020.

In the interim Waterfind has undertaken its own analysis, looking at public responses to highlight common themes and keys issues raised and by stakeholder type, the level of support for or against reform options, and some solutions suggested in submissions.

Summary

At time of preparing the report there was a total of 121 submissions made to the ACCC Murray-Darling Basin Water Markets Inquiry issues paper. These include responses from:

- 50 private individuals and companies
- 39 industry groups
- 16 government and statutory bodies
- 8 irrigation providers
- 8 market intermediaries.

Chart 1 shows that private individuals and companies represented the largest group (41 percent) who made a submission, and irrigation authorities and market intermediaries were the smallest (7 percent each).

Chart 1: Submission type

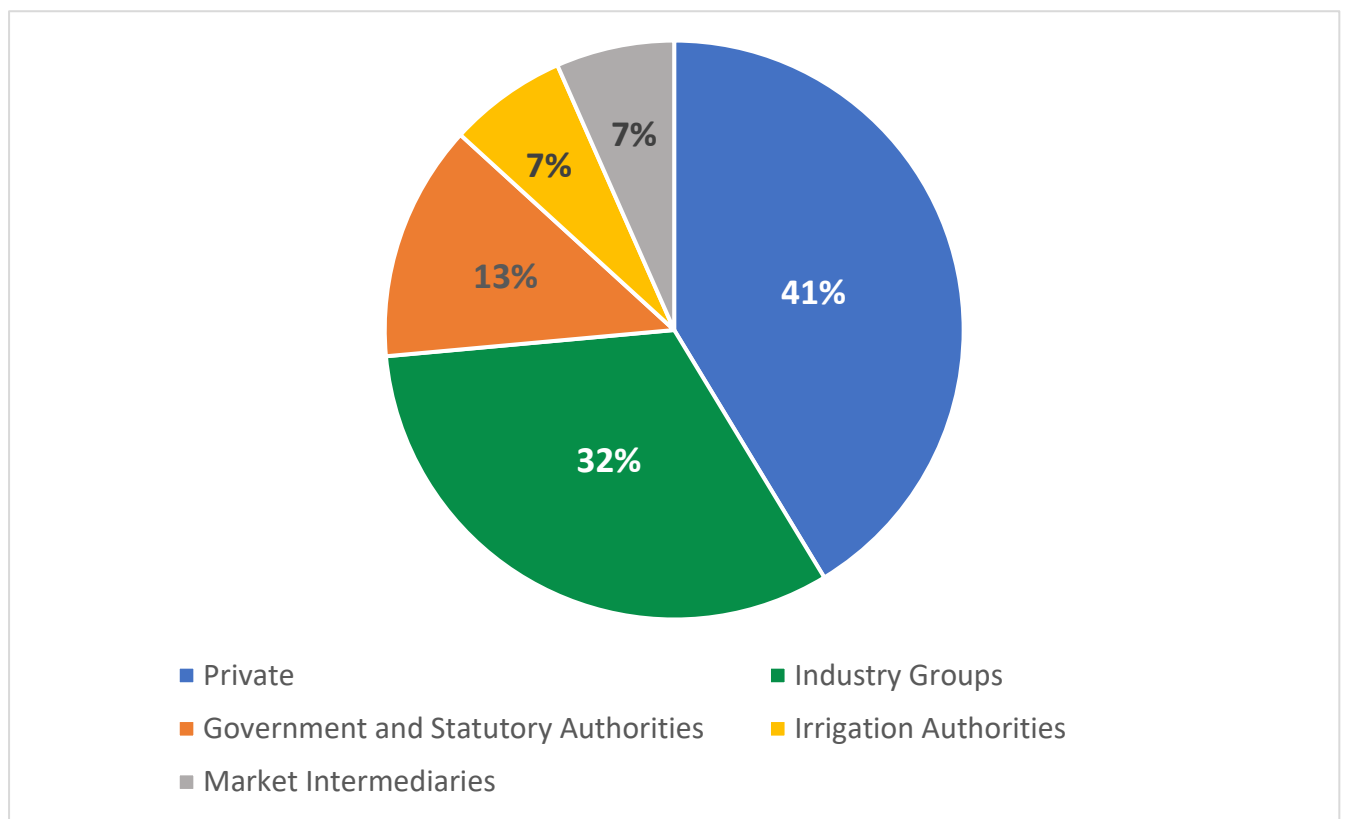
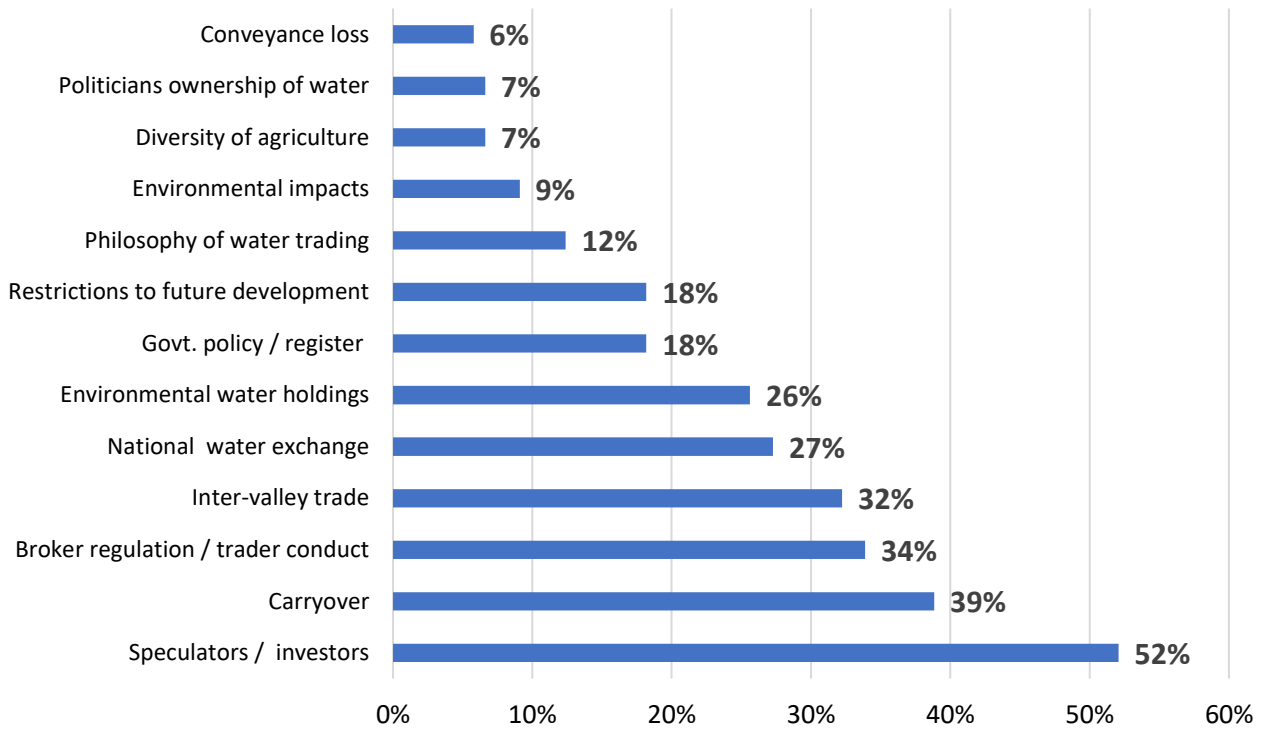


Chart 2 presents the top 13 topics raised, according to the number of submissions that raised them. It shows a diverse range of issues raised.

Chart 2: Topics raised – by percentage of submissions



Feedback on Speculators and Investors

A total of 63 (52 percent) submissions mentioned the involvement of speculators and investors in the water market. Chart 3 presents this by submission type. It shows that private individuals and companies were those who referenced speculators and investors the most (43 percent), while market intermediaries referenced this topic the least (5 percent).

Chart 3: Speculators and investors – mentions by submission type

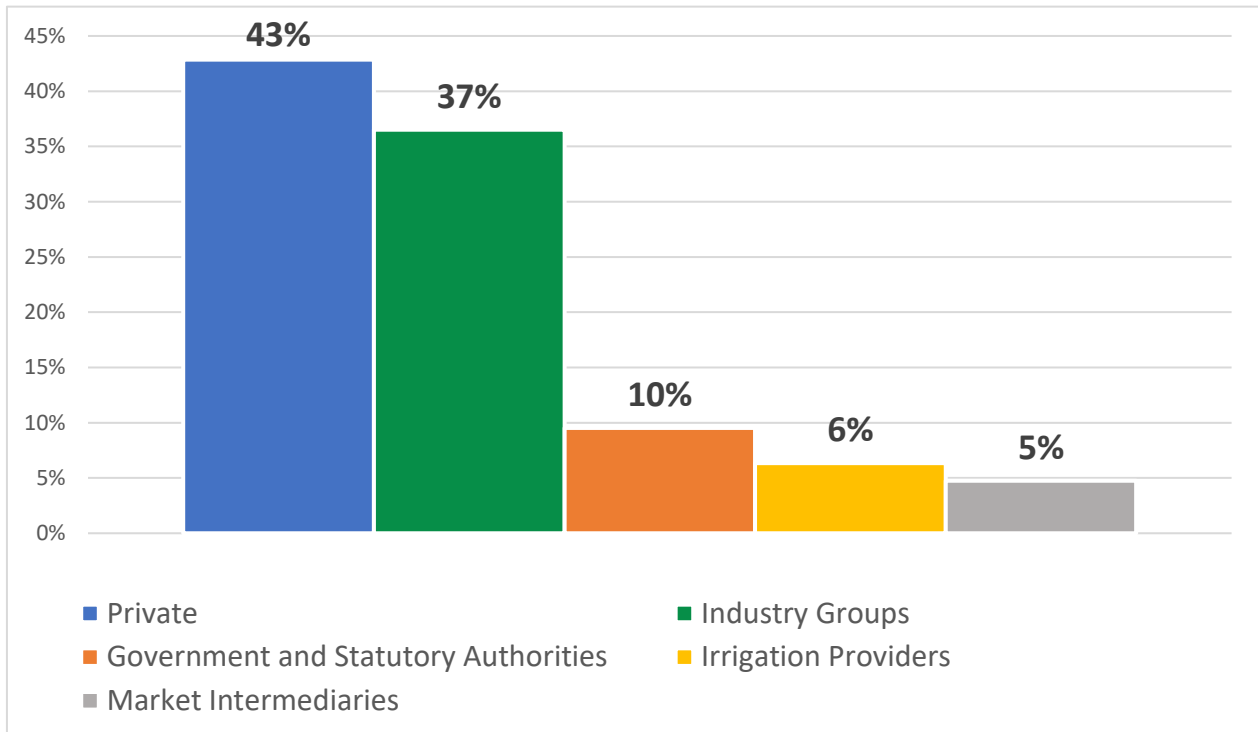
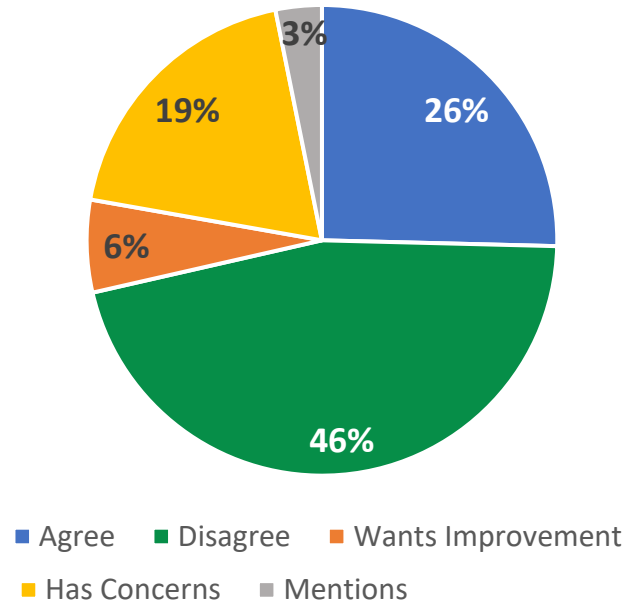


Chart 4 presents how respondents feel towards having speculators and investors in the market. It shows that 71 percent of submissions are not happy with the way that speculators and investors are currently acting in the market. (This is comprised of 46 percent disagreeing with speculators and investors plus 19 percent and 6 percent having concerns and wanting improvement respectively).

Chart 4: How respondents feel about speculators and investors in the market



Specific feedback provided from a number of submissions was that speculators and investors should be removed completely from the market, or for there to be improvements in the way they operate in the market.

These submissions argued that allowing speculators and investors to enter the water market has the potential to raise the market price of water, as they would be motivated to seek the highest sale price in order to maximise profits. In addition, it was argued by some that non-water users are intentionally holding onto water in times of need in order to decrease supply and raise the price of water.

Slightly over a quarter (26 percent), believe that speculators and investors play a beneficial role within the water market. These submissions believe that investors have the capability to provide needed capital into the agricultural sector and assist with the development and distribution of the range of water products. It was also raised that investors play a key role in the market by assisting to maintain stability within the market in otherwise volatile periods.

Feedback on Carryover

There were 47 (39 percent) submissions that mentioned carryover water arrangements in the water market.

Carryover was initially introduced as a response to drought and is designed to maximise water availability in the early part of the season, subject to physical and environmental constraints. Carryover can decrease unpredictable market fluctuations and be an important water management tool in assisting irrigators plan for future seasons.

Chart 5 presents who mentioned carryover by submission type. A total of 4 out of 10 submissions that mentioned the use of carryover were industry groups. Just over a third of submissions (34 percent) were private individuals or companies, while 6 percent were market intermediaries.

Chart 5: Carryover – mentions by submission type

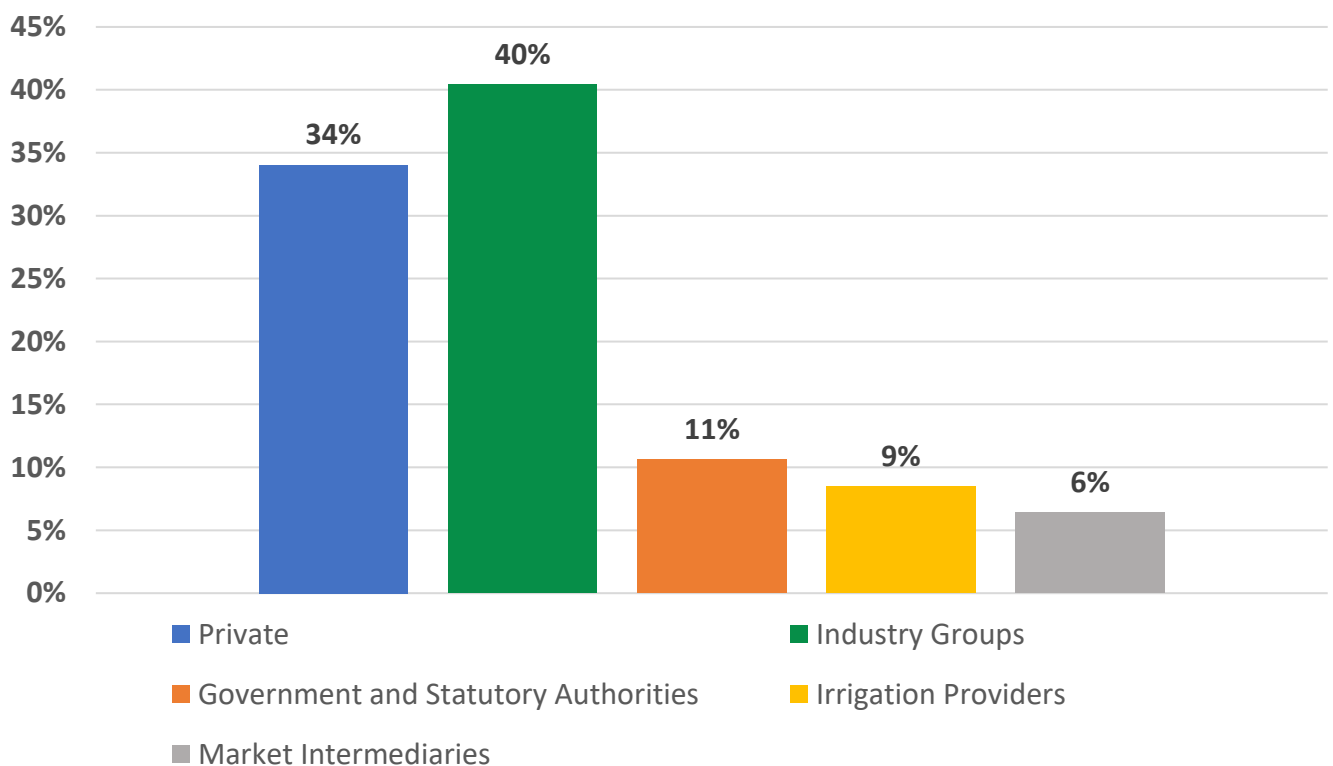
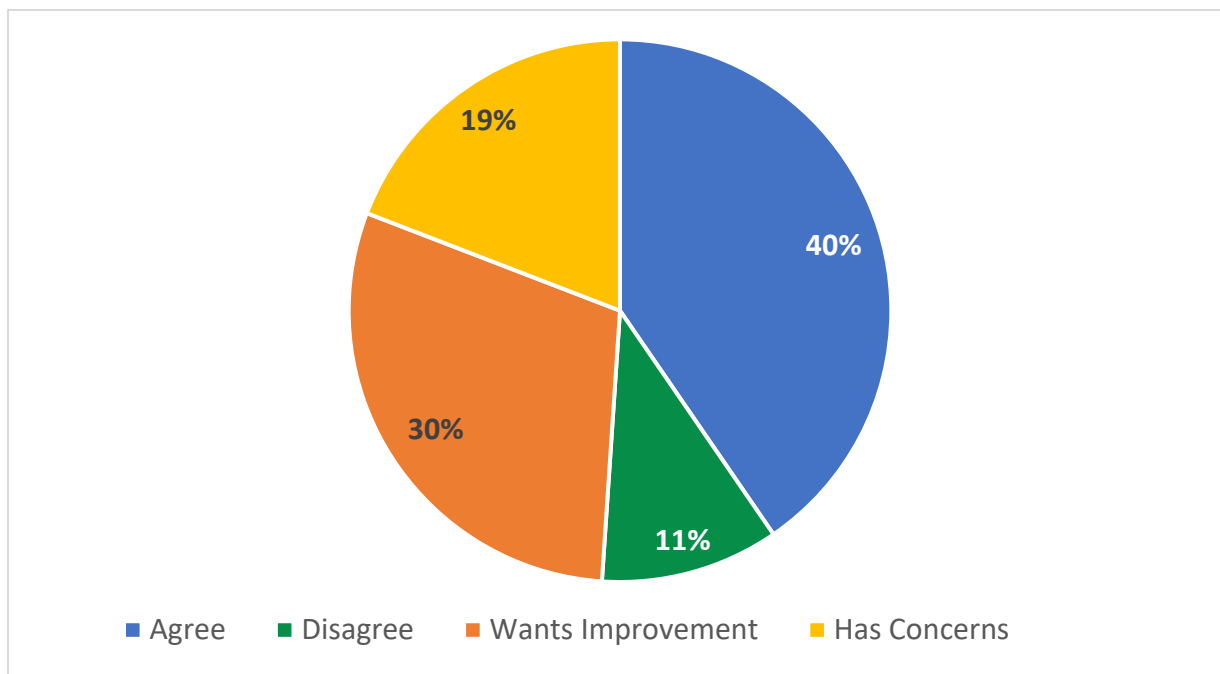


Chart 6 presents how respondents feel towards current carryover water arrangements.

Chart 6: How respondents feel about carryover arrangements



A total of 60 percent of submissions expressed a critical view of carryover arrangements, which included those who either had concerns, want improvements, or disagree with the current arrangements. Amongst the criticisms raised in these submissions were that carryover:

- Provides ‘water-hoarding’ ability that may result in a distorted market and possibly be abused in times when water allocations are low.
- May result in entitlement holders receiving reduced allocations, placing upward pressure on the market price.
- Is responsible for increased market speculation in the temporary water market.

Amongst the 40 percent of submissions in favour of carryover, were comments that carryover:

- Plays a critical and important role in increasing the economic use of temporary water and reducing seasonal volatility prices.
- Remains a useful tool for irrigators and allows entitlement holders to manage their inter-annual resource risk.
- Is an important mechanism that allows farmers to manage water resources on a year-to-year basis and meet their water needs.

Feedback on Broker Registration and Regulation

There were 41 (34 percent) submissions that mentioned the registration or regulation of water brokers. Chart 7 presents who mentioned broker registration or regulation by submission type. It shows that approximately 40 percent of the submissions that mentioned broker registration or regulation were from industry groups.

While market intermediaries (which include water brokers) made up only 9 percent of the submissions that mentioned broker registration and regulation, this represents a total of 50 percent of all market intermediaries' submissions.

Chart 7: Broker registration and regulation – mentions by submission type

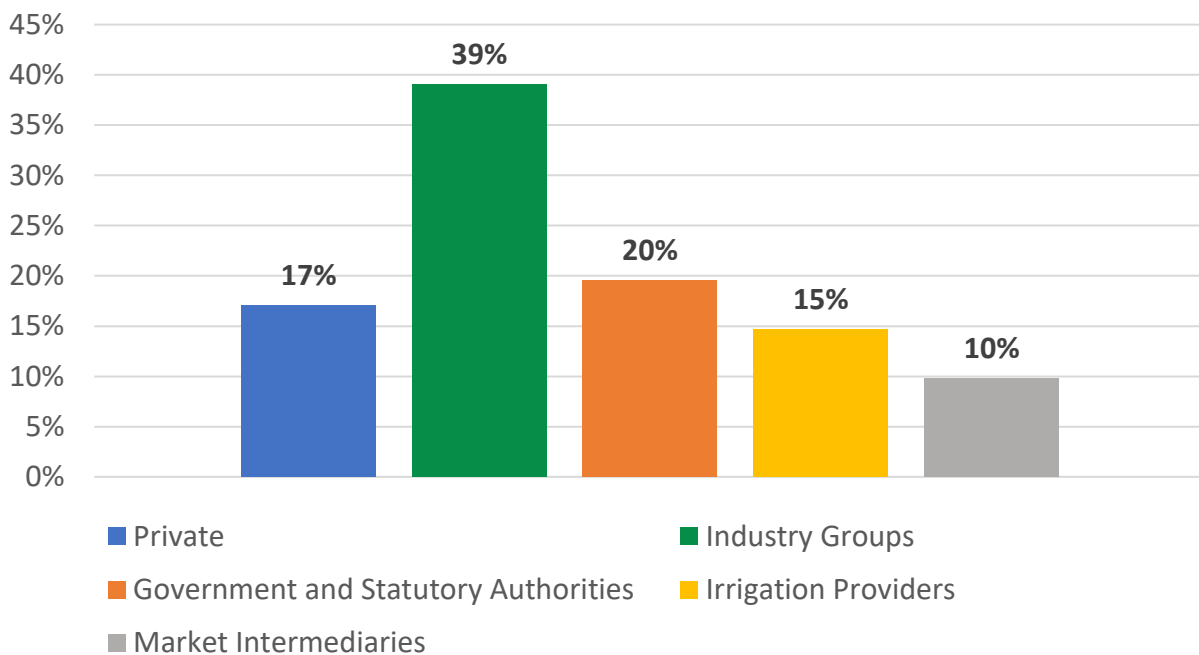
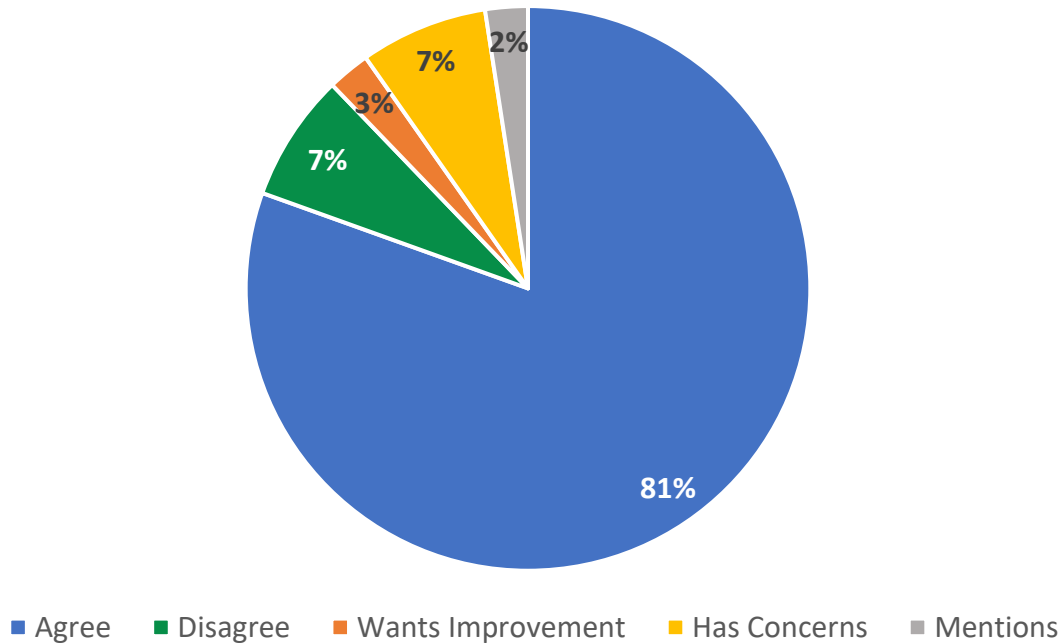


Chart 8 presents how respondents feel towards water broker registration or regulation. It shows that the vast majority (81 percent) are supportive of some form of broker registration or regulation.

Chart 8: How respondents feel about the registration and regulation of brokers



When looking only at market intermediaries' submissions, 75 percent support some form of regulation. Only 7 percent of market intermediaries disagreed and were not in support, with the remaining submissions either voicing their concerns or wanting improvement. (Waterfind supported broker regulation in its submission).

Arguments made in support of broker registration and regulation include:

- Making brokers accountable for their actions.
- Holding all brokers to industry standards.
- Increasing the transparency of the water market.
- Reducing the influence brokers have on the water market.
- Improving the trust between brokers and clients.

When analysing only market intermediary submissions, only a quarter (25 percent) of submissions have concerns with the registration and regulation of water brokers. The arguments against registration and regulation were that respondents were pleased and satisfied with the way brokers are currently operating, and that they are providing comprehensive and timely data that is relevant to respondents and their specific needs.

Feedback on Inter-Valley Trading

There were 39 (32 percent) mentions of Inter-Valley Trade (IVT) arrangements in submissions.

Chart 9 presents who mentioned IVT's by submission type. It shows that industry groups respondents had the most mentions (41 percent of all mentions) while submissions from market intermediaries had the least (10 percent).

Chart 9: IVT arrangements – mentions by submission type

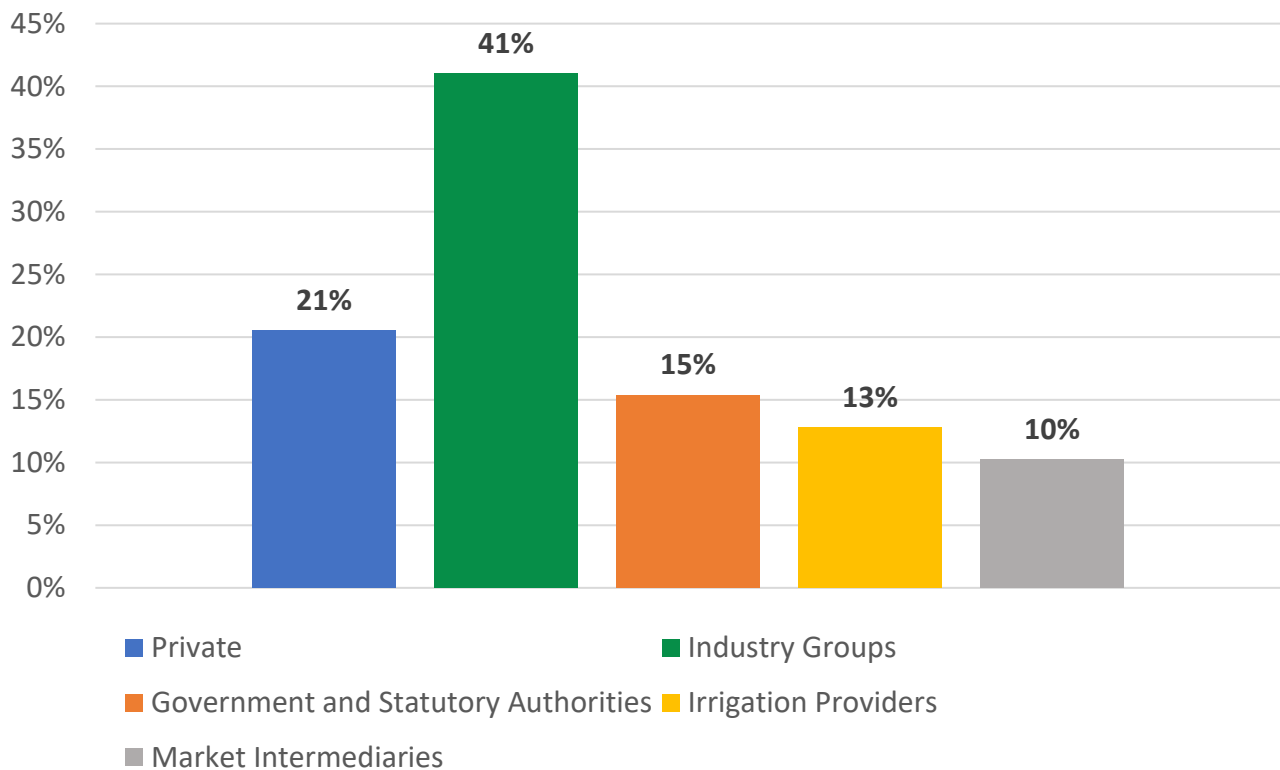
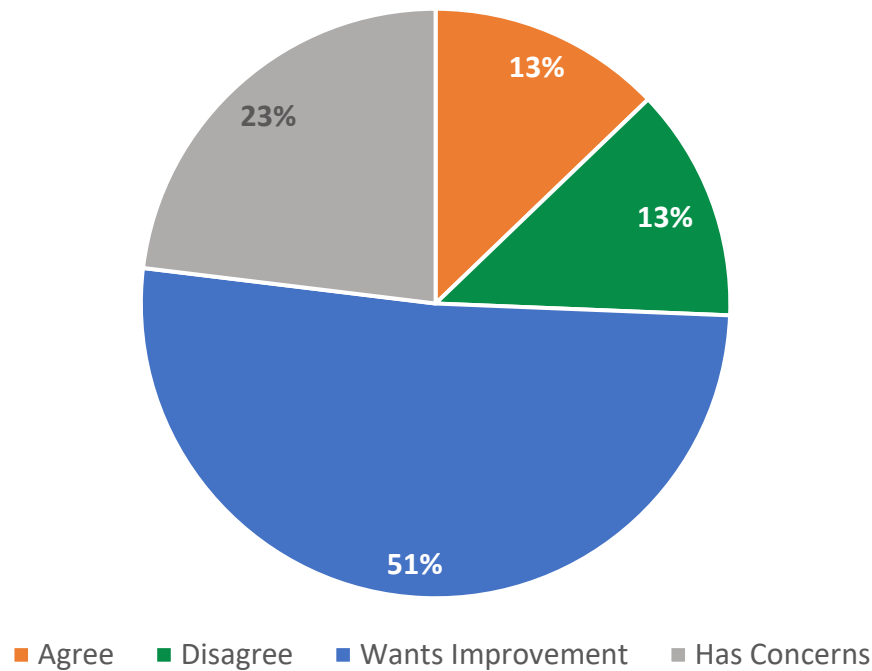


Chart 10 shows how respondents feel about IVT arrangements. A total of 87 percent of those submissions that mentioned IVT's believe that IVT's are necessary. Around half (51 percent) support improvements on the current arrangements, and around a quarter (23 percent) of submissions have concerns with current IVT rule. Only 13 percent are happy with the current arrangements. A total of 13 percent of submissions disagree with inter-valley trading and believe that it should be removed all together.

Chart 10: How respondents feel about IVT arrangements



Respondents in support of the current IVT arrangements stated these arrangements:

- Offer flexibility to general security entitlement holders to manage allocations.
- Support an efficient water market.
- Take into consideration the environment.

However, some respondents feel the IVT rules can be improved by allowing greater amounts of water to be transferred with less restriction, while having a minimal impact on the price of water and negative impacts to the environment. Amongst the comments from submissions who disagreed with IVT rules, was a view that water should flow naturally and should not be bound to any “human-made limitations”.

Feedback on a National Water Exchange

There were 33 (27 percent) submissions that mentioned the establishment of a national water exchange. Chart 11 presents who mentioned a national water exchange by submission type. It shows that approximately half (48 percent) of the submissions that mentioned a national water exchange were from industry group respondents. A total of 3 percent were from irrigation providers.

Chart 11: National Water Exchange – mentions by submission type

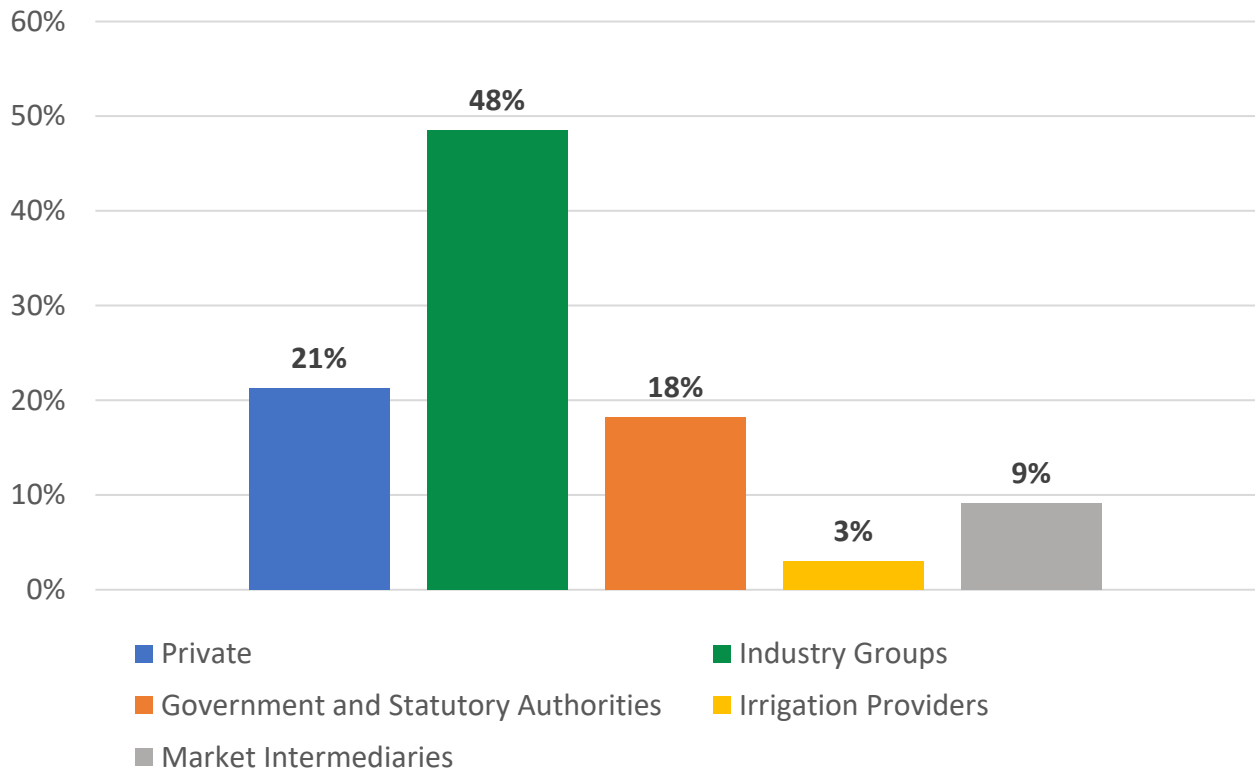
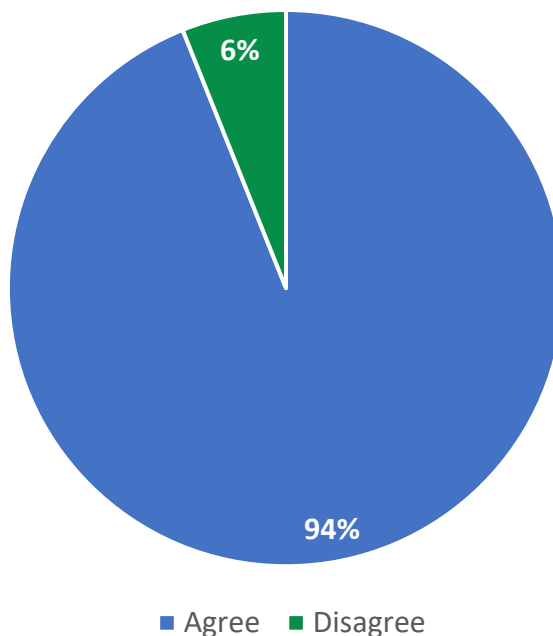


Chart 12 presents how respondents feel towards a national water exchange. It shows there is overwhelming support (94 percent) from the respondents for a national water exchange to be established, with a small fraction (6 percent) against the idea.

Chart 12: How respondents feel about a National Water Exchange



Amongst the support for a national water exchange was a view that it would:

- Promote more informed water market decisions.
- Improve the efficiency of information searching.
- Lead to greater market transparency.
- Potentially lower the average price for water.

Amongst the comments made by respondents who disagree with the idea of a national water exchange were:

- Establishment and operating costs would outweigh the potential benefits.
- Current arrangements are satisfactory.

Contact details

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