



Victorian Water Market Transparency Options Paper

Victorian Farmers Federation Submission

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Introduction

The VFF welcomes the opportunity to provide comment on the Victorian government's proposals to improve water market transparency. With fierce water market competition, efforts to provide additional information on the operations of the water market are essential.

It is essential the Victorian Government ensure the water market is working in the best interests of irrigated agriculture, to maximise returns on the water used to grow food and fibre and to promote water efficiency.

The VFF acknowledge that water prices are a function of supply and demand, however the removal of 25 percent of water available to agriculture through the Basin Plan has reduced the supply and increased prices. A large proportion of the water now being used by the environment was available on the water market. The number of irrigators with water to sell has fallen reducing the depth of the market

With a smaller volume of water on the allocation market and fewer market participants competition has reduced. Market power has been concentrated and a few large traders can influence the amount of water on the allocation market and therefore price. Improved transparency in the allocation market is essential to give farmers confidence the market is not being gamed by large traders.

DELWP WORK UNDERWAY:

The following information was identified in the options paper as new reports to be made available on the Victorian Water Register website.

- **Who owns water?**
 - volume of water entitlements reported by type of owner, such as active irrigator, non-active irrigator, not tied to land, water corporations and environment, with no names given
 - size of allocation holding by type of owner (as above)
- **Where is water trading?**
 - volumes of water trading within and between zones
 - interactive where can I trade tool to show how trading limits work, the current trading limits, and what trade limits were applied in real allocation trades
- **What is the price of water?**
 - every commercial allocation trade, the volume, price and what type of owner bought and sold it
 - every allocation trade with \$0 reported, the volume, and the type of owner who bought and sold, including whether it was between the same owner
 - more accurate reporting on Murray allocation prices, by splitting out above and below the Barmah Choke, and separately reporting available water in these areas.

VFF Comment:

The VFF welcomes efforts to provide more information on the water register as to who owns water. However, it is unclear when this information will be made available and how often. Will this be live data on the register or monthly or annual reports?

The decision to separate active irrigator and non-active irrigator is strongly welcomed. There is a great deal of confusion among farmers regarding water not tied to land and who is using the water.

DELWP does not propose to report information on 'active irrigators' that have chosen to disassociate their water from land. This group also needs to be examined by DELWP.

Greater information about trades at \$0 is also welcomed. This will help farmers confirm that this group really is farmers transferring within their own properties as suggested in DELWP's Water Market Trends Report.

The VFF suggests that DELWP should also explore the carry over behaviour of these groups.

OPTION 1 – FULL MARKET TRANSPARENCY:

The options paper identified full market transparency as making all information in the Victorian Water Register free, publicly available and easy to find and access, including:

- entitlements and allocations, details and names of holders
- transfers of entitlements and allocation, transaction details and names of buyers and sellers
- water use and location, amounts and names of water users
- allocation account balances, a running balance.

VFF Comment:

The VFF do not support a full market transparency option. Farmers wish to retain some level of privacy. The risks are too great for farmer information to be misused by water brokers and other parties. We believe this information could expose farmers commercially sensitive business positions and those farmers with limited time to analyse this information will be at a disadvantage.

OPTION 2- PUBLISH INFORMATION ON LARGE WATER MARKET PARTICIPANTS:

The options paper identified that farmers want to understand how large water market participants are behaving. This option could see when entitlements owned are greater than five percent in a system, their name and volume is automatically listed on the Victorian Water Register, this is similar to what happens on the ASX.

VFF Comment:

The VFF supports Option 2 and the release of further information on large market participants. A precedence for this exists on the stock exchange disclosing large shareholdings.

Understanding actual ownership of water shares by large participants would be welcome. Farmers need confidence that there is not excessive market power operating in the market.

The VFF also request this information discloses non-Australian entities that own water.

This information should be made available for each irrigation zone.

Farmers are also interested in how much carryover these large water holdings are making, information on their carryover practices should also be included, not in real time but over time, in order to show some trends over the last five years.

DELWP is proposing to also examine the most active buyers and sellers in the allocation market.

The VFF believes this will expose some large players on the allocation market, but it would also be useful to group 'non-active irrigators' in this analysis so farmers can understand just how many retired farmers are using water allocation trades as their superannuation.

Excessive Market Power remains a key concern for farmers. The Government must take steps to ensure this does not occur. Section 46 of the Competition and Consumer Act 2010 (Cwth) includes provisions dealing with the misuse of market power. The clause specifies that a person who has a substantial degree of power in a market must not engage in conduct that has the purpose, or has or is likely to have the effect, of substantially lessening competition in the market. Section 50 of the Act enables acquisitions that would substantially reduce competition to be prohibited.

DELWP should develop options to include market rules that prevent the misuse of market power.

OPTION 3 – IMPROVE REAL TIME INFORMATION ON PRICE AND AMOUNT OF WATER AVAILABLE

The options paper identifies the creation of a Southern Basin Exchange. The purpose of a central trading platform would be to:

- provide price data that's close to real time, and give more confidence in the price
- reflect the different water products with their price
- provide an indication of market depth - how much water is available on market.

VFF Comment:

The VFF supports the creation of a Southern Basin exchange. DELWP sought feedback on which items on an exchange are most important:

- 1) How much water is for sale?
- 2) How much has been traded?
- 3) Real time market price?
- 4) Where can I buy from and sell to?
- 5) Who is buying water?
- 6) How much is being carried over?

Options one to four are all equally important. Options 5 and 6 provide interesting information.

A central Platform provides the benefit of being able to have a single price. However the creation of a monopoly exchange needs to be carefully managed. It should be established as a not for profit organisation with a governance structure focussed on the efficient operation of the exchange. Exchange prices should be regulated by an organisation like the Essential Services Commission. Further detail is required before this option can be seriously considered.

The VFF are uncomfortable with longer processing times as the result of a single platform and we believe a central clearing house option should be explored.

Other Water Market Transparency Issues not covered in the Options Paper:

The VFF believe there are a number of other actions that should occur to help strengthen water market transparency, these include:

- 1) Water Brokers and associated persons should not be allowed to have ABA's**
There are multiple stories of water brokers owning ABA's and trading between themselves to drive up water prices.
- 2) Threshold on the Frequency of Water Trades:**
For those selling allocation more than 20 times in an irrigation season they will be forced to disclose the value and volume of their holdings and trade, listed separately on the Water Register as like Option 2.
- 3) Increased regulation of Water Brokers.**
- 4) Allocation Water Purchases linked to Water Use Licenses:**
Farmers remain concerned the allocation water market is being manipulated by those not directly involved in agriculture. This problem could be overcome by limiting the purchase of water allocations to those people who hold a water use licence or a water use registration. People who do not hold a water use licence or registration would not be permitted to purchase water allocations.

This is not rebundling water shares as water can continue to be traded. This change ensures water is purchased by those directly wanting to use it for agricultural use given they have a water use license.

The VFF believes this option is possible through the Commonwealth Basin Plan Act 2012. Chapter 12 of the Basin Plan identifies Water Trading Rules, Subdivision B identifies a number of rules relating to surface water including water delivery right and volumetric limits but not on water use licences.

Clause 12.20 allows 'Basin States to request Authority to make a declaration'. We believe the State Government should commence discussions with the Commonwealth to ensure allocation water purchases are linked to water use licenses.