

Closing the loop report

Water market transparency



Acknowledgment

We acknowledge and respect Victorian Traditional Owners as the original custodians of Victoria's land and waters, their unique ability to care for Country and deep spiritual connection to it. We honour Elders past and present whose knowledge and wisdom has ensured the continuation of culture and traditional practices.

We are committed to genuinely partner, and meaningfully engage, with Victoria's Traditional Owners and Aboriginal communities to support the protection of Country, the maintenance of spiritual and cultural practices and their broader aspirations in the 21st century and beyond.



© The State of Victoria Department of Environment, Land, Water and Planning 2019



This work is licensed under a Creative Commons Attribution 4.0 International licence. You are free to re-use the work under that licence, on the condition that you credit the State of Victoria as author. The licence does not apply to any images, photographs or branding, including the Victorian Coat of Arms, the Victorian Government logo and the

Department of Environment, Land, Water and Planning (DELWP) logo. To view a copy of this licence, visit <http://creativecommons.org/licenses/by/4.0/>

Disclaimer

This publication may be of assistance to you but the State of Victoria and its employees do not guarantee that the publication is without flaw of any kind or is wholly appropriate for your particular purposes and therefore disclaims all liability for any error, loss or other consequence which may arise from you relying on any information in this publication.

Accessibility

If you would like to receive this publication in an alternative format, please telephone the DELWP Customer Service Centre on 136186, email customer.service@delwp.vic.gov.au, or via the National Relay Service on 133 677 www.relayservice.com.au. This document is also available on the internet at www.delwp.vic.gov.au.

Water market transparency- closing the loop report

Introduction

The Department of Environment, Land, Water & Planning (DELWP) consulted with the community on a water market transparency options paper between 26 September and 8 November 2019. This paper looked at three options for reforms to transparency and ways to strengthen public confidence in water markets and understand what aspects of transparency mattered most to the community.

This closing the loop report summarises what was heard through the options paper consultation process.

We thank all of you who provided feedback.

Consultation

Events

Targeted consultation events were held in northern Victoria, public information at the Elmore field days and open house consultation events held across southern Victoria. We had around 200 face-to-face conversations. We heard from a wide range of people, including groundwater users in Gorokey, irrigators in southwest Victoria, growers in Mildura, water service committees across the Goulburn-Murray Irrigation Districts, and water market intermediaries servicing Victoria's different water markets.



Elmore field days

Engage Victoria surveys and submissions

There were 1,223 visitors to the [Engage Victoria](#) webpage, 64 surveys were submitted through Engage Victoria and 19 written submissions were received.

Overall there was a diversity of opinions. We heard how different regions and industries use water markets, and how they think transparency can be improved for them.



- 64 surveys
- 19 written submissions
- 200 face-to-face conversations

Response to Option 1 – Full transparency

Most people consulted wanted greater transparency in water markets, but did not support full transparency where each individual's details were publicly available. People raised concerns including:

- It would be 'a violation of privacy', and it was too 'invasive'. "Commercial in Confidence is a significant factor in any business dealing and we suggest water should not be different." Others raised concerns that full transparency would not comply with the *Data and Privacy Protection Act 2014*.
- 'Farmers with limited time to analyse this information will be at a disadvantage' compared to larger organisations with more resources.
- It could 'lead to unsolicited marketing' as it would 'provide an invaluable resource for anyone to mine for potential buyers and sellers'.
- It could lead to negative press because of misinterpreted data and people jumping to conclusions. 'Making who owns what allocations at a particular time in the present charged atmosphere of finger pointing and name calling would be socially unwise'.
- People would find work arounds by 'creating multiple ABA's [allocation accounts] in different entity names [or] leasing ABA's from others'.
- There is no precedent for fully transparent markets- 'the proposed level of disclosure is far above that of other operating markets'.

Many people stressed that although they did not support of full market transparency, they saw the need for greater transparency in certain aspects of water markets, and that names and personal details were not needed to increase transparency.

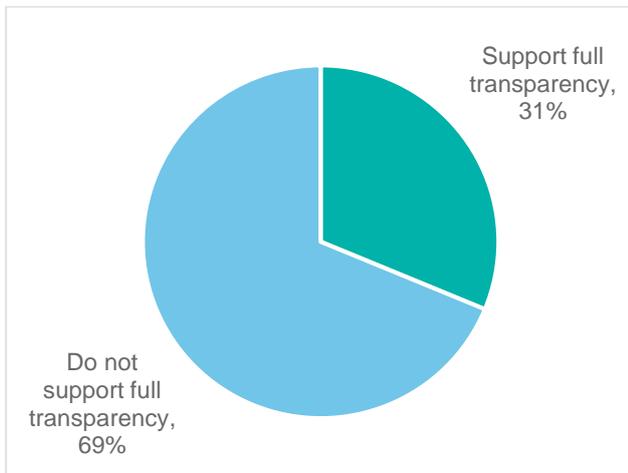


Figure 1: Survey responses to full transparency

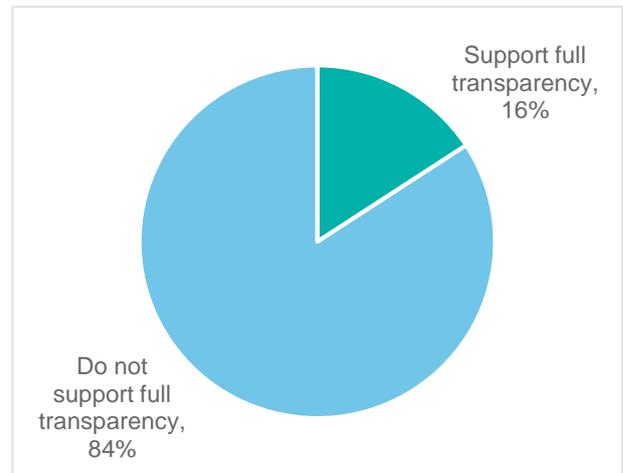


Figure 2: Written submissions responses to full transparency

However, there were people supportive of fully transparent water markets (31% of survey respondents). Three written submissions outlined the potential benefits. Some reasons for support included:

- Full transparency ‘allows all information to be available to all market participants at all times, enabling the market, government and regulators to identify market anomalies and behaviour that are not in the public interest (i.e. holding of water entitlement by non-water users at the expense of social, environmental, cultural and economic policy objectives).’
- It could ‘provide effectual scrutiny and identification of water trading hoarding and/or misuse. Only through full transparency can any negative transactions be identified so any loopholes in the framework can be actioned.’
- People saw water as a public resource that ‘is the lifeblood of Australia’ and should be fully transparent with full accountability.

Information currently available

Water market participants are using a range of information sources, with a lot of people getting information from multiple water brokers.

Sixty-four per cent of survey respondents said that the current water market information does not meet their needs. The general message was that there is plenty information out there, but that it is ‘time consuming gathering it together and sometimes hard to find’ and that DELWP should focus on ‘improving how existing information is collected, processed and reported’.

Some suggestions to improve information were to have ‘national consistency in how water market information is reported’ and have all information in a single location. Better explanation of how the market operates was also requested, such as ‘if inter-valley trade limits data was presented clearly it would definitely add to transparency’.

There were also suggestions to improve the Victorian Water Register website, to make it more ‘user-friendly’, so that those who are interested can drill down into the information if they want to.

Stronger oversight and monitoring

'Transparency in the market is more than who owns the water'. There was a strong theme during consultation that people need confidence that water markets are working and are not being distorted. It was suggested that greater monitoring and oversight are needed to achieve that.

We also heard that information needs to be simple, useful and insightful, so that there are no surprises.

Some of the suggested market indicators that need to be monitored were:

- Market concentration to understand whether the ownership of allocation and entitlement is widening or narrowing over time.
- Reasons for allocation trade - to differentiate between lease, forwards, carryover parking, transfers between accounts held by the same owner, and trades on the allocation spot market.
- River operations, including categorised ownership of water in dams to be able to identify who holds water in storage and how much water is allocated to deliver water.
- Insights on irrigation demand and activity to identify how much of the available allocation is 'committed' to be used.
- How much allocation is held by the environment, privately and by water corporations.
- How carryover is being used 'over time, in order to show some trends'.

We heard that monitoring needs to be complemented with 'confidence that compliance against [water market] laws is actually being monitored and enforced'.

Response to Option 2 – Publish information on large water market participants

Fifty-six percent of survey respondents thought that the names of large water share holders and large allocation holders must be listed on a public register. This desire for more transparency for large holders was expressed less in written submissions but was supported in many conversations with the community.

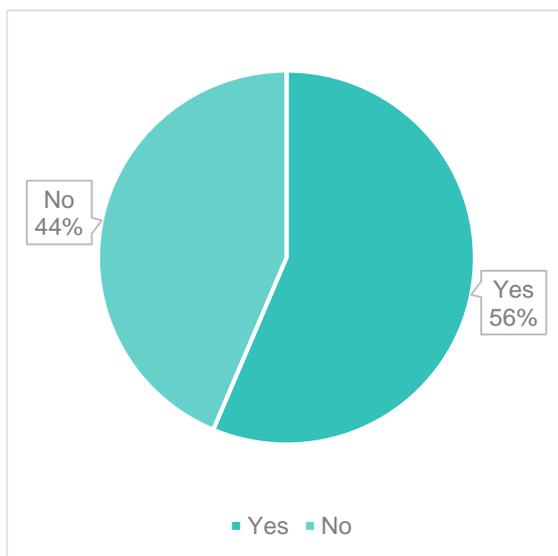


Figure 3: Survey and written submission responses to naming large water market participants

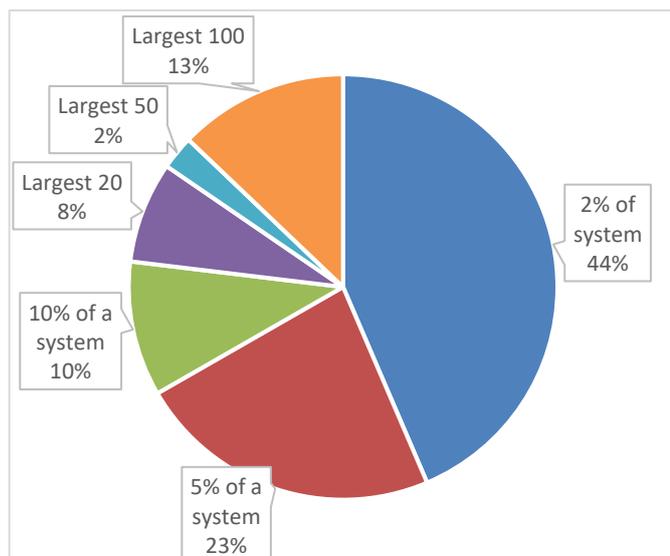


Figure 4: Survey responses defining a 'large' water market participant

People saw that the benefits of this option included:

- Publishing the information is necessary as ‘farmers need confidence that there is not excessive market power operating in the market’ and ‘we will know [if anyone] is distorting the market’.
- There is an expectation that this type of information is required in many other markets – ‘A precedence for this exists on the stock exchange disclosing large shareholdings’.
- Gives insights to other smaller market participants – ‘Growers would like to be able to see when big players in the water market are buying up at specific times, and particularly early in the season’.
- It could reduce potential misinformation – ‘It may reduce the ‘fear of the unknown’.

Of the people who supported this option, the most popular definition of large was owning over two per cent of water in a system.

Concerns were raised that this option would be unfair, as it does not treat all water market participants in the same way. There were also concerns that this information could lead to ‘uninformed assumptions’ and ‘encourage defamation’ as ‘it will only serve to increase the number of unsupported allegations against these large water market participants’. People hypothesised that it would be perceived to be a negative thing to be on such a list, and that it could ‘discourage various participants from participating in the water markets’ which would ultimately be detrimental to market liquidity.

Some people did not have strong feelings either way on publishing information about large water market participants- ‘I’m not sure it will provide any real benefit in terms of price/availability of water, but if it makes participants more comfortable then I would support it.’

Response to Option 3 – Improve real time information in price and amount of water available

Improve existing systems

How much water is available to buy was consistently ranked as the most important information to have in real-time. Information about price was the second most important piece of real time information.

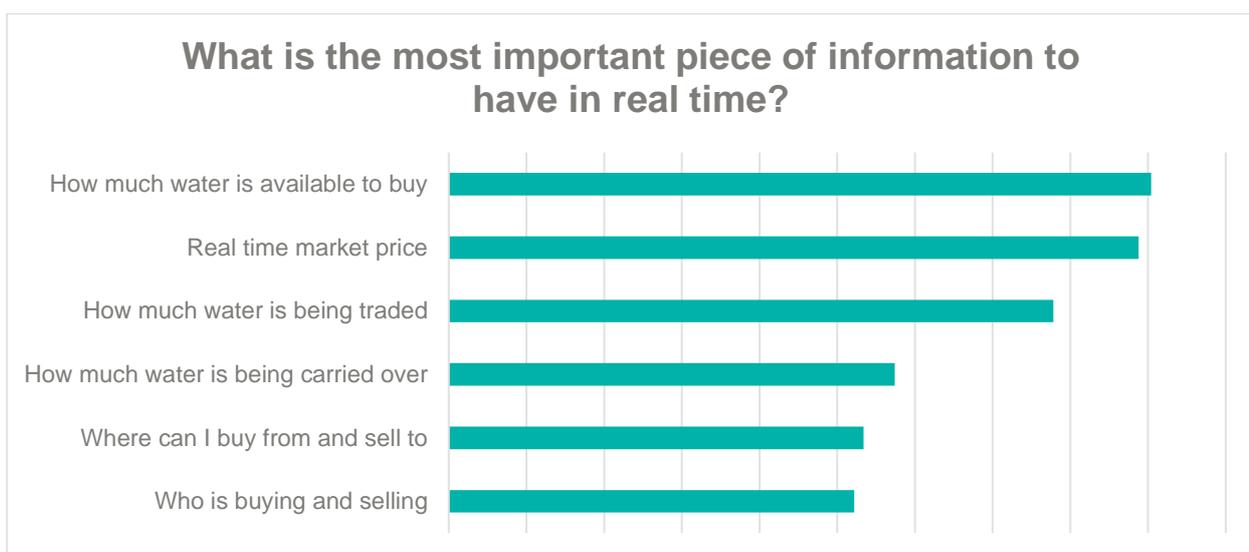


Figure 5: Ranking of information preferences from survey results.

Several submissions called for improving existing systems such as better recording of data in the Victorian Water Register of zero dollar trades by requiring a reason for trade, and publishing prices for unregulated and groundwater systems.

There was also 'support for expansion of an automated trade rules assessment across the southern connected Murray-Darling Basin to provide consistency', as well as requests for consistency in processing times and fees across states.

Central trading platform or exchange

We heard a diversity of views on a central trading platform. Some comments supporting this option included:

- A central trading platform 'will give a true indication of the market without having to visit multiple sites and eliminate duplication of bids and offers'.
- 'The centralised trading platform is essential for transparency, preventing price manipulations and misrepresentations of available volumes on sale'.
- An exchange would 'level the playing field' as everyone would have the same access to information.
- Like other types of markets, water markets have now grown in value and participants to the point where an exchange is a sensible next step. While there have been several attempts at establishing a centralised trading platform, 'no one platform has emerged, however this may just be a matter of time'.

There was a strong call for a central trading platform to be a tri-state solution for the southern connected Murray-Darling Basin water market: 'Any central platform should be supported and include information from all Basin states, not just Victoria'. It was also raised that a platform involving New South Wales, Victoria and South Australia should 'not attempt to affect uniformity of entitlements and allocations'.

There was also interest in developing a customer to customer trading platform in southern Victoria to make it easier for water that isn't used to be traded to increase agricultural production.

There was a general reluctance for a central trading platform if it was to increase costs or processing times. Only around a third of respondents were willing to accept increased costs, with most survey respondents saying they wouldn't want one if it meant increased processing times or transaction costs.

Some of the comments not supporting a central trading platform included:

- 'I'm satisfied with the present system and do not want a more cumbersome and expensive system introduced which will increase prices for no significant advantage'.
- 'A singular market would be susceptible to multiple market manipulation techniques without the appropriate regulation'. Many people pointed to the cost of regulating the Australian Stock Exchange (ASX), and that illegal and 'dodgy' behaviours were common in the past and still happen.
- 'The creation of a monopoly exchange needs to be carefully managed'. 'Multiple exchanges create choice and competition which advantage market participants'.
- 'If NSW and SA are not "in" then there is very little point'.

Other things we heard

Topics outside the scope of the water market transparency options paper were raised throughout the consultation. We have summarised the more common topics here.

Carryover

Comments around carryover were varied.

Some irrigators told us they are 'managing [their] risk of supply through the use of leases, forward contracts and carryover'. The availability of carryover to all market participants helped investors manage risks in providing these water products to irrigators.

There were concerns that those who didn't irrigate shouldn't be able to use carryover, and that carryover should be more limited.

Many wanted more information about how carryover is being used, as well as better price information for water products associated with carryover like carryover parking.

Use of accounts 'not tied to land'

Although it was generally accepted that water markets are operating effectively as an economic market, some of the community expressed the need to treat water markets differently from other markets. They thought DELWP needed to consider social impacts when evaluating the effectiveness of water markets.

This focused particularly on whether activities of accounts 'not tied to land' need to be restricted because 'water is for - food production, industry, environment and communities - not for people to inflate and control and make money from'.

We also heard from people who use accounts 'not tied to land' as part of running their farming businesses. 'Growers are diversifying their risk by putting water entitlements into their superannuation funds, or alternative entities. These super funds then technically become 'traders'[not tied to land]. People are conscious that some traders could be current and retired growers and want to avoid changes that may impact them negatively.'

People talked about the value of 'speculators, investors and retired farmers [as water market] investors in agriculture, they are needed, as every \$1 million invested in water is \$1 million of borrowings a young farmer does not have to pay bank interest on'.

Traditional Owner access to water

We heard at a Traditional Owner workshop in Mildura that the current water management framework does not adequately consider or represent Traditional Owner needs to access water for social, cultural, spiritual and economic development purposes. We also heard that there is a need for the inclusion of Traditional Owners' water knowledge and values in water markets and water management decisions.

Market intermediaries

There were calls for 'a formally regulated water broking industry'.

We heard concerns about market intermediaries influencing market prices through their active participation in the market. People said that market intermediaries 'should not be allowed to have ABAs [allocation accounts]' as they should only broker a deal, and not be a party to it.

As evidence of a different view, we were told that irrigators can benefit from brokers holding allocation accounts like reducing fees when moving water between states, and for moving client's allocation through trade limits such as the Barmah Choke.

Next steps

The Minister for Water has announced a range of activities to improve the transparency of the water market including providing stronger oversight and monitoring, together with publishing reports of large water market participants, exploring a central trading platform and piloting an exchange, and making water market information simpler and more useful.