

# Summary – Water market transparency options paper

DELWP is consulting with the community on increasing water market transparency

## Introduction

The Victorian government understands the need for greater transparency in water markets now. It is important to consult on long term changes that may require legislative change, which is the purpose of this options paper. While this is happening, DELWP will publish more information on how water markets are working now.

Water markets have been evolving for some time across Australia. Victoria is focussed on ensuring there is fair and efficient sharing of finite water resources and for water market participants to choose how they access and use that water, rather than governments.

Large and small markets need to meet Victoria's policy aims of operating effectively, distributing water efficiently across different uses, managing any trade impacts on third parties and providing participants with open access and the confidence to make informed decisions.

As the market price of allocation has increased to sustained high levels in 2018-19 and the current season, communities have raised concerns about the transparency of water markets and the ability of markets to serve their intended purpose.

Factors contributing to these concerns include:

- recent droughts, climate extremes producing low rainfall and inflows to dams, and climate variability causing uncertainty about water supply
- a permanent decline in water available for irrigation following Commonwealth water recovery for the environment and the impacts of limits to consumptive use under the Basin Plan
- sustained high water prices, with allocation water increasing from around \$200 per megalitre (ML) to \$800 per ML since early 2018
- fierce competition for water, with water shifting from dairy to horticulture and large-scale plantings increasing the total demand for the same amount of water available in the southern-connected Basin
- emerging newer market participants, including water funds and other large holders
- many irrigators sourcing their water through the allocation market and other new products like leases and forward contracts rather than holding entitlements directly as water shares
- media reporting concerns about speculators' influence on markets, as well reports of alleged water management misconduct in the wider Murray-Darling Basin.

Some of the people involved in water markets have suggested their concerns would be addressed best by full or greater levels of transparency, with more detailed information about who is buying and selling water in the market.

In May this year, the Minister for Water asked the Department of Environment, Land, Water & Planning (DELWP) to investigate 'the options and benefits of a completely transparent water trading system, to provide confidence that the market is working for irrigators and not being distorted.'

# Summary – Water market transparency options paper

The Australian Competition and Consumer Commission (ACCC) is now reviewing markets for tradeable water rights across the Murray-Darling Basin and exploring options to improve the operations, transparency, regulation, competitiveness and efficiency of those markets. Victoria is sharing information to help with the ACCC's review.

## Consultation: what people are saying and what we've heard

To inform the development of the options in this paper there was an early round of targeted community consultation in northern Victoria in July and August. DELWP heard a wide range of views from farmers and stakeholder groups, including:

- concerns about commercial confidentiality in a fully transparent water market
- a desire for more transparency about large water holders to ease fears about risks of manipulation and excessive market power by people who own, buy and sell large volumes of water
- there was not enough information available about the markets, and the available information can be hard to find and understand
- accurate real-time information about price and market depth is really important; including tighter rules around zero-priced trades and recording market products like forwards and leases
- questions around high water prices and allowing non-irrigators to invest in the water market when the 'real value of water is to grow food and fibre.'
- calls for a central water exchange for the southern-connected Basin 'to know the real price of things.'

These views reflect what is being said in the media and have informed the development of this options paper.

## Review: what makes an effective market and how do Victoria's water markets compare to other markets?

The options paper has:

- looked at what makes an effective water market and found that better access to clear and easily understood information improves market function.
- considered what full transparency would mean for water markets.
- compared Victoria's markets to other water markets in South Australia and New South Wales. We found that there are extremely similar levels of transparency in the three markets, with NSW having slightly more de-identified market information available than Victoria. The accuracy and currency of price data is a challenge for all three states, as water registers are valuable historical databases, and various brokers and exchanges and other service providers are relied on significantly for 'current' prices.
- compared Victoria's water markets to other markets like the Australian Stock Exchange, Victorian property market, Chicago Mercantile Exchange Group and Victorian rock lobster fishery, and their levels of transparency. Some of these markets have examples of price and market depth information that could benefit Victoria's water markets. Most have similar levels of transparency for personal information and generally do not disclose it because of commercial sensitivity.

## Options for consideration and feedback

The options presented in the paper are not mutually exclusive, and several or all can be pursued. These were selected because they address the main concerns raised in targeted community consultation. The options are:

- full market transparency
- publish information on large water market participants
- improve real-time information on price and amount of water available.

# Summary – Water market transparency options paper

The options discussed in this paper all have potential to increase water market transparency. However, as they may require regulatory change that could take some time, a work program is underway to increase water market transparency immediately. DELWP will publish more information on how water markets are working now to directly respond to the community's concerns about:

- Who owns water?
  - volume of water entitlements and allocations reported by type of owner
- Where is water trading?
  - volumes of water trading within and between trading zones
  - interactive tools 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 allocation trade, the volume, price and what type of owner bought and sold it
  - more accurate reporting on Murray allocation prices, by splitting out above and below the Barmah choke
- How to find information that is easier to understand
  - a new Water Market Watch mobile app with key water market information
  - sharing water market information through social media and other information channels
  - a public annual report on all of Victoria's water markets
  - supporting the new interstate Waterflow information website.

## Option 1: Full market transparency

Full market transparency means 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.

Full transparency could produce better price accuracy of reported trades and a closer view of the behaviour and strategies of brokers, water funds and other parties. It may mean a greater level of scrutiny, but it's not a substitute for regulatory oversight or compliance and enforcement.

Making private information public could reveal the commercially sensitive business and operational positions, strategies and business relationships of individuals or enterprises.

Our initial consultation suggests this could increase market manipulation and cause broader market and regional or community issues.

Currently the *Water Act 1989* prevents personal details being shared about allocation owners, so it would take legislative change to reveal private details in allocation accounts about periodic and total water use, service points, allocations and carryover. This could take some time.

## Option 2: Publish information on large market participants

The targeted focus group consultation indicated that people were not universally in favour of full market transparency, but they were interested in greater transparency about bigger buyers and sellers with potential power to manipulate the market.

# Summary – Water market transparency options paper

People wanted to know:

- who are the largest holders of entitlement?
- who are the most active buyers and sellers in the allocation market?

There have also been calls to introduce a disclosure requirement similar to the ASX.

This option of publishing information on larger market players addresses stakeholders' desire for greater transparency but avoids some of the issues raised about full market transparency. However, people may use this information to conclude that large players are acting illegally, when it is not illegal to have a large market share. There is also a risk that people will find workarounds to avoid being published on these lists.

Large water market participants can be defined in several ways. For entitlements it could be when an organisation or individual owns more than five per cent of entitlements in a system, and their name and volume held are listed on the Water Register website. This is similar to what happens in the ASX.

This threshold percentage could be smaller or larger, depending what the community perceives is a big enough system share to potentially manipulate the market. Another option is to publish the top 20, 50 or 100 entitlement holders in a list with the volume of their entitlement. A percentage threshold may be harder to implement for allocation as the total amount of allocation changes regularly, so a list could be published of the top 20 by volume, or another number that's decided.

The *Water Act 1989* would need to be amended to provide this information publicly, and legislative change can take some time.

## Option 3: Improving price and market depth information

A central water trading platform across the southern connected Murray-Darling Basin could work to provide more accurate information, either as an exchange, trading platform or other product.

Consultation has indicated that market participants often do not trust the allocation price currently reported in the water market.

Knowing the accurate price of allocation is critical information that people rely on for trade. Sellers are unlikely to trade water unless they are sure they are getting a fair price, and buyers need a way to find available water to know if they are in a position to buy.

The allocation price can vary across different water brokers and can be different from the price published on the Victorian Water Register, which lags the market by at least several days. Multiple platforms and competing water brokers can each list a single parcel of water, giving the false impression that there is lots of water available.

Irrigators involved in the highly-connected water market in northern Victoria need to see how that market is working across state borders and be able to get accurate prices for other allocation-based products, like leases and forward contracts.

Market participants say they would be more confident about information on price and available volume from a trusted single point of reference, rather than from multiple sources. This would help them easily identify and compare the volume and price of available allocation and the market's liquidity.

The purpose of a central trading platform would be to generate accurate, real-time price data, reflect the prices of different water products and indicate the market's liquidity and general confidence in price.

A central trading platform might result in higher transaction costs and changes to processing times, and prompt approval of applications would be critical. Although a central platform might reduce concerns about misleading information on prices, it could also create big changes to the business models of existing water brokers. This will need to be weighed up against the potential benefits of providing more transparent market price and depth information.



# Summary – Water market transparency options paper

## Next steps

Recognising that these options may take some time to develop and implement, DELWP is currently working on improving access to water market information to improve water market transparency within the current legislation and regulations. New technologies are being explored, as well as a range of deidentified aggregated information products and links with other Basin states' information.

## Have your say

Engagement on this options paper will be through submissions on Engage Victoria and community conversations. Face-to-face sessions start across Victoria on 1 October, details are on Engage Victoria.

DELWP will provide a consultation summary and recommendations to the Minister in November, for a decision by the end of 2019. The consultation summary will be available on Engage Victoria.