



National Water Reform 2024

Productivity Commission
GPO Box 1428
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Via email: water.reform.2024@pc.gov.au

1 February 2024

Productivity Commission,

Re: Submission to the Productivity Commission – National Water Reform 2024

Water in the Murray-Darling Basin (MDB) is being controlled and managed by competing self interest groups with seemingly little regard or dialogue to ensure water management decisions are continually made (with the latest information) in the best long-term National interest. The key user groups of water (environmental requirements, consumptive users, and water traders) are not working together collaboratively to enhance the National triple bottom line environmental, social and economic outcomes. The current “us” and “them” mentality is likely working against the National interest and negatively impacting those environmental, social, and economic outcomes.

The Productivity Commission are perfectly placed to identify the issues and take a leadership role in developing frameworks to ensure decisions are made with appropriate dialog, justification and vigour considering the triple bottom line. This is particularly vital during drought periods when water use decisions are critical.

Consistent with the above preamble, this submission outlines two profoundly important concerns for the Productivity commission to consider/investigate. If not addressed, both have potential to have dire impacts on future productivity and the triple bottom line in the MDB and therefore Australia’s food security and productivity in general. The specific concerns/questions are:

1. **Concerns with water trading in the MDB.** The growing size and impact of non-consumptive water investors will have a devastating impact on farmers and farm communities during drought periods. The attached report highlights potential distortions in the Southern Murray Darling Basin (SMDB) and water market. The attached report is set out in two parts:
 - A. Current governance issues in the water trading market
 - Consistent with the findings of the ACCC, there are significant deficiencies in the governance arrangements for the water market that undermine its efficiency, create mistrust, and allow potential for market manipulation.

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- Despite governments' endorsement of the recommendations to address these deficiencies, no changes have yet been implemented to address them.
- B. The growing size and impact of non-consumptive water investors in the SMDB water is having a devastating impact on farmers and farm communities during drought periods.
- The frequency and severity of droughts is likely to increase making it more important now than in the past for the government to reassess the role of investors in the market during drought periods.
 - During drought conditions the SMDB water market does not work like a textbook market. Misuse of market power or over-pricing caused by low-risk, high-return speculative activity by investors have the potential to distort the market and threaten the very viability of farm businesses and permanently damaging local economies dependent on the farm sector.

(SEE ATTACHED REPORT "ANALYSIS OF INVESTOR INVOLVEMENT IN THE SOUTHERN MURRAY DARLING BASIN")

2. **Concerns with the sheer volume of water entitlements¹ (circa 30% of all entitlements on issue) purchased in recent years by the Commonwealth Environmental Water Holder (CEWH) and the way it is managed especially in dry years.** It is important to note that CEWH entitlements were purchased from Irrigators and have NOT been rescinded to benefit natural river flows and therefore they now compete directly with consumptive users for storage space in reservoirs and delivery capacity². Arguably, this has caused the volume of water available (for agriculture, industry, and town water (consumptive users)) to drop by approximately 30% in the MDB and the security of this water is lower as reservoirs now hold huge volumes of CEWH entitlements. We believe the following should be considered.
- A. Investigate triple bottom line productivity gains and benefits that could be made by sharing of the CEWH resource in drought periods between the environment and consumptive users from
- a. leasing water to consumptive users during drought to generate enormous revenue to fund future environmental initiatives.
 - b. using water for defined environmental purpose upstream and then leasing any residual that flows back into the river to downstream users leading to the use of water for two important purposes rather than just one.
- B. Investigate triple bottom line gains of rescinding part of the CEWH water holding to
- a. increase natural river flows.
 - b. increase water security for consumptive users.

¹ As at 31 October 2023, the Commonwealth environmental water holdings total 2,888,695 megalitres of registered entitlements of which 1,729 GL is held in the southern-connected basin.

² The Commonwealth Environmental Water Holder (CEWH) is subject to the same rules and regulations as other Basin water entitlement holders and can use, carry-over, transfer and trade annual water allocations to achieve the best possible outcomes and value from the Commonwealth portfolio of environmental water for the Australian community.



- C. Investigate CEWH mandatorily selling its “carry over” rights each year to consumptive users to
 - a. generate material revenue to fund important environmental initiatives.
 - b. improve water security for consumptive users.

Thank you for considering this submission.

Yours sincerely

Rob McGavin
Co-founder and Chair