

**AUSTRALIAN SCIENCE MEDIA CENTRE  
TRANSCRIPT  
Background briefing: Water – What's not being said**

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Good morning. I'd like to discuss this morning the Australian water market, and I think more and more we hear in the media the importance that's been put on the Australian water market by governments, by irrigation communities and by environmental managers. And while it certainly is of vital importance, there is certainly some issues as well in regard to developing a fully efficient market place. So I'll be talking about some of the vital statistics to describe the water market, but also what some of the vital problems are and issues are that we need to address, if we are indeed going to get an efficient market place.

With regards to the vital statistics, some of the things we need to be aware of is that there is no national water marketplace. We often talk about an Australian water market, but effectively we have a series of regionalised markets. And by far the most significant regional market in Australia is in the southern Murray-Darling Basin, and it's one of the most mature water markets in the world. We'd estimate that there's around 8,000 gigalitres of entitlements available there, so that's the right for people to extract water. That's about 16 Sydney Harbours worth of water entitlements available in the southern Murray-Darling Basin. In a year like we've just been through in 2007-08 where there have been lower allocations of water, there's been about 1875 gigalitres of allocation, so only 25% of water has been allocated to those licences. When we talk about markets as well, there are two different things we need to consider. One is the entitlement markets, so the market around the right for people to extract water, and also the market for allocations, which is people's ability to pull water out of the river on a given year.

If we take a look at value, the water market is now getting to a serious area in terms of its total value. We'd estimate that in the southern Murray-Darling Basin the total value in entitlements is around about \$12 billion and if we look at the volume, or the value of water that's being traded, each year it's round about \$1.3 billion.

The other thing, though, is we find that even though the market's maturing, and there is extreme volatility. We look to last year, and prices which irrigators are paying is they're looking at how they balance their water needs for various crops in drought conditions. Prices varied from as low as \$180 a megalitre, so per olympic sized swimming pool, up to \$1,200 a megalitre, so we're in a marketplace where there is significant volatility. We also find that there is greater stability, though, for people who are buying those rights, or the actual licences. And we see much smaller variations in price.

So there's some of the vital statistics. I think one of the interesting issues, though, as we look towards what are the problems that are facing the Australian water market, and particularly as we look towards, so to speak, fixing some of the leaks. And there are really four different issues here. The first one is transparency, and I'll describe these a little bit more, we have liquidity, there are administration issues and settlement procedures.

Transparency is really all about what information is available to licence holders on how the market operates. It's not just about irrigators, this is about environmental managers as well, it's

about all operators within the market. There is very limited information available, and we find that people are irrigating within individual irrigation districts often end up contacting water market intermediaries such as water brokers to get information on how you can trade, because there's not enough information available on the main irrigation district, there's not enough information available from governments. So transparency is essential.

Liquidity is another issue, as in the volume of water that's in the market place, and this is where we see the ACCC is now taking a much greater role in looking at what are, for example, issues like barriers of trade, how are they being addressed, which ultimately impact on liquidity and the volume of water in the market place. The two issues, though, that I'd like to focus more on are around administration and settlement procedures. I think by far one of the biggest issues we need to address, with regards to administration, is the fact that the water market is an unregulated industry. Water brokers aren't regulated and there's no regulation around the way that governments are involved and irrigation authorities are involved.

Let's just think about this for a moment. This is an industry, a water market place where governments are looking at investing well over \$3 billion of public funds in the years to come, and it's not a regulated industry. We suggest that there are a number of issues that need to be considered as part of this. One of them is there needs to be a national body who will regulate the involvement of participants in the water market. And when I talk about participants, we're talking about water brokers, as in water market intermediaries. We're also talking about government authorities and irrigation authorities, any supplier across the board. When it comes to water brokers though, we need to look at things like audited trust accounts. These are things that are accepted in other industries. We also need to make sure the appropriate insurances are in place. We'll need to look at separation of regulatory and approval processes, and also fines for non-adherence. So I repeat that we're in an industry here, a water broking industry, and in a market place where there is a significant lack of regulation. We've got significant investment of public funds and we do need to move towards greater regulation.

Another issue here is around settlement procedures. Now, it's one of those things that may not necessarily sound interesting when you first hear about it, but if I say to you that if you're within a single state at the moment, you may be able to get a water trade approved within the space of a couple of days, but if you're trading interstate, that trade may take up to three months. And if you're an irrigator who's perhaps got the bank on the phone looking at how do you finance your loan, you're waiting for three months for your money to come through, that's not acceptable. Nor is it acceptable for someone who's looking at irrigation on their property, waiting for three months for water to come through. So we have a situation whereby settlement procedures are extraordinarily slow. One might ask well, what's the answer to this? Well, the answer was spelt out partly in the National Water Initiative a number of years ago, and it was supposed to have been delivered back in 2006, and we're here in 2008 and we still haven't had significant movement. And what we talk about there is regards to having centralised registers which would simplify the way that water trading takes place. It may not even be a register, it could even be a platform but a way by which we streamline the processes for interstate trades. And we hope to move away from a situation where someone who's buying allocation for a given year, rather than waiting for three months, they wait for a couple of days. And for those people who are actually buying entitlements, rather than waiting for six to nine months, the waiting for a period of perhaps 2-3 months.

So what I'd suggest is that the Australian water market place has a lot more reliability being put on it with regards to governments being able to buy back water through it, and generally it is a strong plank in the National Water Initiative. And while it is maturing, it is certainly far from maturity and there are issues like transparency, liquidity, administration and settle procedures, all of which need to be addressed if this market is to become efficient and perform the duties we need it to do in making areas like the Murray-Darling Basin sustainable.

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