

**Australian Competition & Consumer Commission
(ACCC) Murray-Darling Basin Water Markets Inquiry
– Final Report Summary**

Riparian Capital Partners Pty Limited

March 2021

Disclaimer

This document is intended for investors, professional advisers and asset consultants only. The information contained in this document is for information purposes only and has been prepared for use in conjunction with a verbal discussion and should be read in that context.

This document is prepared by Riparian Capital Partners Pty Ltd ACN 630 179 752 (**RCP** or **Riparian**) as corporate authorised representative of Pinnacle Investment Management Limited ABN 66 109 659 109 AFSL 322140 (**PIML**).

This document has been prepared to the best of the knowledge and belief of RCP. The document is comprised of statements of intent and opinion (including as identified in relevant footnotes), many of which may or may not be realised or be accurate. Whilst RCP believe the information contained in this communication is reliable, and in the case of statements of intent and opinion, based on reasonable assumptions, no warranty is given as to its accuracy, reliability or completeness and persons relying on this information do so at their own risk. Further, none of the RCP, PIML or any of their respective directors, members, associates or related entities, nor any other person makes any guarantees as to the tax consequences of an investment in the Riparian Water Fund. RCP disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. The information is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment.

Any opinions, forecasts or other forward-looking statements reflect the judgment and assumptions of RCP and their representatives on the basis of information at the date of publication. These statements involve known and unknown risks, uncertainties and other factors which are subject to change without notice. Any projections contained in this document are estimates only and may not be realised in the future.

Past performance is for illustrative purposes only and is not indicative of future performance. Unless otherwise specified, all amounts are in Australian Dollars (**AUD**). The information is not intended for any general distribution or publication and must be retained in a confidential manner. Information contained herein consists of confidential proprietary information constituting the sole property of RCP and respecting their investment activities; its use is restricted accordingly. All such information should be maintained in a strictly confidential manner.

The information is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from RCP. RCP and their associates may have interests in financial products and may receive fees from companies referred to during this communication.



Table of Contents

Disclaimer	2
Table of Contents	3
1. Introduction.....	4
2. Background	4
3. Final Report Key Takeaways.....	4
4. Conclusion	6



1. Introduction

Riparian Capital Partners Pty Limited (RCP or Riparian), a specialist water, agriculture and food investment firm, was established with the specific purpose of identifying, acquiring and managing investments across the agricultural sector.

The Riparian Water Fund, managed by Riparian, operates a focused water investment strategy, leveraging networks and sector expertise to own and manage a diversified portfolio of Australian water entitlements. In doing so, the fund seeks to provide;

- investment opportunities across Australia's globally unique water markets;
- an alternative source of liquidity to enable farmers to improve financial efficiency and the sustainability of farming operations;
- an alternative capital source to support the development and expansion of farming operations; and
- a broad range of products to enable farmers to manage water access and price risks.

In July 2020, Riparian provided a summary of the outcomes of the Murray-Darling Basin Water Markets Inquiry Interim Report published by the Australian Competition and Consumer Commission (ACCC). This paper seeks to provide a summary of the final report which was made publicly available on 26 March 2021. In many instances, Riparian has extracted direct quotes from the final report to compile this summary.

Riparian notes that the outcomes of the final report do not materially deviate from the preliminary report and provides a clear set of recommendations designed to improve the functioning of the Murray Darling Basin's water markets. Riparian is broadly supportive of the recommendations made and considers the inquiry another positive step in the maturation of Australia's water markets.

2. Background

The ACCC conducted an inquiry in response to a direction by the Treasurer, the Hon Josh Frydenberg MP, to examine markets for tradeable water rights in the Murray-Darling Basin (the Basin). The ACCC was asked to recommend options to enhance markets for tradeable water rights, including options to improve operations, transparency, regulation, competitiveness and efficiency.

The structure of the inquiry provided for:

- An interim report ([Available Here](#)). The interim report was released on the 30 July 2020 and relied upon analysis of comprehensive water market data from 2012 onwards, and the views of a broad range of people with interests in the use and trade of water in the Basin.
- A final report ([Available Here](#)). Following the interim report, the ACCC invited feedback on the preliminary conclusions and conducted further inquiries in their preparation of the final report which was made public on 26 March 2021.

Riparian contributed responses to both the interim and final report processes. These submissions are publicly available. Riparian's summary of outcomes from the interim report are available on request.

3. Final Report Key Takeaways

The following are key excerpts from the ACCC Final Report:

- *Basin water markets are critical to the efficiency and productivity of Australian agriculture.*
- *Water trading has brought substantial benefits to many water users across the Basin. Water markets allow irrigators to increase their water supplies, to earn income by selling their water rights when*



they are more valuable to someone else, to expand production, or to release capital for investment in their businesses. In turn, water trading promotes efficiency of dependent industries and delivers broader benefits to the Australian economy.

- *The benefit of water markets is demonstrated by the fact that, despite tough and volatile climatic conditions, the value of production from irrigated agriculture in the Southern Basin has trended upwards in real terms since 2010–11.*
- *Dismantling existing water markets would mean the benefits that markets provide to many water users would be lost, and this would be to the detriment of the Australian economy. It would also significantly diminish the value of water entitlements, which make up a substantial proportion of the assets owned by irrigation farmers.*
- *Importantly and contrary to media reports in recent times, after “extensive analysis”, the ACCC did not find evidence that investors exercised market power or manipulated markets to increase water prices in the Southern Connected Basin.*
- *The ACCC reaffirmed it does not support the position of some water market users who have called for a return to the system where water ownership was tied to land, perhaps with some limited trade between water users only.*
- *Investors provide benefits to water markets. They provide new sources of capital to irrigated agriculture, increase water market liquidity, and provide a range of water products which help irrigators manage water supply risks.*

As in its interim report, the ACCC acknowledged that despite the clear benefits of water markets, the benefits have not been equally shared across all participants and regions. The ACCC also identified shortcomings in the market framework and trading arrangements which the ACCC concluded have not kept pace with the significant changes that have occurred in the basin since water markets were established.

In response, the ACCC has recommended a package of reforms which aim to enhance the markets for tradable water rights and improve market operation and efficiency so that they work better for market participants and deliver enhanced benefits for the Australian economy. Many of these recommendations address specific issues identified by the ACCC as outlined in the interim report. These recommendations are categorised under four central themes:

1. Governance of water markets;
2. Market integrity and conduct;
3. Trade processes and water market information; and
4. Market architecture.

Outlined below is a summary of key recommendations provided by the ACCC in its final report:

- Create a Basin-wide Water Markets Agency, that will focus on facilitating efficient water markets by helping users to navigate markets, ensuring markets operate fairly and with integrity, and providing a market focused perspective for water management decisions through advice to governments.
- Implement Water Market Data Standards, a public-facing Water Market Information Platform and a Basin-wide Water Market Education Program with the objective of increasing market transparency, improve data quality and data flows and the understanding of market participants.
- Introduce new, Basin-wide legislation to protect the integrity of water markets and regulate the operations of stakeholders and conduct of participants, particularly intermediaries.



- Introduce a mandatory code specific to water-market intermediaries (i.e. water brokers and exchange platforms), and ensure that intermediaries are subject to the standard safeguards that apply in similar industries.
- Strengthen current market architecture to include among other things; increased transparency regarding water allocation decisions, river operations, conveyance losses, intervalley trade mechanisms, and improving hydrological models.

4. Conclusion

Riparian is supportive of the findings and recommendations of the ACCC's final report as it considers the findings consistent with the outcomes of previous reviews into the Australian water markets and the objectives of the National Water Initiative (NWI). Riparian sees this as an important and positive step in the ongoing implementation of the Murray Darling Basin Plan (Basin Plan) and general maturation of water markets across the Basin and Australia as a whole. The Basin Plan was designed to be flexible and adaptable to incorporate where possible feedback from reviews such as this.

The recommendations do not suggest investor participation in Australian water markets is disadvantageous to other market participants, nor at risk of regulatory change. The importance and positive contribution of investors participation in the market was noted by the ACCC and confirmed by a range of farming lobby groups including the National Farmers' Federation, the National Irrigators Council, the NSW Farmers Association and the Victorian Farmers Federation Sunraysia Branch.

The recommendations are another important step towards a more transparent and equitable water market, to increase the efficiency of Australia's water use, leading to greater certainty for investment and productivity, for rural and urban communities and for the environment.

End 280321

