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**Australian Bureau of Agricultural and  
Resource Economics – Bureau of Rural Sciences**

## **Irrigators' experience with water market intermediaries**

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## Introduction

Water trading among irrigators in Australia has expanded considerably in the past decade, partly because of the institutional reforms under the National Water Initiative that are intended to facilitate trade. In addition, increased scarcity of water and strong competing demands have increased the relative marginal return to water as an input, which has increased the price of water on the market. Trade has taken place for both annual allocations and entitlements. The major part of water trading in Australia is facilitated by water market intermediaries (such as water brokers and water exchanges).

The Australian Competition and Consumer Commission (ACCC) has a role in developing the Basin Plan water trading rules and monitoring complaints. In 2010, the ACCC commissioned ABARE-BRS to conduct a survey to collect information on irrigators' experiences with water market intermediaries. The main objective of this survey was to gain a better understanding of why irrigators choose particular intermediaries, whether any problems have been experienced in their dealing with intermediaries, and whether they are aware of avenues that could be used to report on any problems relating to water trading with intermediaries.

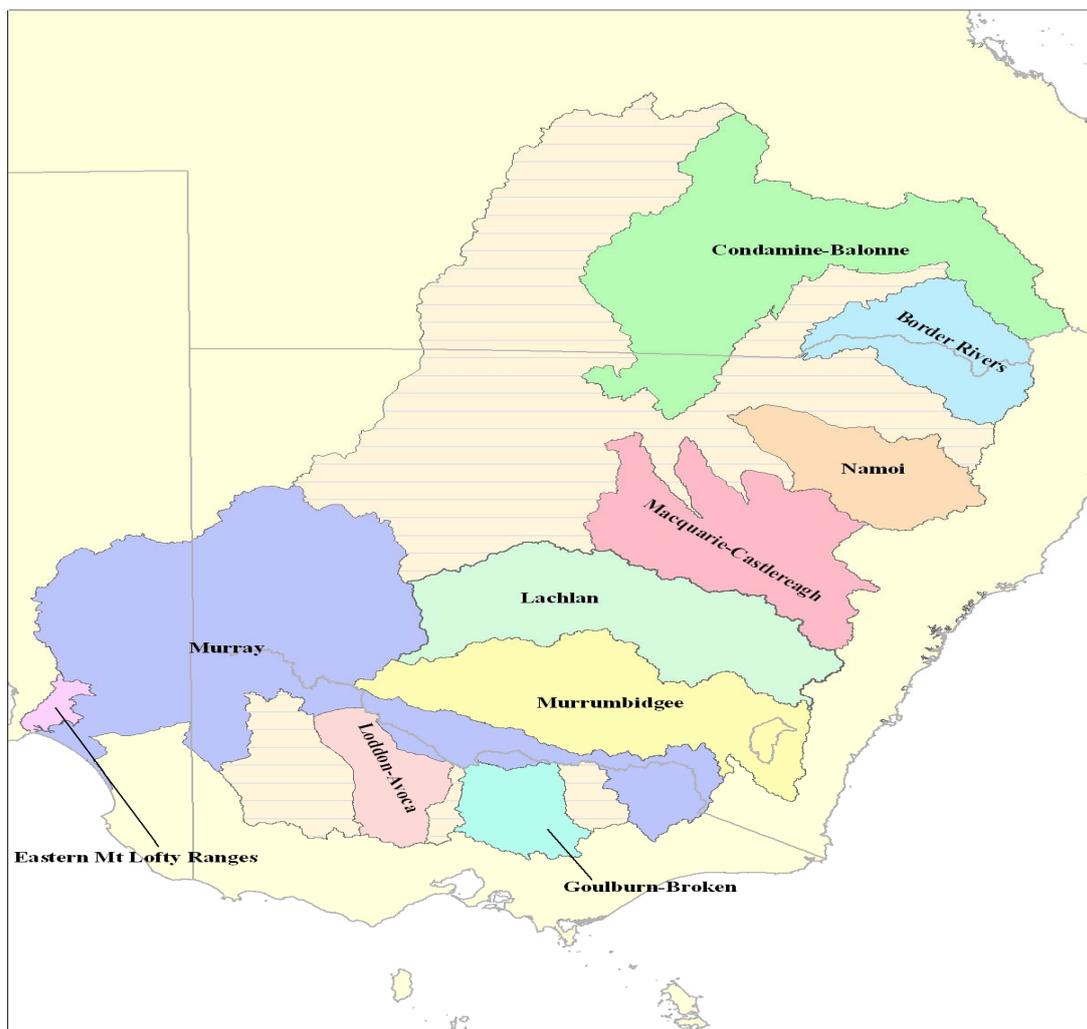
This report also contains results from a supplementary survey of irrigators participating in the ABARE-BRS survey of irrigation farms in the Murray-Darling Basin in 2008-09. The initial survey was conducted in 2009.

## Survey data and target sample

### Farm survey data

The ABARE-BRS survey of irrigation farms in the Murray-Darling Basin provides coverage of irrigation farms in the broadacre, dairy and horticulture industries within 10 regions throughout the Basin. The survey regions were Condamine-Balonne, Border Rivers, Namoi, Macquarie-Castlereagh, Lachlan, Murrumbidgee, Murray, Goulburn-Broken, Loddon-Avoca and Eastern Mount Lofty Ranges. Some regions in the Basin were not covered by the survey because they contained a relatively small number of irrigation farms.

### Map A Reporting regions in the Murray-Darling Basin



The main irrigation survey was conducted using face-to-face interviews with irrigators to obtain detailed farm financial and physical information. Results of this survey are reported in ABARE research report 09.21 *An economic survey of irrigation farms in the Murray-Darling Basin: Industry overview and region profiles 2007-08*. The supplementary survey for this analysis was undertaken by telephone and involved a set of nine questions on farmers' experiences with water market intermediaries and whether they were aware of avenues available to report any issues relating to water trading with intermediaries (see appendix A for questions).

## Target populations

ABARE-BRS surveys are designed and samples selected based on a framework drawn from the Business Register which is maintained by the Australian Bureau of Statistics (ABS). This framework includes agricultural establishments (ie. Farms) classified by size and industry in each statistical local area.

To be eligible for the irrigation survey, farms had to be commercial with an estimated value of agricultural operation (EVAO) of \$40,000 or more and engaged in irrigated agricultural activities during 2006-07 (based on ABS Agricultural Census data), and be defined as broadacre, dairy or horticulture industry farms. Further details of the irrigation survey methodology can be found in ABARE research report 09.21.

A sample of 854 farms were interviewed for the ABARE-BRS survey of irrigation farms in the Murray-Darling Basin in 2008-09. From that sample, a subset of 326 farms that had participated in water trading during 2008-09 was selected to participate in the ACCC supplementary survey of irrigators experiences with water market intermediaries. Results are presented as the percentage of responding farms and have not been weighted to represent the population of farms in the Murray-Darling Basin.

## Survey results

### Water trading

Water trading involves either the transfer of ownership of permanent water entitlements or purchases/sales of irrigation water on a temporary basis, usually within an irrigation season. In 2008-09, an estimated 3 per cent of irrigation farms in the Murray–Darling Basin were involved in trade (either buying or selling) in permanent water entitlements (Table 1), compared with around 4 per cent in 2007-08 and 2 per cent in 2006-07. Around 27 per cent of farms across the Basin traded temporary water in 2008-09, compared with 30 per cent in 2007-08 and 23 per cent in 2006-07.

**Table 1 Water trading, Murray–Darling Basin, by industry, 2008-09**

*Percentage of farms*

		Horticulture	Broadacre	Dairy
<b>Permanent entitlements</b>				
Buying	%	1	2	5
Selling	%	2	5	6
<b>Temporary irrigation water</b>				
Buying	%	35	5	20
Selling	%	18	39	35

Source: ABARE survey of irrigation farms in the Murray–Darling Basin.

### Use of water market intermediaries

Results to follow are based on responses from the 326 farms selected to participate in the ACCC supplementary survey of experiences with water trading intermediaries.

An estimated 77 per cent of these farms indicated they had used a water market intermediary in the last two years, with many of farms using more than one type of intermediary (Table 2). Of the farms that had used a water market intermediary, water brokers (72 per cent) and water exchanges (35 per cent) were the most common type of intermediary used. At the same time, 15 per cent of irrigators used an intermediary other than a water broker or a water exchange, including privately negotiated sales, real estate agents, and solicitors.

The majority of irrigators who used a water market intermediary selected the intermediary used on the basis of previous experience (62 per cent) or word of mouth (33 per cent).

### Problems with water market intermediaries

Only 14 per cent of irrigators who used a water market intermediary in the last two years indicated that they had experienced a concern with a water market intermediary. Although relatively few in number, the main concerns indicated were delays in submitting trades to approval authorities (31 per cent of those who had experienced a concern) and mistakes being made by the intermediary (29 per cent of those who had experienced a concern). Less than half the irrigators that experienced a concern with a water market intermediary reported the problem, mostly to the water market intermediary.

**Table 2 Supplementary survey results, Murray–Darling Basin, 2008-09***Percentage of responding farms*

		Yes	No
<b>Have you ever used a water market intermediary in the last two</b>	%	77	23
<b>Type of intermediary used</b>			
Water broker	%	72	28
Water exchange	%	35	65
Other	%	15	85
<b>How did you select the water market intermediary you used?</b>			
Word of mouth	%	33	67
Previous experience with the intermediary	%	62	38
Recommended by irrigation infrastructure operator	%	9	91
Required to by irrigation infrastructure operator	%	2	98
Low charges/commissions	%	11	89
The intermediary uses a trust account	%	13	86
The intermediary has professional indemnity insurance	%	11	89
Member of the Australian Water Brokers' Association	%	14	85
Other	%	27	73
<b>Have you a problem or concerns with a water market</b>	%	14	86
<b>If yes what was the concern?</b>			
Misled about prices	%	26	74
Misled about something other than price	%	17	82
Mistakes (for example, incorrect or incomplete forms)	%	29	71
Delays in submitting trade to approval authority	%	31	68
Delays in receiving proceeds of sales	%	20	79
<b>Did you report this problem?</b>	%	40	57
<b>If you had a problem with a water market intermediary, who would you report it to?</b>			
The water market intermediary	%	38	58
The Australian Competition and Consumer Commission	%	15	83
State Government Office of Fair Trading	%	18	80
State Government water management department	%	21	76
Irrigation infrastructure operator	%	20	78
Industry representative organisation	%	13	86
Other	%	14	86
Don't know	%	25	72

Note: percentages may not add to 100 due to non response

Source: ABARE supplementary survey of irrigation farms in the Murray–Darling Basin.

All selected irrigators were asked if they had a problem with a water market intermediary who would they report the problem to. The most common responses were to report directly to the intermediary (38 per cent), state government water management department (21 per cent), irrigation infrastructure operator (20 per cent), state government office of fair trading (18 per cent),

or the ACCC (15 per cent). An estimated 25 per cent of irrigators did not know to whom they could report a problem with water market intermediaries.

### Awareness of fair trading provisions

As part of the supplementary survey, irrigators were also asked about their awareness of existing fair trading provisions of the Trade Practices Act and similar state legislation, and whether these provisions applied to water market intermediaries. An estimated one-third of irrigators indicated they were aware of these provisions (Table 3). Nearly half of the irrigators surveyed felt there should be additional regulation of water market intermediaries. The most common response was that irrigators felt water market intermediaries should be accredited or licensed (46 per cent of surveyed).

**Table 3 Supplementary survey results, Murray–Darling Basin, 2008-09**

*Percentage of responding farms*

		Yes	No
Are you aware that the Commonwealth Trade Practices Act (which is enforced by the ACCC) and similar state fair trading legislation applies to water market intermediaries?	%	33	67
Do you think there should be additional regulation of water market intermediaries?	%	49	51
- Be accredited or licensed	%	46	54
- Use trust accounts where they hold money that is not their own	%	41	59
- Have professional indemnity insurance	%	40	60
- Undergo training	%	37	63

Source: ABARE survey of irrigation farms in the Murray–Darling Basin.

### Summary of results

Overall only a small proportion of irrigators had a concern with a water market intermediary and less than half of these irrigators reported the problem. While the majority would report a problem directly to the intermediary or the state government water management department, a quarter of irrigators did not know to whom they would report a problem. Nearly half of the irrigators surveyed felt there should be additional regulation of water market intermediaries with the most common response being that water market intermediaries should be accredited or licensed.

## Appendix A

### [Supplementary survey questions]

1. Have you ever used a water market intermediary in the last two years?

If no, go to q7

2. If yes, specify:

- Water broker
- Water exchange
- Other (specify - brief comment)

3. How did you select the water market intermediary you used?

- Word of mouth
- Previous experience with the intermediary
- Recommended to by your irrigation infrastructure operator
- Required to by your irrigation infrastructure operator
- Low charges/commissions
- The intermediary uses a trust account
- The intermediary has professional indemnity insurance
- Member of the Australian Water Brokers' Association
- Other (specify - brief comment)

4. Have you had any of the following problems or concerns with a water market intermediary?

If No, go to q7

5. If yes, specify

- Misled about prices
- Misled about something other than price
- Mistakes (for example, incorrect or incomplete forms)
- Delays in submitting trade to approval authority
- Delays in receiving proceeds of sales
- Other (specify - brief comment)

6. Did you report this problem?

7. If you had a problem with a water market intermediary, who would you report it to?

- The water market intermediary
- The Australian Consumer and Competition Authority (ACCC)
- State Government Office of Fair Trading
- State Government water management department
- Irrigation infrastructure operator
- Industry representative organization
- Other (specify - brief comment)

- Don't know
- Didn't report it

8. Are you aware that the Commonwealth Trade Practices Act (which is enforced by the ACCC) and similar state fair trading legislation applies to water market intermediaries?

9. Do you think there should be additional regulation of water market intermediaries?

If No, end survey

If Yes specify

- Be accredited or licensed
- Use trust accounts where they hold money that is not their own
- Have professional indemnity insurance
- Undergo training
- Other (specify - brief comment)