

2. Water Markets

Purpose

To provide information about the Australian water market.

Background

Australia's and Victoria's policy reform for rural water over the last two decades has had a key focus on moving from an administrative approach to water resource management to a market based approach.

The objectives have been to enable water to move to its highest value use and to enable water users to better manage the risks and opportunities of water availability, commodity price and water trade price in ways to meet their individual requirements. The role of governments and water corporations has been to develop the framework, water products and other tools to enable this to efficiently occur.

Market development has included:

- capping use
- codifying property rights to water (including unbundling water entitlements)
- clarifying ownership
- introducing new water products such as carryover
- breaking the link between ownership of land and water entitlements
- developing trading rules
- establishing public registers recording water ownership and trade prices and volumes
- reforming rural water pricing to ensure water trade is not unduly distorted by different jurisdictional arrangements.

The early years of the water market were characterised by local allocation trades (within the same irrigation area or stream) and often involved activation of previously unused and lightly used water entitlements. As confidence in the market increased, permanent trade of water entitlements was introduced and the geographic restrictions on trade were relaxed. More recently, for some water sources, all restrictions on market participation have been removed and water entitlements have been unbundled. The number of irrigators (and others) participating in the water market continues to trend upwards, as does the total volume traded. Where water ownership has been separated from land it has become a recognized business asset in its own right.

Water market intermediaries (initially water brokers and water corporation water exchanges and more recently private water exchanges and water investment funds) have become more involved in the operation and facilitation of the water market.

Artificial barriers to trade have progressively been removed to enable the market to re-allocate water to its highest value use. Legitimate barriers to trade are now limited to: environmental impact; lack of hydrological connectivity; and, third-party reliability impacts.

Australia's water market is generally seen as world's best practice. The southern Murray Darling Basin is Australia's largest water market. It contains about 80% of total storage capacity and interstate trade is possible. Water entitlements with a value of more than \$0.5 billion were transacted in the southern MDB in 2015/16 (Aither, 2015/16 Water Markets Report).



OUR FUTURE

OUR STRATEGIC PLAN

Briefing Paper

Evolution of water markets continues with:

- improved transaction services (e.g. on-line application and real-time approval)
- consideration of removal of remaining barriers to trade (reform of trading rules e.g. Barmah Choke, Ovens basin, unregulated streams, groundwater; unbundling of unregulated streams and groundwater; removal of remaining restrictions on water ownership and market participation) expansion of intermediaries offering desired end use products (volume of water controlled; products offered – water portfolio management, leases, carryover, hedges, etc.).

Summary

The development of the water market has enabled Australia's scarce water resources to be re-allocated to their highest value use. Individuals have greater opportunity and responsibility to manage water availability to meet their own requirements. The market has evolved as it has matured and participants have become more familiar with and confident in its operation. Under current policy settings, this evolution is expected to continue.

For more information:

<http://www.aither.com.au/water-markets-reports/>