



CHALLENGES OF WATER TRADING IN AUSTRALIA

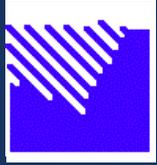


NSW IRRIGATORS' COUNCIL



The Background

Contrary to popular thought,
water trade in NSW
is not a new phenomena



The Goal

A fully tradeable, infeasible water entitlement



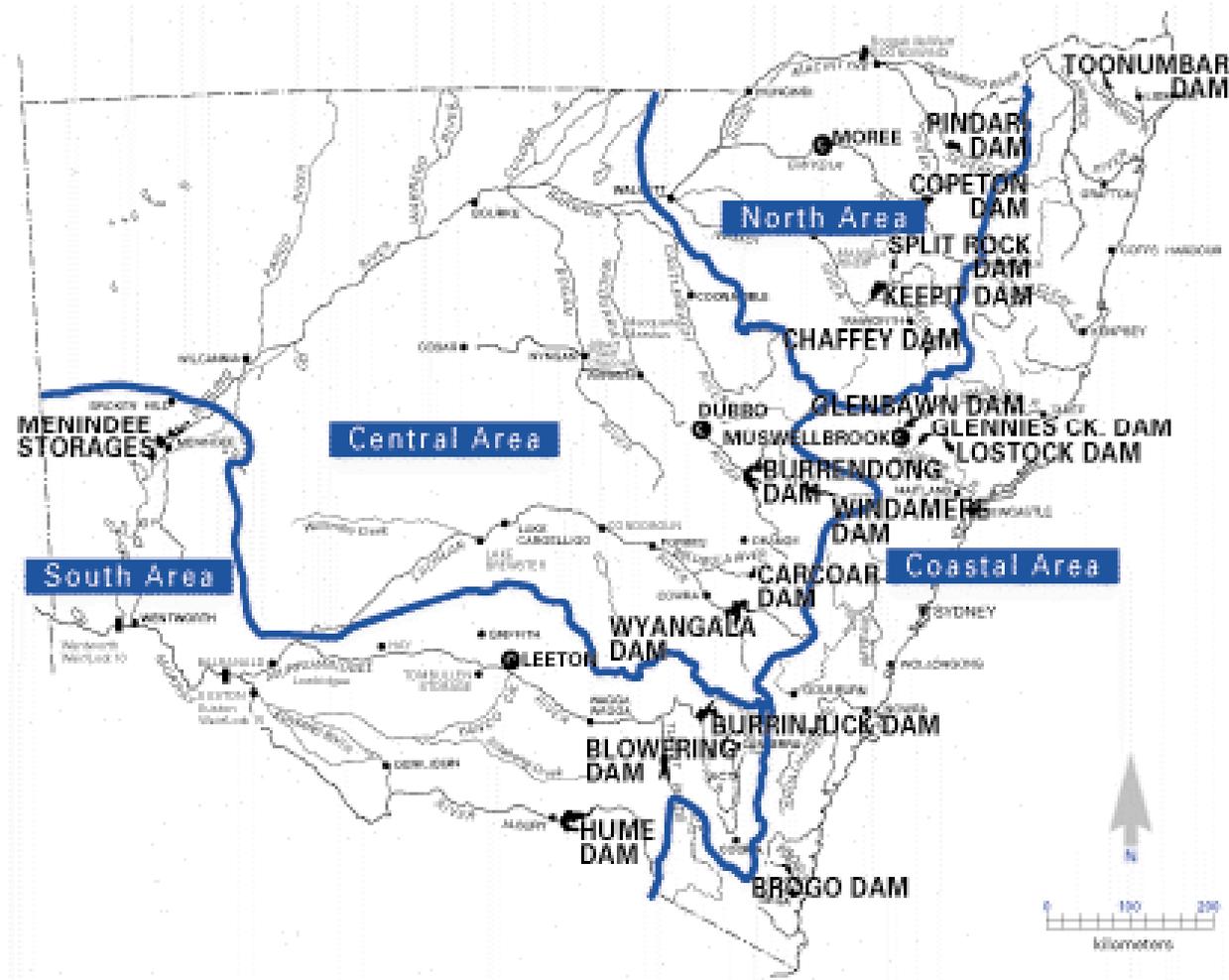
NSWIC Water Trade Policy

Council supports:

- the separation of land and water;
- both intra and interstate trade;
- trade in both temporary and permanent water entitlements;
- trading on the basis of tagged entitlements; and
- the development of new water trade products.



What's possible





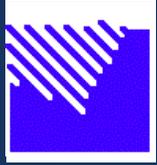
Policy Drivers

- NSW is not the water reform ‘basket case’
- National Water Initiative principles
 - Separation of land and water (NWI)
 - Pricing (IPART)
 - Barriers to trade (NWI)
 - Trade of water from ‘low’ value uses to ‘high’ value uses (NWI)
- National Competition Policy



Things that need to be done

- NWI Implementation
- Metering and monitoring
- Market information
- Settling State differences
- Licensing of water brokers
- Accountability for environmental water management



Basis of Trade

- Tagged Entitlements
- CAP compliance

Key consideration:

- No government interference
- No third party impacts
- Simplicity
 - Low compliance and transaction costs
- Financial confidence



Why Trade?

- Asset management
- Production management
 - Permanent v annual crops
- Risk management
 - Range of water products in portfolio
- Investment
- Speculation



Market Features

- Thin market
 - Low volume of trades
- Few products
- Natural barriers
- Lots of water will never permanently trade for two very important reasons:
 - Current owners have established very successful irrigation businesses that utilise the entitlements; and
 - Water entitlements are viewed as a very good agricultural asset, by the current owners!



Future Trade Options

- Seasonal
- Quality
- Location
- Futures, Options & Derivatives markets



What's been happening #1

PERMANENT WATER TRADE – NSW

1 July 2005 to 3 February 2006

TOTAL NUMBER OF TRADES	34
TOTAL VOLUME OF TRADES	28,569 megalitre
TOTAL VALUE OF ALL TRADES	\$28,945,397



What's been happening #2

Search	
Water Source	All
Period (Water Year)	Last water year 01-Jul-2004 to 30-Jun-2005
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Water Source	Allocation Assignments	
	Volume (ML)	No. of Dealings
Gwydir Regulated River Water Source	29,957	29
Hunter Regulated River Water Source	6,070	53
Lachlan Regulated River Water Source	4,531	129
Lower Darling Regulated River Water Source	29,113	39
Lower Namoi Regulated River Water Source	6,756	26
Macquarie And Cudgegong Regulated Rivers Water Source	10,221	163
Murrumbidgee Regulated River Water Source	79,125	457
New South Wales Murray Regulated River Water Source	125,690	741
TOTAL	291,463	1,637

Rows 1 to 9 of 9 rows.



What's been happening #3

Search	
Water Source	All
Period (Water Year)	Last water year 01-Jul-2004 to 30-Jun-2005
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From Water Source	To Water Source					Total
	Lower Namoi Regulated River	Murrumbidgee Regulated River	New South Wales Murray Regulated River	South Australia	Victoria	
Lower Darling Regulated River			1,139ML (7)			1,139ML (7)
Murrumbidgee Regulated River			2,758ML (20)	581ML (3)	440ML (4)	3,779ML (27)
New South Wales Murray Regulated River		11,492ML (5)		10,757ML (30)	16,478ML (136)	38,727ML (171)
Upper Namoi Regulated River	1,295ML (11)					1,295ML (11)
South Australia		313ML (1)	22,476ML (57)			22,789ML (58)
Victoria			15,059ML (59)			15,059ML (59)
Total	1,295ML (11)	11,805ML (6)	41,432ML (143)	11,338ML (33)	16,918ML (140)	82,788ML (333)

Note: numbers in brackets represent the number of transactions between the water sources



Conclusion

- Water trading is one important element of the NWI
- NSWIC supports water trade, based on ‘Tagged Entitlements’
- Water trade is an important feature of NSW natural resource management
- Water markets must be allowed to develop free of any government imposed constraints