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Henning Bjornlund

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Water Exchanges – Australian Experiences

By: Henning Bjornlund

Henning Bjornlund

School of International Business, University of South Australia

City West Campus, North Terrace

Adelaide SA 5000, Australia

Phone (university office): 61 8 83020064

Phone (home office): 61 8 88486082

Fax: 61 8 83020512

Email: henning.bjornlund@unisa.edu.au

Henning is a research fellow at the University of South Australia, having finished his PhD in 1999. He has worked on water trading issues within the southern part of the Murray Darling Basin since 1993. The last six years of this period have been funded by three successive grants. The first two grants were from Land and Water Australia in Canberra. The first of these looked into the social, environmental and economic impact of water markets, and the second investigated the structural adjustment impact. The Australian Research Council and ten industry partners fund the present work, which is ongoing until the middle of 2004. This project aims at finding ways of improving the operation of water markets. He has also been involved in a number of consultancies involving water trading and other water policy issues.

ABSTRACT

Most countries have seen a shift in water policy paradigms during the last two to three decades away from “command-and-control” to more decentralized and market driven policies. Full cost recovery prices, water markets, and the devolvement of water management issues to local levels have been key components of this process. Globally this process has been driven by major international organizations such as the UN, the World Bank and the OECD.

In Australia the Council of Australian Governments promoted this process during the 1990s as part of a wider microeconomic reform agenda resulting in a National Competition Policy. Under this policy all states are committed to implement the new paradigm. During the same period it became increasingly apparent that water extraction for consumptive uses within the Murray-Darling Basin, Australia’s most significant water resource, exceeded sustainable levels. A cap was placed on total water use in each state causing them to take measures to restrict annual allocations. In addition to these policy pressures the last five years have been very dry in the southern part of the Basin leaving dams in the major supply systems at very low levels. To add further to this pressure the issue of the water needs of the environment is far from finalized. It is widely expected that a Cap Mark 2 is forthcoming, further lowering the volume of water available for consumptive uses. As the above factors tightened water supply the more efficient and higher valued irrigators started using water markets more aggressively to maintain and expand production. This has activated large volumes of

historically unused water with the result that annual allocation levels had to be reduced further, again increasing the pressure on water markets.

The above developments have seen many water authorities struggle to handle the administrative processes associated with the increasing number of transfers, and irrigators struggle to understand the market process and secure adequate water on time. In response to this, water authorities, as well as a private entity, have established a number of water exchanges to ease the transfer process, especially for annual transfers, enabling a much larger number of transfers to take place in a much shorter time. This year a State Water Exchange will start operation in Victoria and include permanent transfers, and South Australia is expected to introduce a new Water Information and Licensing Management Application system (WILMA), which should ease the transfer process and provide essential information to facilitate the market.

This paper will discuss how these water exchanges have developed. The Exchanges have followed two main approaches, which are generally known as the “bulletin board” and the “sealed bid double action” approaches. The paper will briefly describe the emergence and operation of the South Australian, New South Wales and the National Water Exchanges and then concentrate on the Victorian Water Exchange as a case study. The paper will analyse the outcome of the Exchange during the first four years of operation and try to establish how irrigators have adapted their behaviour from year to year based on the experiences gained, fluctuating commodity prices, and annual allocation announcements. The paper will be based on extensive interviews with irrigators buying and selling water during the 1998/99 season, the registers of the relevant water authorities up to June 2001, as well as a number of workshops held with irrigators and other key actors and stakeholders within the involved irrigation communities in March 2002.