

Water markets in New South Wales

Improving understanding of market fundamentals, development, and current status: findings and observations

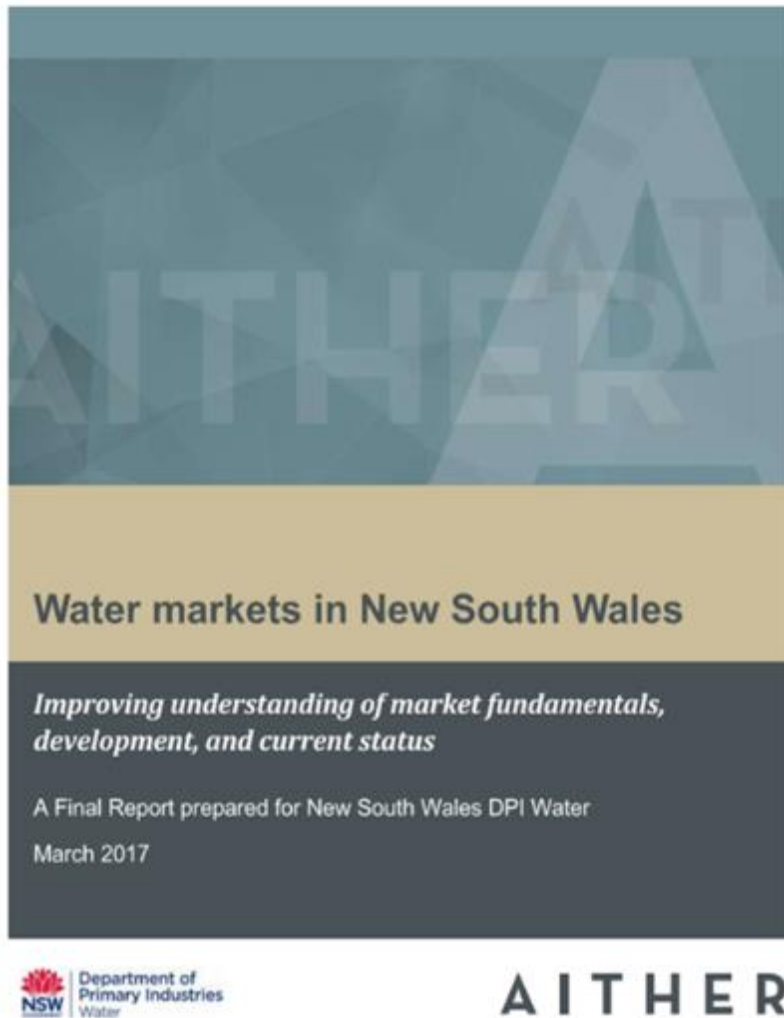


Launch

Chris Olszak | Director | 29 March 2017

A I T H E R

Report overview



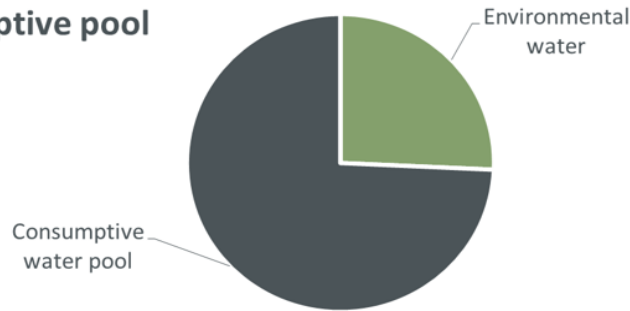
- Motivation
- Coverage
- Structure

Main messages

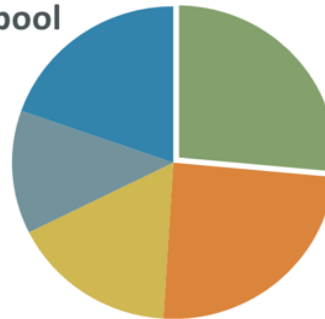
- Water markets are delivering important benefits for New South Wales
- Trade has increased substantially and is continuing
- Water markets are working as expected
- In an environment of increasing scarcity, climate variability, demand and investment, the gains from trade will increase
- Next round of targeted market improvements are warranted and will enhance productivity and competitiveness in NSW

The importance of getting the basics right

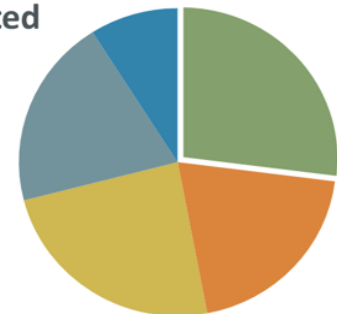
1) Limit total extractions and define consumptive pool



2) Specify individual rights to the consumptive pool



3) Trade allows individual water rights to be reallocated



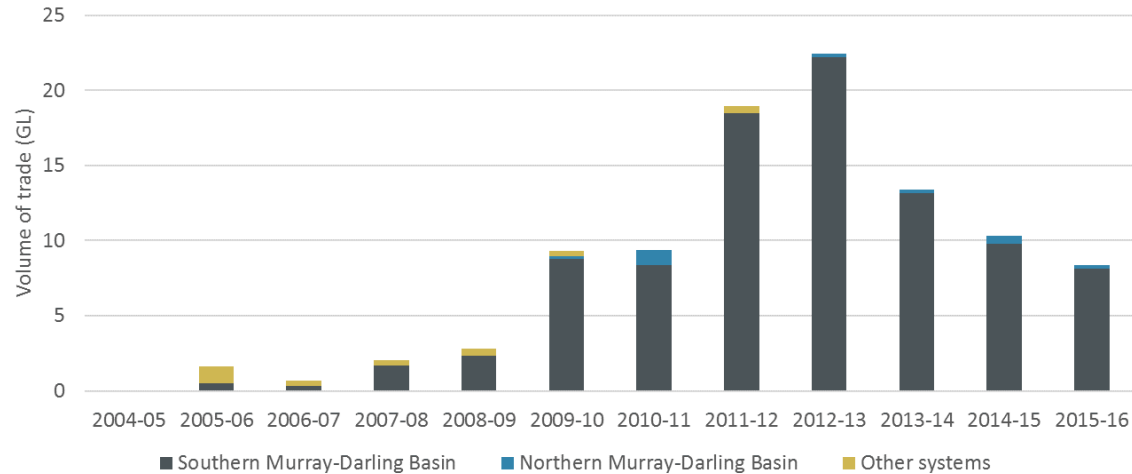
Australia leads the world in sustainable and efficient water allocation

Water markets in New South Wales

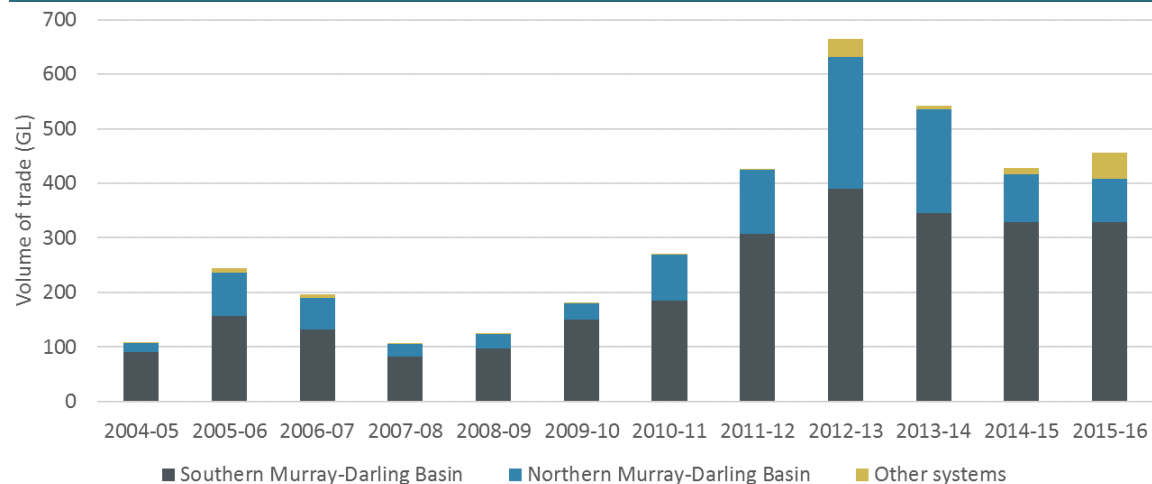


Water trading in NSW is increasing

High Security entitlement trade



Allocation trade



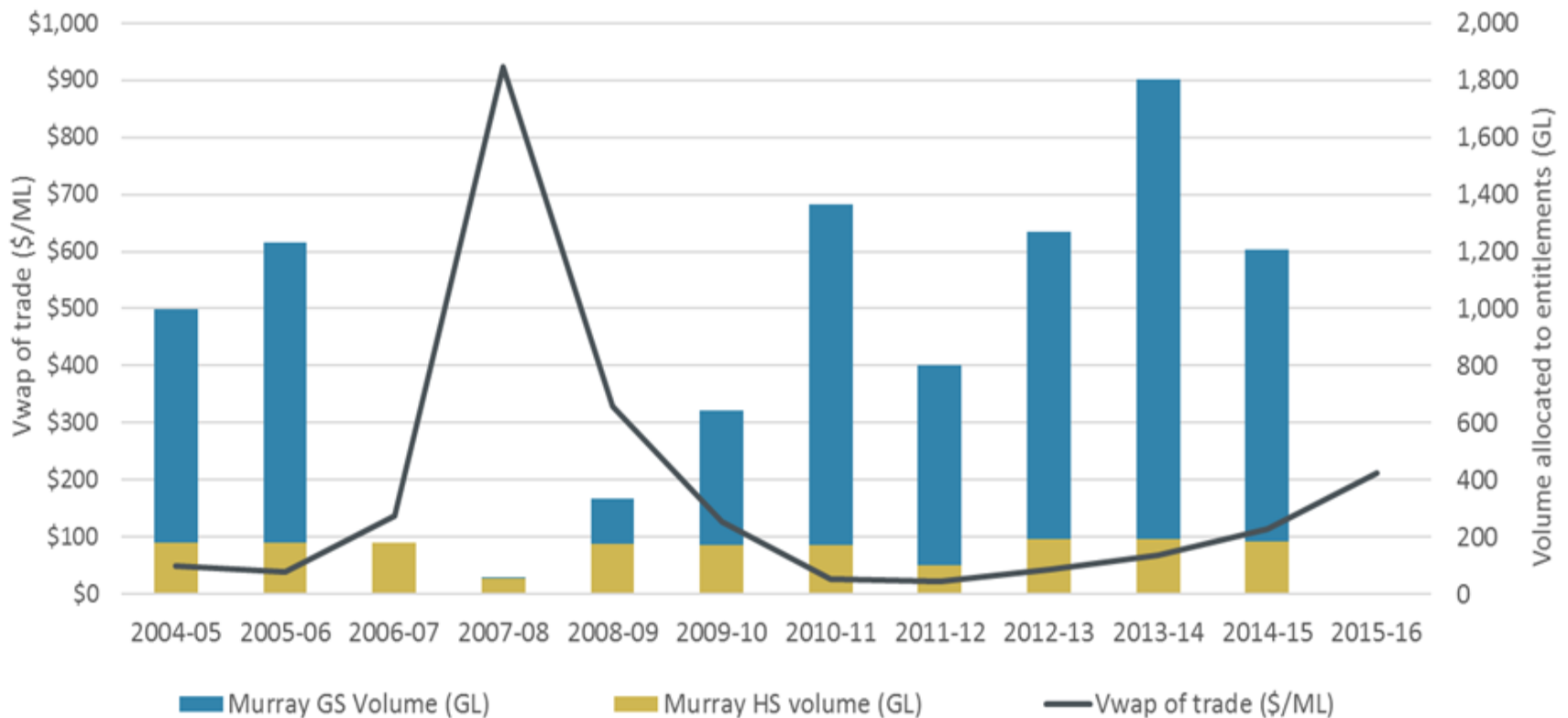
Southern Murray Darling Basin

- Largest market – numbers and volumes
- Connected, including across state boundaries
- Large differences in value of water to different crops
- High degree of climatic variability
- New demands coming on line
- Relatively low transactions costs

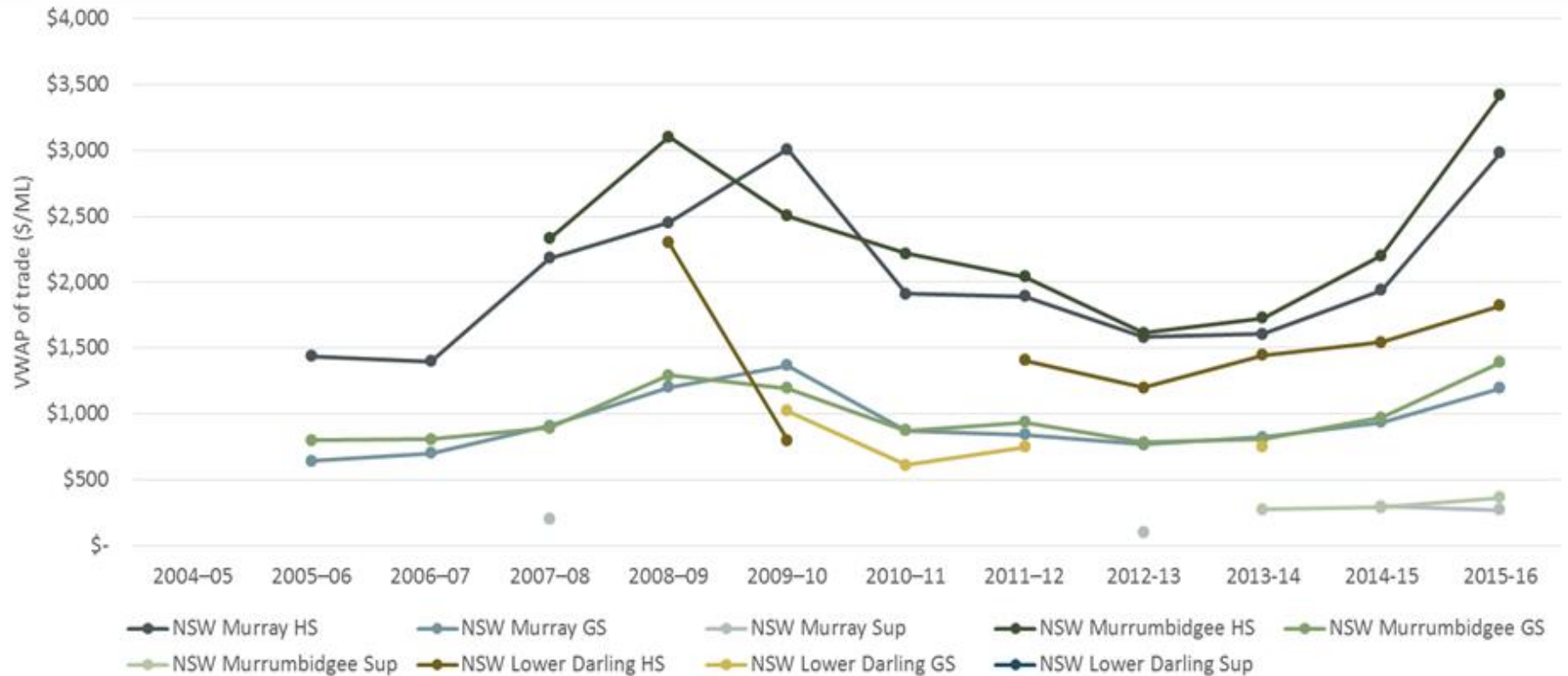


Southern MDB – Allocation trade is working

Allocation prices reflect water availability



Southern MDB – Entitlement price increases

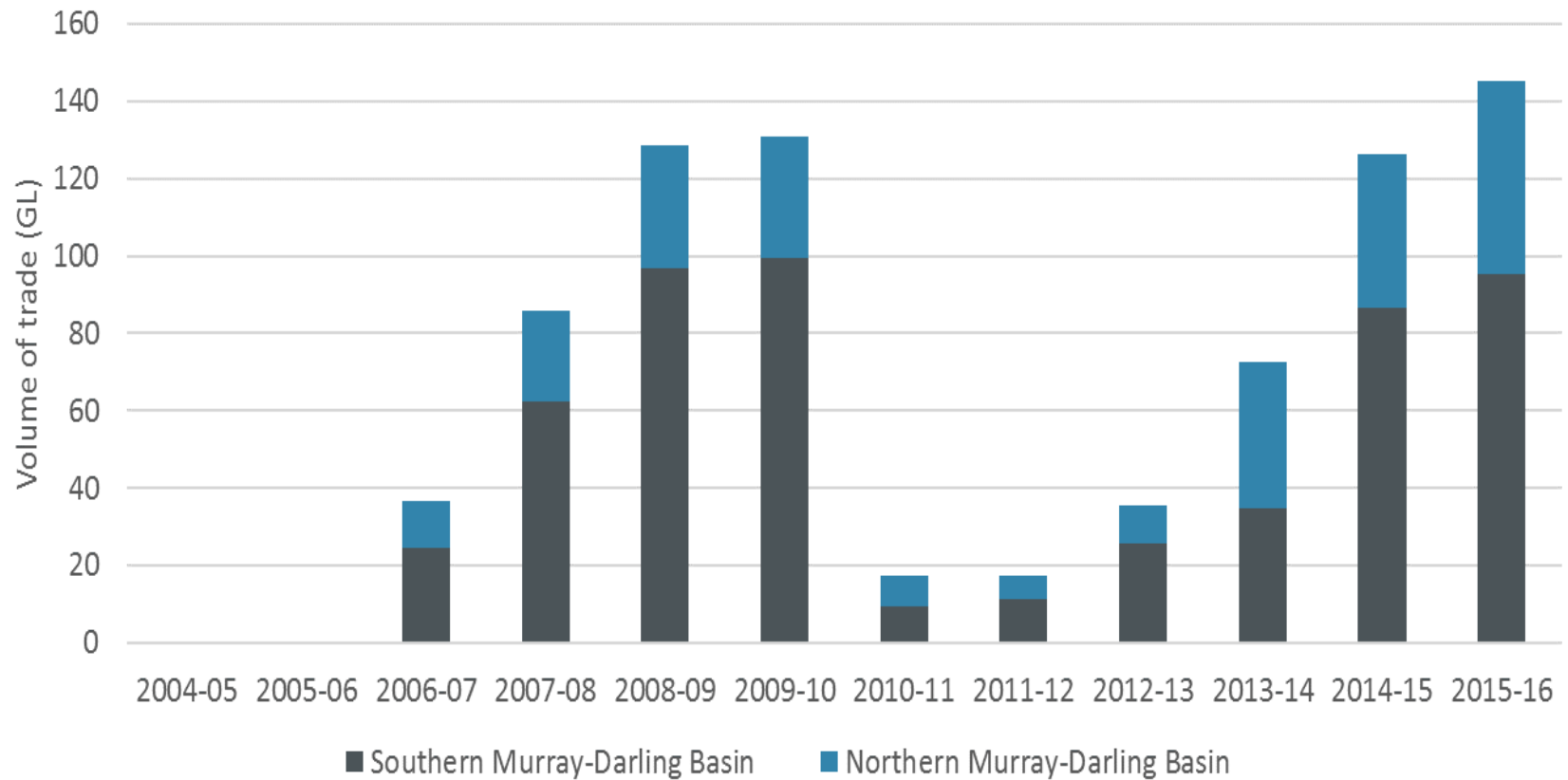


Northern Murray Darling Basin

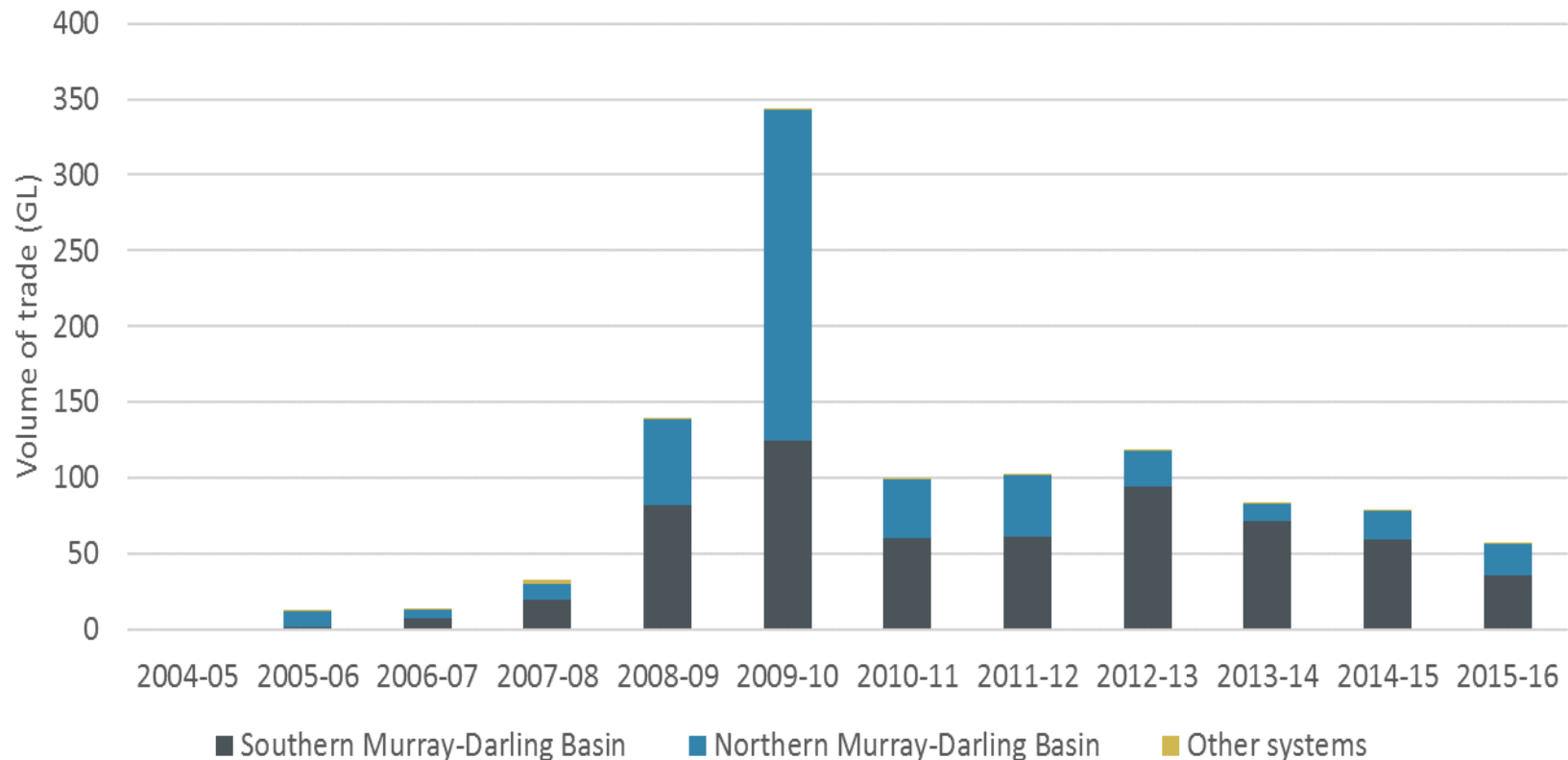
- Smaller numbers and volumes
- Disconnected systems, but some linked to groundwater
- Cotton dominated
- High degree of climatic variability
- Trading remains active and very important



Groundwater allocation trade driven by availability and cost of surface water



Environmental purchases have been a big driver of General Security entitlement trade



Coastal and unregulated systems

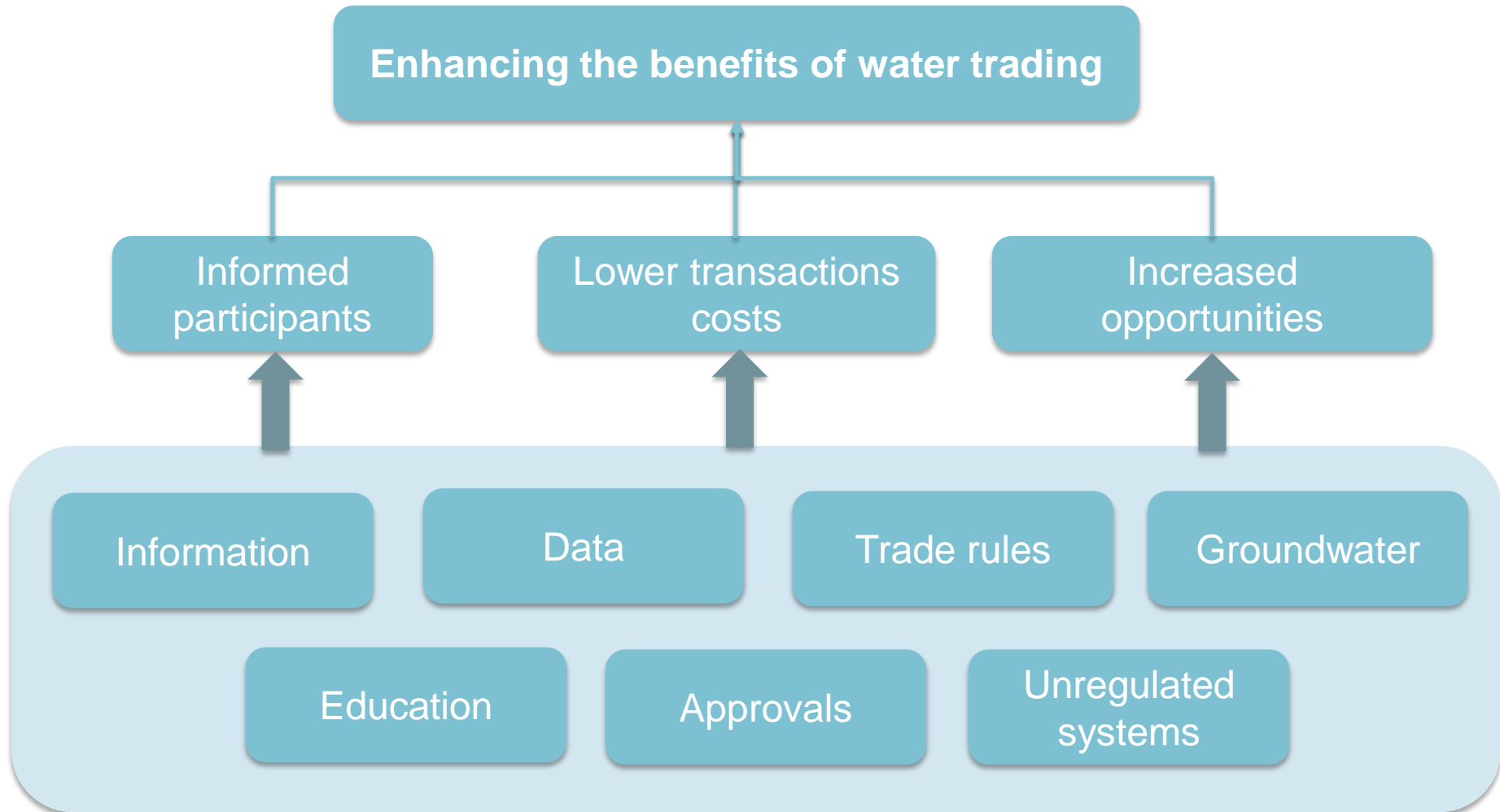
- Many different systems and drivers
- Generally less connected
- Some require more complex systems and rules
- Trade recently enabled
 - e.g. Barwon Darling
- Still some evidence of importance of markets
 - e.g. drought in the Hunter

The case for further market development



Scarcity and the benefits of markets are increasing

Areas for further market development



Conclusion

- Water markets are delivering important benefits for New South Wales
- Trade has increased substantially and is continuing
- Water markets are working as expected
- In an environment of increasing scarcity, climate variability, demand and investment, the gains from trade will increase
- Next round of targeted market improvements are warranted and will enhance productivity and competitiveness in NSW

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