

Water Markets: Trading into and out of trouble

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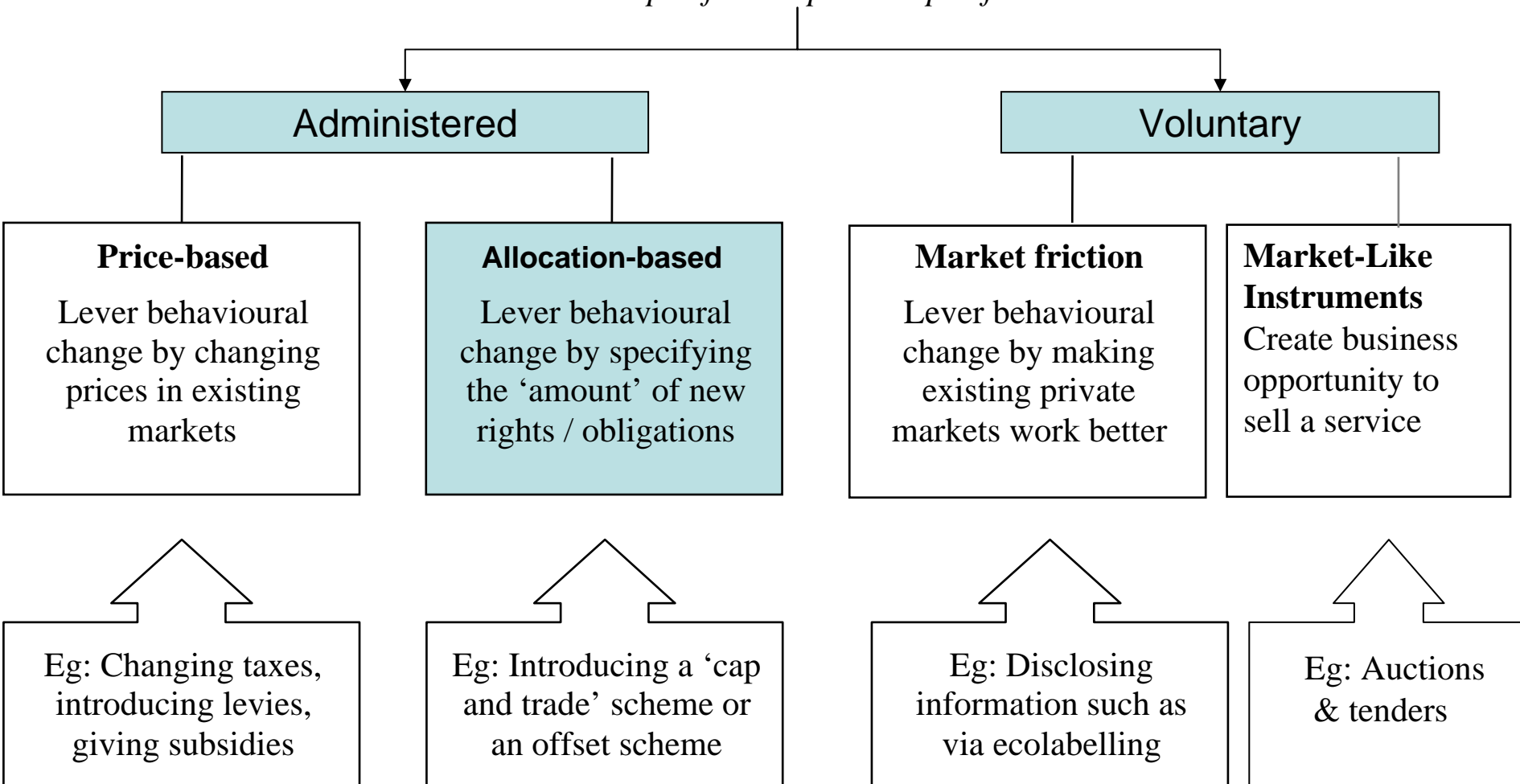
MBI 30th September 2008

Training the dog!

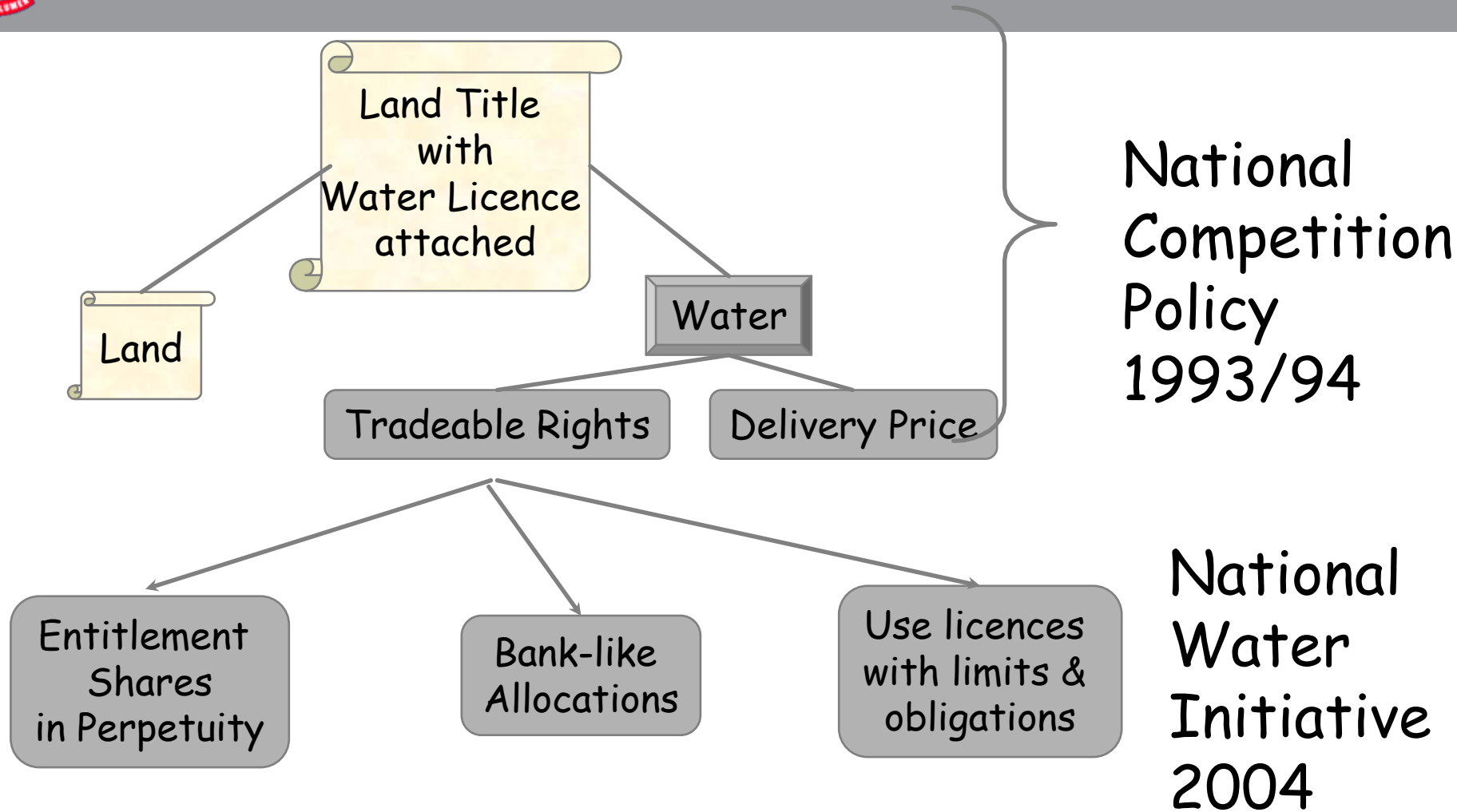
Types of market instruments

MBIs

*'combine regulatory arrangements with market processes to change behaviour.
Avoid location-specific and person-specific directives'*



Some Policy History

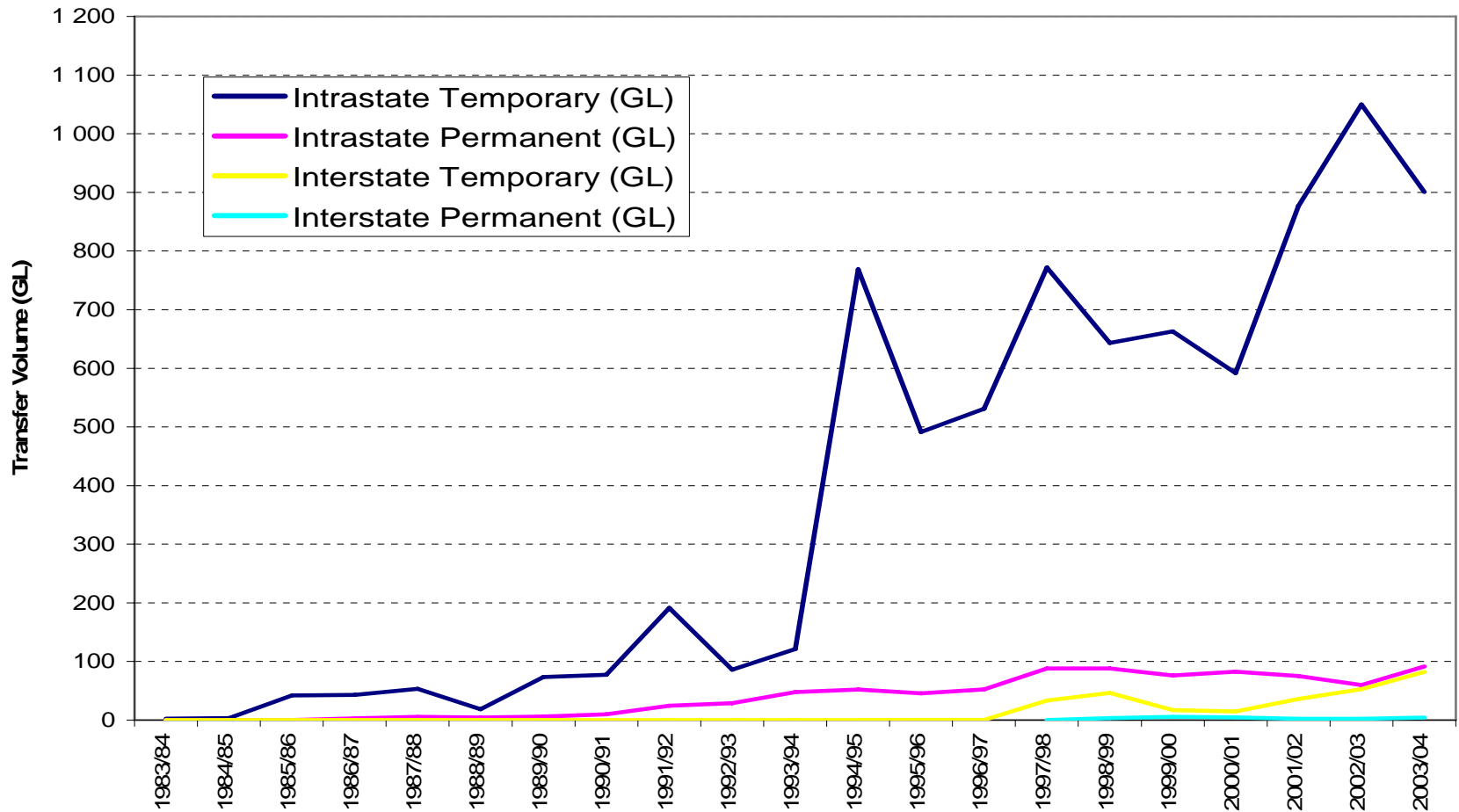


Howard/Turnbull/ Wong Plan to fix the problems created by the introduction of markets

Markets rather than governments as the integrator

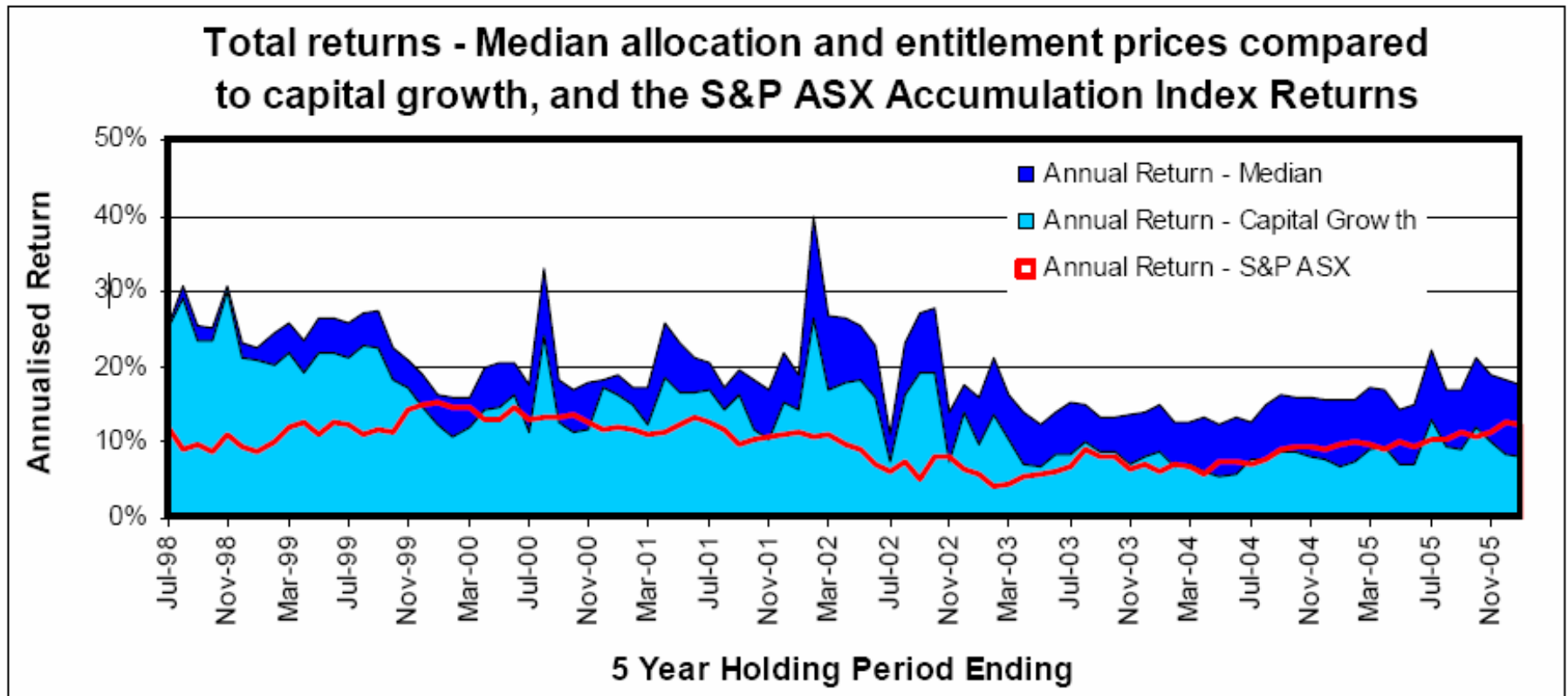
Scarcity and Trading

Murray-Darling Basin Water Entitlement Transfers - 1983/84 to 2003/04



Trading has enabled adoption of new technology and "greenfield" development

Benefits of trading



Facilitated significant adjustment

Driven significant amounts of new greenfields development

Induced significant investment in more efficient technologies

Resulted in the generation of income that has reduced the impact of the recent emergence of a long dry

- **Inter-temporal management**
- **Accounting for all uses**
- **Understanding Connectivity**
- **Transaction costs (esp. Tagged trading)**
- **Over-allocation worsened**

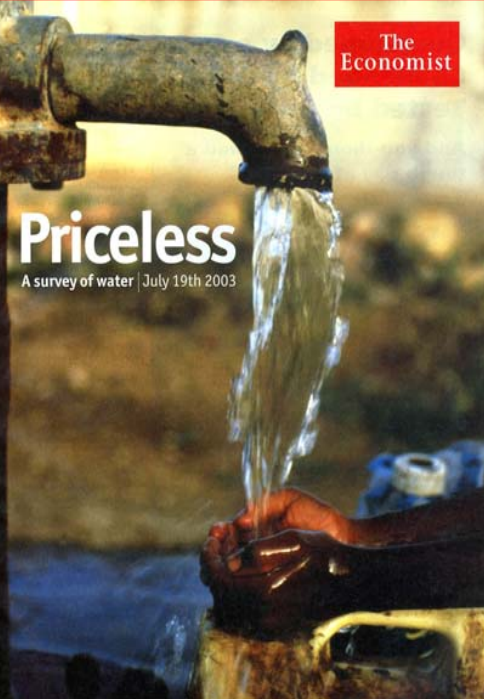
Can easily trade into trouble

Critically important to get the foundations of any quota / entitlement system right

- Entitlements as shares
- $X + (100-X) = 100\%$ specification of pool
- Specification consistent with biophysical processes
- Include arrangements to deal with problems beyond the boundary of the scheme

Markets are excellent servants

But they need an astute master



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