

The water market was introduced to enable water to be shifted from a low value crop to a higher value crop, this would be done in the means of trading allocation or entitlement. As the water supply becomes short due to drought, low value crops would off load the water to higher value crops, ultimately the water price would be determined based on farm earns and supply. Naturally there was no mechanisms in place to eliminate any arbitrage or market manipulation.

Currently we see three market participants within the marketplace, irrigators, investors and government, in which two are end product users. Investors within the marketplace are not water users, which raises questions about should they really be within the market if they are not users? Investors are in the marketplace as essentially a speculator. Temporary trade generates a return on the entitlement, the investors ultimately trading the water as a commodity or a share on exchange. The water has become a financial tool, which was not the intention of the water market.

Ultimately the solution which is required is to implement rules within the marketplace such as removing non landholder water owners, implement reporting mechanisms which removes opportunity for arbitrage and manipulation and have an agency which keeps a watch on the market place.

A possible solution is to provide the investors a grace period, which they would sell the entitlements on the market to only irrigators and any unsold entitlements are sold on the marketplace.

How do we determine who is an investor and a user? Each state has a mechanism which provides a limit of water which can be applied to that land. This links the land and irrigation usage. A water holder without this mechanism is an investor.

With no participation from investors, the water market will be a true market where only users are participating. It eliminates the use of capital to drive the price up, as we have seen current times.

The government influence on the market can be very strong when the market is thin. We have seen in recent times the inter valley trade restrictions have had a significant impact. Irregular IVT changes can throw the marketplace into a spiral. Pre-set rules around this would provide significantly higher stability within the marketplace.