

# Interstate Water Trade



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**FACT SHEET 1**  
MAY 2006

## Overview of Permanent Interstate Water Trading

### **OVERVIEW OF PERMANENT INTERSTATE WATER TRADING**

Water users in the upper River Murray, the River Murray in South Australia and the regulated reaches of the Goulburn, Campaspe, Loddon and Murrumbidgee river systems will be able to buy and sell permanent water entitlements across these areas (see the map on the back of this Fact Sheet).

Water trading within states has been possible since the late 1980s. In 1998 the Murray-Darling Basin Ministerial Council established a pilot interstate water trading project that allowed limited interstate trade of permanent water entitlements. Water users in the South Australia River Murray and the Mallee regions of Victoria and New South Wales were able to buy and sell water across state boundaries. In June 2004 the Council of Australian Governments signed the Intergovernmental Agreement on a National Water Initiative which, among other matters, agreed to expand the area where interstate trade in permanent water entitlement can occur.

### **Permanent and Temporary Trading in Water Entitlement**

Water users in all states hold a legal entitlement to a water share. The entitlement generally specifies the source of the water, its reliability and conditions on how that water may be used. For example, whether it must be used within one year or whether it can be carried over into subsequent years.

There are many different kinds of water entitlements. Some of these entitlements produce virtually the same quantity of water in every year (these are known as high reliability entitlements), while other entitlements produce quite different quantities of water in dry years than in wet years (these are known as medium or low reliability entitlements).

These entitlements can be sold to other water users. Permanent trade in entitlements occurs when the seller relinquishes all rights to the water entitlement. Temporary trade occurs when the water allocation made to an entitlement is sold for a specified period (usually one year), or when only the water contained in the water account is sold. The market for temporary trade is substantially larger than that for permanent trade. For example, of the 990,000 megalitres (ML) traded across the Murray-Darling Basin in 2001/02 only 8% was traded permanently.

### **Lessons from the Pilot Interstate Water Trading Project**

The Pilot Project demonstrated that irrigators want the ability to trade water interstate. Permanent transfers into the Pilot Region between 1998 and 2003 was estimated to be almost 104,000 ML, with 22% (22,904 ML in 162 trades) coming from interstate. Trade has had a positive economic impact in the Pilot Region, with substantial capital investment in irrigated agriculture and food processing.

The Pilot Program also developed processes and rules to ensure that the purchaser of the water received a clear water entitlement that is valid in their state, and the permanent trade does not adversely affect other water users or the environment and does not breach the Cap rules set by the Ministerial Council in 1995. The Cap is a limit on surface water diversions from the rivers of the Murray-Darling Basin at the levels that would have been diverted under 1993/1994 levels of development.

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### **Two methods will be used**

If you live in South Australia or in Victoria you will be able to trade using two methods.

The first method involves the conversion of the nature of the entitlement from that in the selling state to that in the buying state. A new entitlement is issued by the buying state. This is referred to as 'exchange rate' trade.

The second method, known as 'tagged trade', means that the entitlement remains issued by the selling state but the water is delivered to the buying state.

If you live in New South Wales you can only use the tagged method. All three states are moving towards the use of only the tagged method. This will be implemented as soon as all three states have issued separate approvals for water 'access' and water 'use'.

### **Who can participate in permanent interstate water trading?**

#### *Selling*

People holding the following water entitlements in the upper River Murray, the River Murray in South Australia and the regulated reaches of the Goulburn, Campaspe, Loddon and Murrumbidgee river systems can trade permanently interstate:

- New South Wales: High Security and General Security
- Victoria: Water Right and Sales
- Victoria: Private River Diversion Licences and Sales
- South Australia: Water Licences

#### *Buying*

Water users within the expanded trade areas can buy the water products listed above. In some states it is possible for new buyers to enter the market without holding an existing water right or owning an irrigation property. Rules for non-water users buying water vary from state to state and prospective buyers should discuss this with the appropriate state water authority.

#### *Commencement Dates*

The commencement dates for permanent interstate trade depend on the trading mechanism to be used. It is expected that:

- Trade between Victoria and South Australia using exchange rates can commence from 1 July 2006.
- Trade using an interim or pilot tagged system can commence when details are finalised by each state, with the respective commencement dates to be announced by each state.

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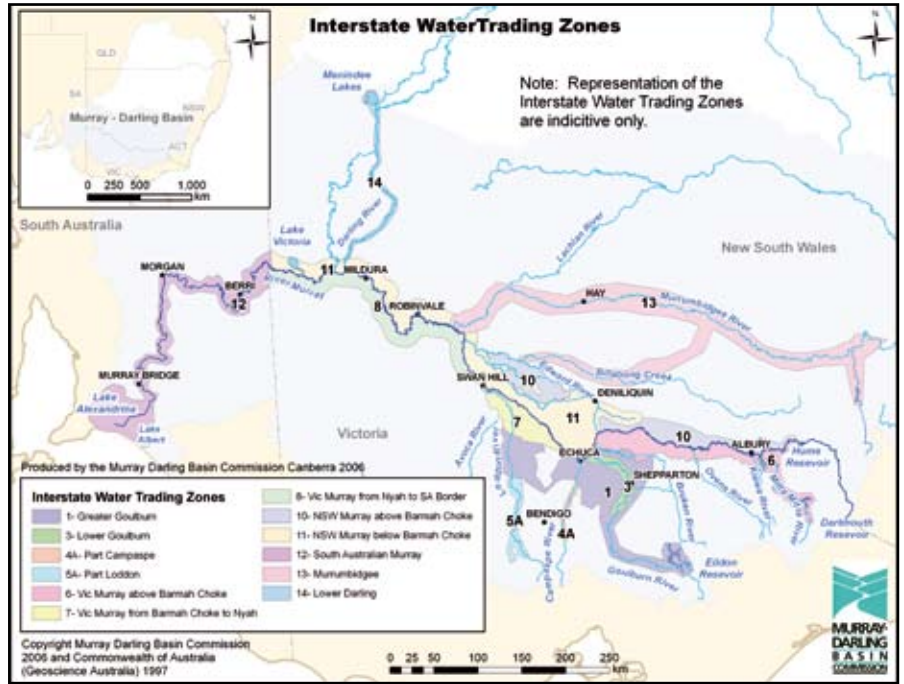


Photo credits:

Dairy Cows grazing at Woodlands Dairy (photo: Regional Reach Advertising, May 2006)

Hattah Lakes (photo: Andrew Keogh)

Forage Sorghum field at Wylarah (photo: Regional Reach Advertising, May 2006)