

# Interstate Water Trade



MDBC F/S7 06/21271

**FACT SHEET 7**  
MAY 2006

Trading Rules

## **TRADING RULES**

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For trade to happen it has to be physically possible to deliver the water entitlement to the buyer's location.

Supply systems, such as river channels and irrigation canals and pipelines, have limited carrying capacities. The most significant river channel constraints on the River Murray are the 'Barmah Choke' downstream of Tocumwal in the Barmah-Millewa Forest, and the section between Hume Dam and Yarrowonga Weir.

Similar constraints occur within irrigation districts because of the capacity of the supply channels. At certain times in the irrigation season when water demand is high, it is not physically possible to supply additional water resulting from trade into those areas.

Information within the Interstate Water Trading Zones Map in Fact Sheet 1 and supporting text that identifies trading zones and the rules that enable trades into and out of zones have been developed for large scale constraints such as the Barmah Choke. Local delivery constraints may apply when trading water into and out of specific trading zones and it is important that you check with your local operator first to ensure that any water purchased can actually be delivered.

In addition to these physical constraints, Governments are concerned about the welfare of local communities. Water trading out of a district can have a significant effect on the local community, in terms of both the cost of maintaining water delivery infrastructure and the capacity to adjust to a reduction of irrigation production.

The participating Governments have established trading rules to deal with these issues. This Fact Sheet outlines the background to many of those rules, but buyers and sellers must consult with the relevant state authorities to assess how these rules apply to their particular situation.

## **River Murray Supply Constraints**

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The delivery of traded water may place additional demands on river flows at certain points in the river system. As a result, it may not always be possible to supply the additional demand without affecting supplies to existing water users and meet minimum river flow requirements.

Consequently, in planning the operation of the River Murray system, the Murray-Darling Basin Commission (MDBC) must consider the magnitude and location of proposed water transfers and their effects on river operation. If the proposed water transfers are manageable in terms of river operations, they will be endorsed by the MDBC.

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## **Trade Down before Trade Up**

Some states allow trade to occur around system “bottlenecks” if the net effect of the trade is zero. For example, on the Goulburn River system in Victoria at the peak of the irrigation season it is not possible to supply more water downstream, but trade can occur if there is a water user trading an equivalent amount upstream to the amount that is to be traded downstream.

## **Stranded Assets and Exit Fees**

Maintenance of irrigation supply infrastructure costs are largely fixed, ie: the maintenance costs do not change appreciably if there are 10 or 50 irrigators in a particular supply area. A ‘stranded asset’ situation may arise where significant quantities of water are traded out of an irrigation area, leaving fewer entitlement holders to cover the fixed costs of the irrigation infrastructure. The question then arises of how to equitably cover the cost of maintaining the water delivery infrastructure. Through the National Water Initiative, Governments are considering the concept of exit fees as a possible mechanism for addressing this issue.

The challenge is to develop an approach that:

- can be consistently applied across jurisdictions;
- appropriately address third party impacts;
- ensure no additional barriers to trade are created; and
- facilitate an economically efficient means for enabling adjustment in irrigation systems.

## **Rate of Trade Out of an Irrigation Area**

For the market to operate efficiently barriers to trading need to be reduced. Because of issues such as stranded assets and the community’s capacity to adjust to change, states have in place various rules that limit the amount of water that can be traded out of an irrigation area. As an interim measure, the Intergovernmental Agreement has established the policy of allowing water authorities to set an upper limit of 4% of the area’s water entitlement being traded out of their area each year. This is to be reviewed in 2009, with a view to raising the 4% threshold, if appropriate.

Potential buyers and sellers must consult with relevant water authorities to determine whether limits to trade out of an irrigation area are in place.

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)