

Water Allocation in the West: Challenges and opportunities

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Diamond Water Paradox – Adam Smith

Nothing is more useful than water: but it will purchase scarcely anything; scarcely anything can be had in exchange for it.

A diamond, on the contrary, has scarcely any use-value; but a very great quantity of other goods may frequently be had in exchange for it

(Smith 1776).

Paul Keating and National Competition Policy

If this Government cannot get the adjustment, get manufacturing going again, and keep moderate wage outcomes and a sensible economic policy, then Australia is basically done for. We will end up being a third rate economy... a [banana republic](#).

(Keating 1986)

... [W]hile progress is being made on a number of fronts to reform the water industry and to minimize unsustainable natural resource use, there currently exists within the water industry... impediments to irrigation water being transferred from low value broad-acre agriculture to higher value uses in horticulture, crop production and dairying.

(COAG 1994)

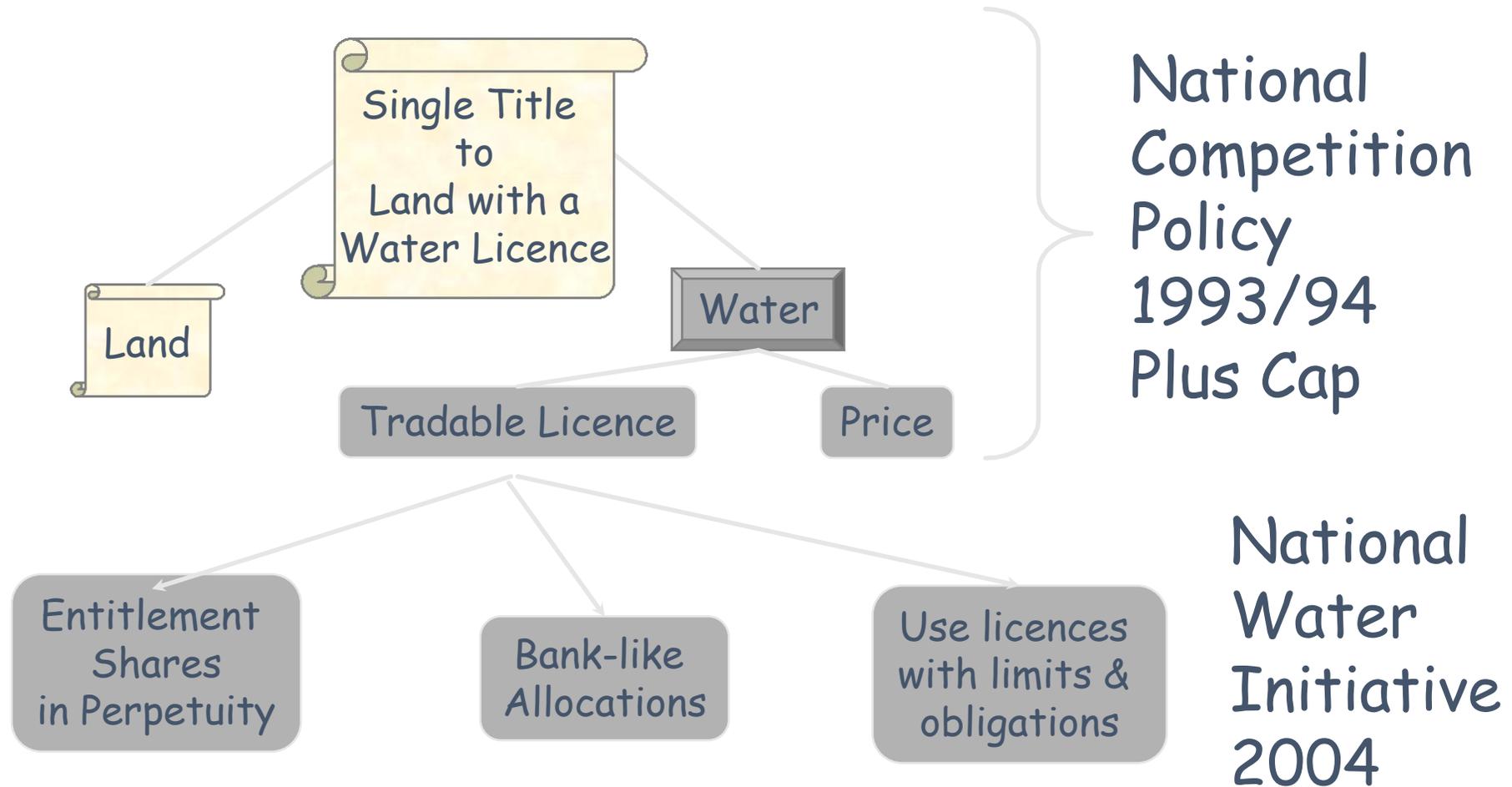
... [I]ntended to generate the financial resources to maintain supply systems should users desire this and through a system of tradeable entitlements to allow water to flow to higher value uses subject to social, physical and environmental constraints. Where they have not already done so, States are to give priority to formally determining allocations or entitlements to water, including allocations for the environment.

(COAG 1994)

Water markets and allocations

- **Two markets**
 - **A market for allocations** – seasonal water
 - **A market for entitlements** — entitlement to a share sometimes also expressed by priority
- **Main Australian Experience**
 - Markets emerge naturally when institutional conditions are right
 - Focus on building institutional conditions that makes it possible for water entitlements and allocations to be traded at low cost.

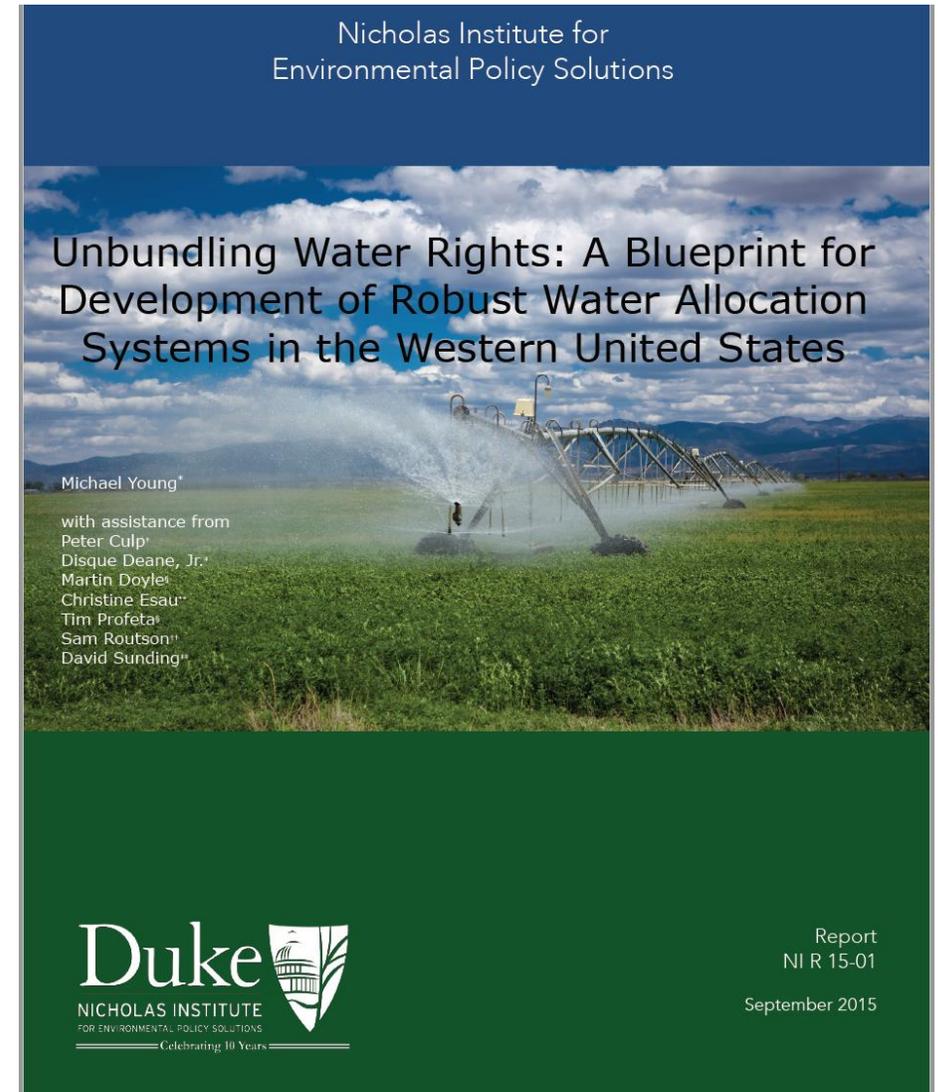
Australian Water Reform



Nicholas Institute “Blueprint”

Encourage efficient and equitable use by building robust water entitlement, allocation and accounting systems

1. Set limits and enforce limits on use
2. Unbundled sharing and accounting systems
3. Statutory water resource plans
4. Efficient governance
5. Low cost administration



Sharing water

Most water debates in the west tend to focus on arguments over priority.
(A zero sum game.!)

The value of each water right is determined by the value of the opportunities and risks associated with it.

The narrative needs to change to include discussion of the opportunities that arise from increasing

- the value of water rights; and
- the contribution water makes to the economy, society and the environment



Not a zero sum game → although this is the way most discuss water policy choices.

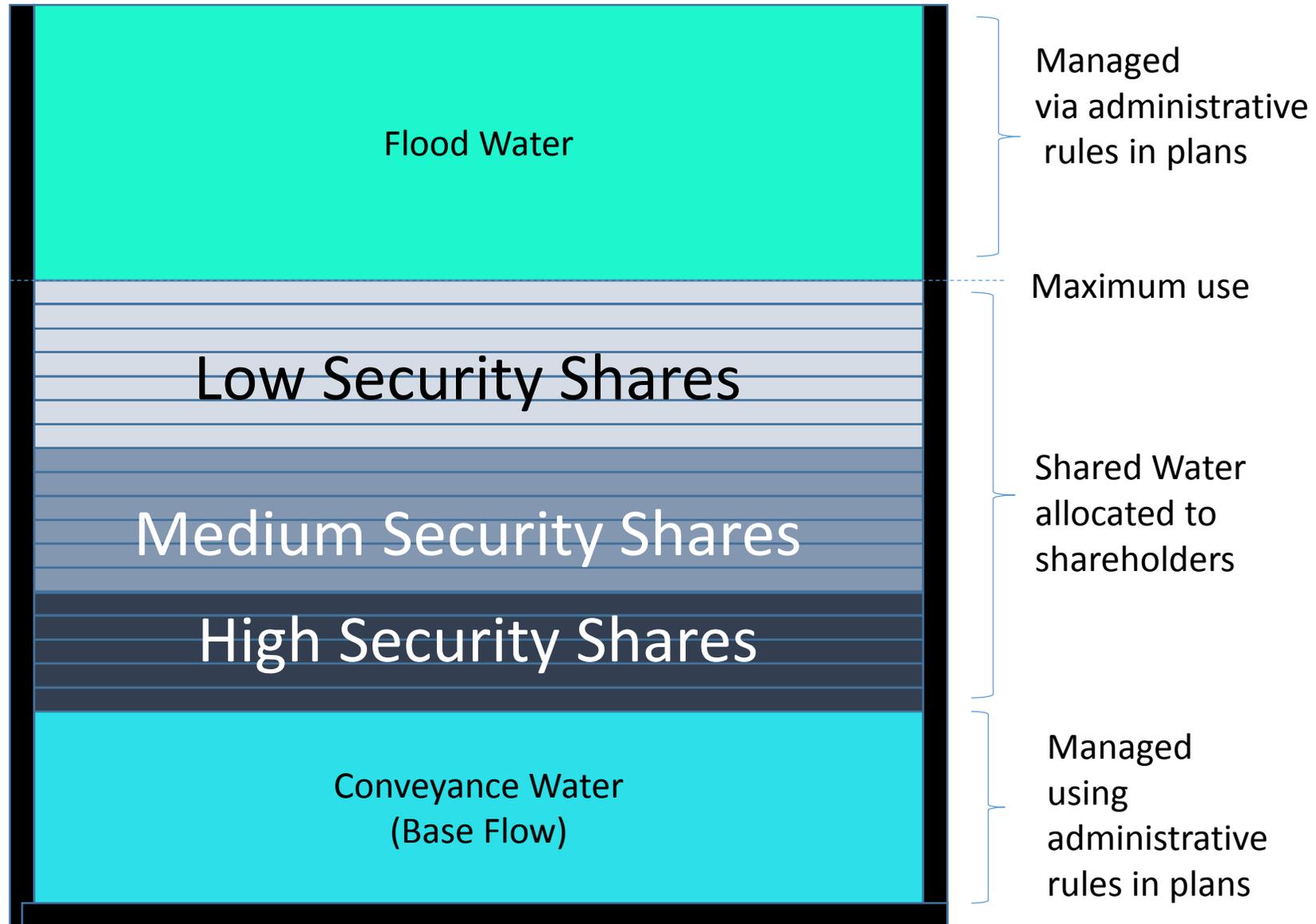
Four broad Opportunities

1. Improve, validating and unbundle existing “water-rights”
2. Establishing robust water resource plans
3. Transition towards decision making structures characterized by trust, efficiency and rigorous enforcement
4. Assign water entitlements to the environment.

10 Water Value Adding Opportunities

1. Establish centralized water-right registers
2. Unbundle water entitlement, allocation, and use management
3. Statutory water resource plans
4. Replace prior appropriation with a small number of security pools
5. Giving the environment an entitlement
6. Trusted governance
7. Nested planning hierarchies
8. Simplification by adopting “gross” rather than “net” water accounting regimes
9. Tagged entitlement trading
10. Allocating rights to individual users

Sharing water



State and National Opportunities

States

Build robust institutional arrangements

Federal Government

1. Financial assistance for
 - Pilot demonstrations of the benefits of moving to robust water management arrangements.
 - Early investments in developing new water registers, new water accounting systems, and installing smart water meters
2. Demonstrate willingness to convert existing rights into shares and to work under the conditions set out in agreed water resource management plans.
3. Restrict environmental protection to involvement to plan review and purchasing rights for environment