

Water trading. Reducing or increasing demands for information? Lessons from international experience

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The conventional view

- The market is a preference revelation mechanism.
- Trading allows
 - to gain information about the marginal value of water among sellers,
 - identify less costly options for achieving self-designated targets
- does not require having in advance detailed information on the value of water on any place and for any alternative use.

IMPERFECT INFORMATION

- In most cases both private and public agents act with imperfect information. There is uncertainty in:
 - water availability,
 - external costs and
 - water productivity
- the information available to all the participants is not complete (there is asymmetric information about willingness to pay and accept payment and about other transactions).

Market distortions- asymmetric information

- An agricultural producer who knows more about the reliability of their water right than a potential buyer, could withhold or distort information to secure a higher price.
- In Chile (Donoso 2012)
 - There are large price dispersion. These are due, in great part, to the lack of reliable public information on prices and transactions.
 - So each transaction is the result of a bilateral negotiation between an interested buyer and seller of WUR.
 - Only 20 percent of all water use rights and 50 percent of market transaction cases are registered (World Bank 2011).

In Australia

- In Australia, the National Water Initiative in 2004 (and the 2007 Water Act) publicly-accessible and reliable Water registers of all water access entitlements and trades (both permanent and Temporary) on a whole of basin or catchment basis” (paragraph 59).
- To overcome the issues of matching buyers with sellers, there have been many private sector water brokers .
- Waterfind provides detailed information to water market participants on a demand basis
 - details of highest and lowest sale prices and
 - reports on water market policy initiatives at all levels of governments State and Federal (see [www.waterfind.com.
au](http://www.waterfind.com.au)).

Water markets implementation requires adequate information and means to monitor transactions:

- **LEGALITY:** In order to avoid non-legal re-allocations and discharges.
- **CONTROL VOLUMES:** need to control the volume of water effectively transferred, by installation of meters, satellite information, GIS
- **EFFECTS OF TRADING :** Annual assessment reports: legal, economic, environmental and social impacts of water trading.
- **PUBLIC REGISTRY:** Water trading contracts should be made public and the price paid in the transactions
- **VALUE OF WATER:** value obtained for water use by the different uses and also the real cost of water trading based on the opportunity cost, costs of conveyance, environmental and third parties effects

What contribution of trading to improved information?

- INFORMATION ON VALUE
 - the marginal value of water
 - Through land markets.
 - Value changes during droughts.
- Willingness to pay
 - to prevent future losses by, for example, improving water storage,
 - For paying a prime risk by the reduction of current water uses and buying insurance to protect themselves for future losses