

# OVERCOMING CONSTRAINTS TO ENVIRONMENTAL WATER TRADE

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*Australia has invested heavily to establish large environmental water portfolios. Overcoming constraints to environmental water trade is now required to achieve the greatest environmental returns.*

**Large public investment has significantly increased environmental water holdings.** Over the past decade, the Commonwealth and state governments have spent billions of dollars in the Murray-Darling Basin to recover water entitlements for the environment.

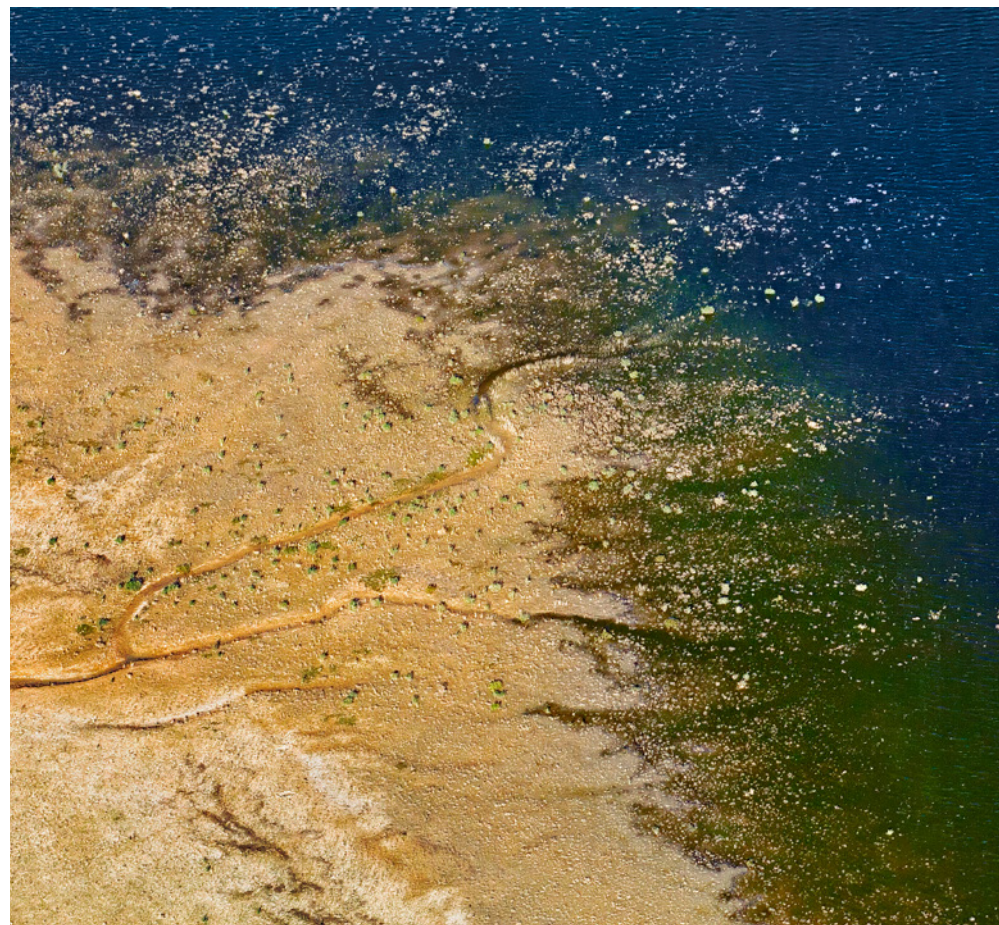
**These investments must deliver environmental returns.** Significant political capital and community goodwill have also gone into establishing environmental water portfolios. Now the government agencies tasked with managing this water on behalf of the public have an obligation to maximise environmental returns.

**Maximising environmental returns requires the strategic use of multiple management tools.** Adopting an approach which employs the use of multiple tools – including a greater use of water trading – can assist environmental water managers in achieving more effective and efficient results.

**Water trading presents a flexible, high value tool.** Water trading allows environmental water managers to purchase water when the cost of buying water is less than the expected benefit from using it for the environment. Likewise water allocations can be sold when the returns from selling are greater than available options to use this water for the environment.

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***Environmental water holders have an obligation to maximise environmental returns from significant public investment in water.***



**Allocation trade expands the range of short-term water management options.**

The purchase of water allocations can be used to supplement water held by environmental water holders and enable environmental watering that may otherwise not be possible. On the other hand, the sale of water allocations can provide revenues to purchase water in the future or in alternative locations where environmental benefits might be higher.

**Entitlement trade can achieve longer-term objectives.**

Active engagement in markets for water entitlements can be used to rebalance environmental water portfolios to meet the changing watering demands of particular river systems – including in response to climate change.

**There are potential win-win outcomes.**

Trading by environmental water holders based on predictable and transparent strategies can deliver broader benefits to market participants; creating win-win outcomes for irrigators, communities and the environment.

**Some environmental water holders are currently underutilising trade.**

The Victorian Environmental Water Holder and New South Wales Office of Environment and Heritage have been actively trading for some years. With only limited trade to date, it is our view that the Commonwealth

Environmental Water Holder (CEWH) is underutilising trade as a portfolio management tool. This underutilisation can be explained by a number of constraints, including:

- **Community concerns about environmental water trade.** Some groups are not supportive of the CEWH trading. Risks raised by these groups include potential impacts on water market participants or erosion of the environmental portfolio. There has been little done to review the impacts of water trading by environmental water holders, and further work could be done to test these views and improve understanding of the outcomes of existing trading activities.
- **Legislative constraints also impose restrictions.** The Water Act 2007 specifies that the proceeds of environmental water trade can only be used for the purchase of additional water. This acts as a safeguard to prevent the erosion of environmental water portfolios and minimises the risk of governments using the proceeds of trade to cover non-related costs. However, it also limits environmental water holders' ability to use trade proceeds for alternative and beneficial purposes.

**These constraints may be unnecessarily limiting.**

In some instances it may be beneficial to use trade proceeds for purposes such as addressing infrastructure constraints; supporting environmental science and monitoring of outcomes; improving planning arrangements; and better resourcing local community groups. CEWH should not be prevented from considering these options as part of maximising environmental returns, whilst recognising further thought is required to manage the potential for overlapping roles and responsibilities.

**Greater flexibility requires appropriate caveats and controls.**

More flexible use of trade should not compromise environmental and program objectives. CEWH or other holders should resist pressure to trade water when such trading would be counter to maximising achievement of environmental objectives. For instance, very large volumes would need to be traded each year to generate the revenue required to cover annual fees and charges. This would reduce water available for delivery and therefore run counter to the purpose of establishing environmental water portfolios. More flexibility to trade should not be accompanied by an expectation that more trade will always occur.

**Addressing constraints will ensure resilience and benefit the environment.**

Removing constraints to trade will allow environmental water holders to better respond to both seasonal and more complex long-term climatic events. Environmental water holders will be better placed to deliver on environmental objectives and demonstrate return on public investments. Ultimately, the environment will be the beneficiary of greater use of environmental water trade.



Will Fargher  
Director  
0402 336 614  
will.fargher@aither.com.au



Chris Olszak  
Director  
0425 707 170  
chris.olszak@aither.com.au