

What do we mean by water markets? Presentation of the diversity of existing situations

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What is a Water Market?

- Any institutional framework that allows two users to exchange water or water rights, voluntarily agreeing the conditions of the exchange



Trading decisions are voluntary

Provides mutual benefits

- Increases the economic efficiency from the allocation of scarce water resources
- **Water Markets are not about privatizing water supply and infrastructures!**
- **Are about helping water agencies to solve the problem of allocating water in scarcity periods.**



Major characteristics of water markets

- Object of the transfer
- Length of contract
- Source of water
- Spatial extent
- Type of water users
- Market structure
- Institutional organization and legal framework



**Diversity of water markets around the world
(U.S.A., Chile, Australia, Spain, South Africa, ...)**

Agricultural water markets

- First markets to emerge and predominant worldwide
- All types of WM with a large diversity of characteristics

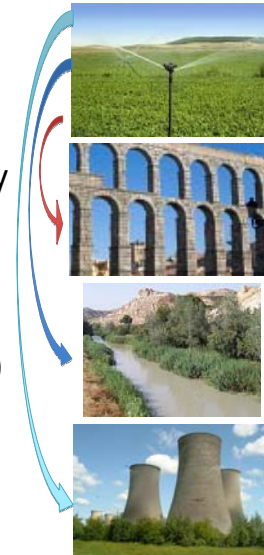


- Water transferred to:
 - Higher-value crops
 - More intensive agricultural systems
 - More labour-demanding crops



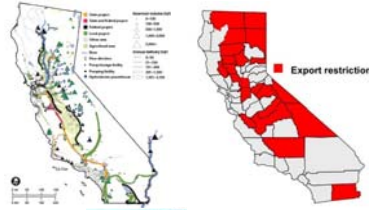
Inter-sector water markets

- Between users in different sectors
- A cost-effective measure to increase water supply for urban agencies in dry periods (SW USA, Spain)
- Public purchases for environmental uses (buybacks in Australia and Spain)
- Agricultural to energy: some experiences in South Spain

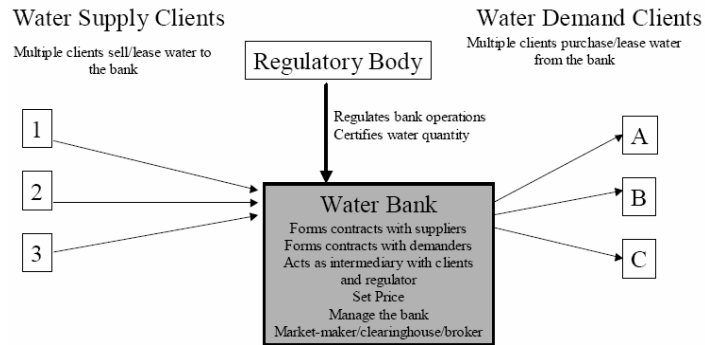


Inter-basin water trading

- Trading mostly restricted to basin level
- Inter-basin trading forbidden in Australia and some US States
- Long distance water markets in California
- Exceptional in Spain: Tajo-Segura and Negratín-Almanzora transfers
- Restrictions to crossing political boundaries:
 - States (Australia, some USA States), even counties (California)
 - Opposition to trading between Spanish Regions



Water Banks



- Centralize and facilitate water exchanges
- Supports different types of WMs and market structures
- Exist in many countries (USA, Chile, Canada, Australia and Spain)
- The main objective is environmental protection



Water supply option contracts

- Buyer pays an annual “capacity reservation price” for the option to buy a share of the water quota of the seller if certain conditions hold (drought)
- A pre-agreed volumetric “strike price” if the option is executed
- Seller keeps the water right and can use the water when the option is not exercised
- Reduce supply uncertainty and improve risk distribution
- Used by urban agencies in SW USA to face water shortages
- Environmental options in Australia



Concluding remarks

- Wide diversity of water markets
- Different institutional settings, degrees of market intervention and restrictions to trade.
- Market activity not relatively significant but steadily increasing
- Prevalence of temporary or spot markets
- Spatial restrictions to trade
- Despite their advantages, WSOC barely implemented in practice
- Water Banks becoming the most used mechanism in most mature markets
- Increasing concern for the environment:
 - To protect it from potential negative impacts
 - As destination of purchased water flows



Next presentation:
An historical perspective on the
development of water markets
in Spain

Alberto Garrido

European workshop Paris, 11 Feb. 2014