



Thematic Week Seven
“Water Economy and Finance”

**3rd Day: “Implementation
Experiences of Water Markets”**
July 30, 2008

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The structure of the day

- Main opening conference – “Water Policies and Institutional Trends”
- Session 7: “The Myth of Markets for Water”
- Session 8: “Water Markets and their Environmental, Social and Economic Impacts in Australia and the United States”
- Session 9: “Regulated Water Markets versus Non Regulated or Informal Markets”
- Overall, a focus on **practical implementation!**

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Do water markets exist?

- It depends.... on the exact definition you have for water markets
- There are many illustrations of ***water reallocation through voluntary agreements with financial compensations***
 - India, Australia, US, Chile, Canada, etc...
- Overall, let's remind us that...
 - Water market is not an end in itself but a means contributing to well-defined policy objectives

How do they operate? (1)

- In many cases, they represent only a marginal share of the volumes/water management... but still play their role
- With different water uses (consumptive use), government intervention, water brokers
- Different degrees of “informality”

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How do they operate? (2)

- Unbundled water rights or building on existing water rights, entitlements or allocations, always accounting for conveyance costs
- Simple or sophisticated (40 000 rules...)... and more to come!
- Differently depending on (i) water scarcity, (ii) time period (how much water can be traded and at which time)

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Which economic, environmental & social impacts?

- Some elements of positive economic impacts illustrated (for farming community also – California, Australia)
- Mechanisms to account for the environment exist... but positive environmental impact not demonstrated
- Social impacts

Conflicting evidence

Potential compensation – difficult to put in place (compensation for trading or drought) and possible « buy time » to necessary structural change (climate change)

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Which elements for water markets to develop? (1)

- The right political context
- Rights
 - (shared) definition (cultural/psychological dimensions)
 - Known and registered
- Investment in infrastructure/rehabilitation
- Build on existing informal reallocation mechanisms/water markets - if they already exist
- Remove subsidies first? (depending on policy objective, level of distortion....)

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Which elements for water markets to develop? (2)

- Specify well the role of regulation

Ensuring other laws are complied with (e.g. environment), regulating the functioning of the market, regulating water brokers, regulating the government...

Sufficient liquidity, transparency, effective and dependable settlement procedures, robust payment mechanism

Water bank or regulating water brokers... our hearts balance...

Some challenges

- Climate change
 - Flexibilité, adaptability
 - Water sharing, capacity sharing, risk sharing...
- Which opportunities for water markets (which water markets?) in situations of weak institutional framework, difficult social conditions, etc?
- When do we really have water scarcity?
- Scale (complexity, timing...)

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Issues for follow-up

- Continuing sharing the experiences of “lessons”
In particular operation in practice
- Strengthening the “expost” evaluation of policy
“experiences”
Markets and government intervention – separating global changes from marginal impacts of markets/intervention
Social and environmental impacts
- Reflecting on lessons/relevance for Europe (Kevin, all of us)

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