



Thematic Week Seven
“Water Economy and Finance”

**2nd Day: “New Policies and
Institutional Change”**

July 28th, 2008

Eduard Interwies

Zaragoza, 30 de Julio de 2008

4th Session: “Theory and Practice of Institutional Reforms to Incorporate Water Markets in IWRM”

- Markets can contribute - as part of the solution- to provide water for the environment.
- A proper regulatory system is needed, plus an important role of government on legislating and financing environmental flow purchases.
- The importance of institutional evolution of water management in Australia, from weak to strong legislation.
- Based on Australian experience, regulators should have a strong role to play when implementing water markets.

Zaragoza, 29 de Julio de 2008

4th Session: “Theory and Practice of Institutional Reforms to Incorporate Water Markets in IWRM”

- Water policy objectives: the balance of distributive equity, economic efficiency and environmental externalities.
- Mistakes made in Australia when implementing water markets, but important lessons to be learned: implementation sequence, right trade foundations.
- To see water trade as a way of facilitating change to “new water policies”.
- Water markets good, but not the only solution.

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4th Session: “Theory and Practice of Institutional Reforms to Incorporate Water Markets in IWRM”

Debate:

- Merits of sharing: dealing with uncertainty (shares rather than volumes), intertemporal trade?
- Discussion of role of centralized water management in decentralized market structures: “creating protocols” & information provision. Each level of government has its role.
- Tax transactions “in kind” for env. flows (“water trust”) – or different issue?
- Discussion on how environmental use has to participate on water markets: minimum vs. optimal flows? How to set the price?

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5th Session: “The Institutional Framework for Water Quality Trading”

- Different instrument from “water markets”!
- Moving pollution regulation from “command & control” regulation, to water quality trading – or: need to combine them?
- Necessary to achieve results: aggressive reduction caps, pollution measurement and enforcement.
- Need to know very well the river basin, pollution levels & cost curves.
- Trading easier for point sources, but challenges for diffuse sources.
- Will not work everywhere: “local markets”?

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5th Session: “The Institutional Framework for Water Quality Trading”

Debate:

- Different ways to allocate initial pollution rights (auction, grandfathering, etc).
- How to check levels of pollution, if through concentration or pollutant loads.
- To deal with “hot spots” (without increasing too much transaction costs): focus of local trading?
- Crucial: institutional rigidities & social perceptions (Farmers, NGOs: bring stakeholders together).
- Allocation of costs :“polluter pays” vs. “beneficiary pays” (role of agriculture: “conditioned” subsidies).

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6th Session: “Efficient Economic Allocation, Modeling, and Limitations of Market Instruments”

- “Water is not worth a war”.
- Overall: socioeconomic water models are beneficial for supporting policy making (“models are not reality, but useful”).
- Potential of water markets? Debatable, since there are not “real” competition and social benefits.
- But: water markets are inevitable & useful; questions about how to design & enforce the needed institutional settings.

Zaragoza, 29 de Julio de 2008

6th Session: “Efficient Economic Allocation, Modeling, and Limitations of Market Instruments”

Debate:

- Use of modeling to have a sense of “value of water” for different uses – and inform market operations (e.g. setting prices)/analyse effects on third parties
- The Chile experience: benefits for economy, but: did it generate economic efficiency, reduce poverty, improve the environment? [see today!]
- Special permits of non-consumptive use/hydropower? depends on circumstances.
- Monitoring: public good, how to finance?
- Analysing if water market application is useful: compare it to what?

Zaragoza, 29 de Julio de 2008