

# Murray–Darling Basin Water Market Products Scoping Study

Milestone 2 – Plain English Brief

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A Marsden Jacob Report

Prepared for the Murray–Darling Basin Authority  
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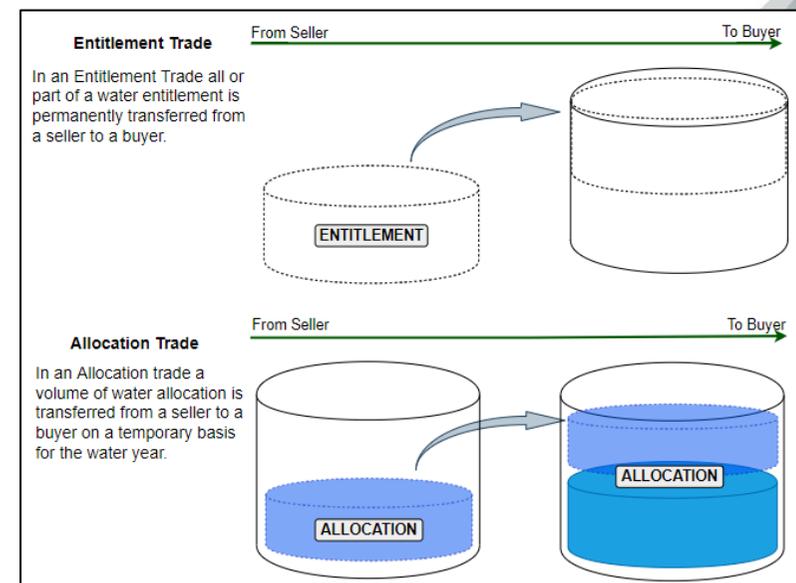
## Primary Water Market Products are based on Water Entitlements or Water Allocations

**Water Entitlements** are ongoing rights to access water from a specified water system.

**Water Allocations** are the amount of water allocated to Water Entitlements in a water year. Water Allocations vary from year-to-year according to rainfall, inflows and storage levels in each water system.

**Allocation** and **Entitlement Trades** are the **Primary Products** for trading water.

Transferring water market products is a **3-Step-Process** often involving a water market intermediary, such as a water broker or a water exchange, to complete the process.



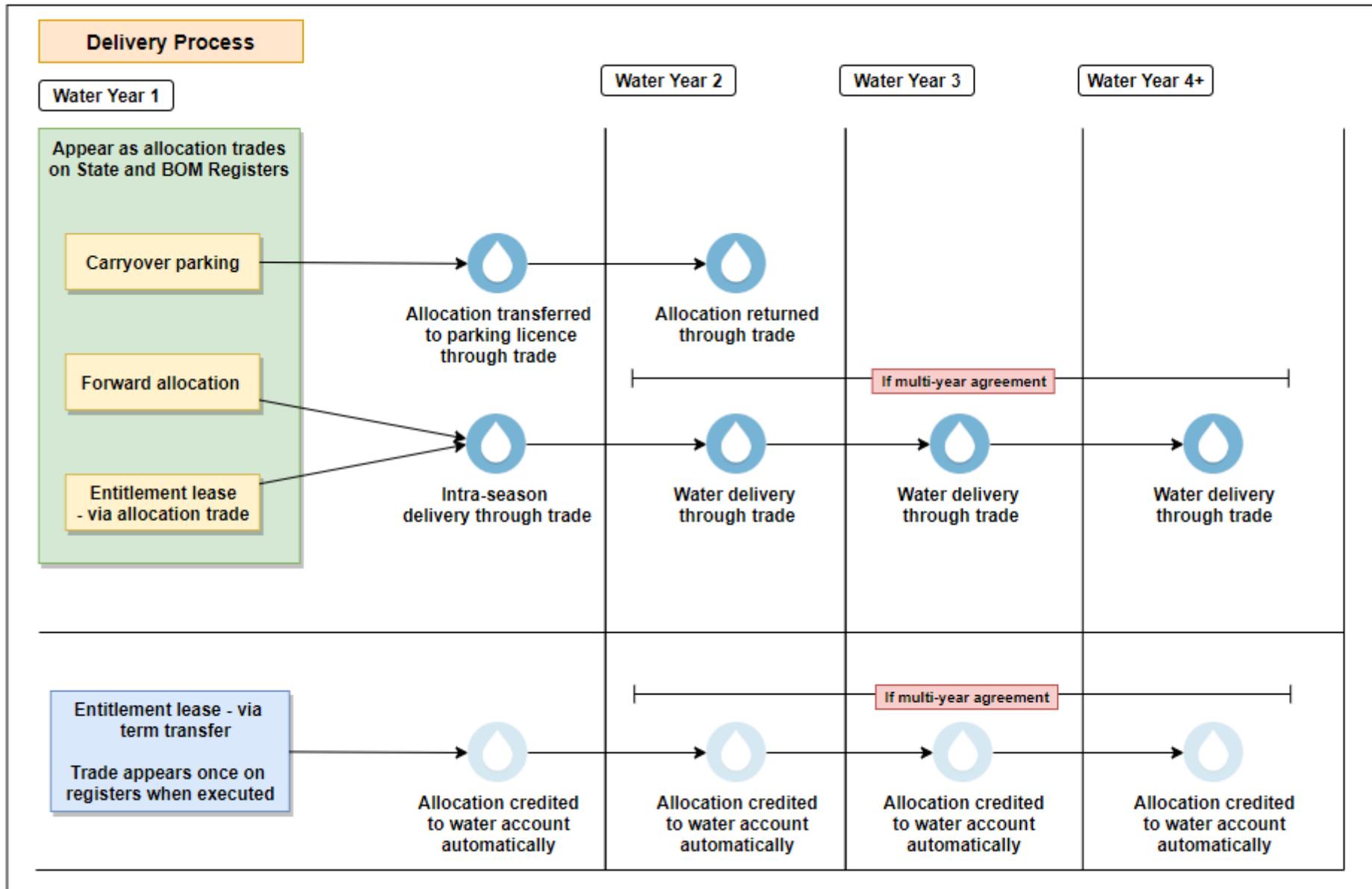
## Secondary Water Market Products provide alternative ways to trade water and manage risk

**Secondary Products** such as **Entitlement Leases**, **Forward Allocation Trades** and **Carryover Parking** build on existing **Allocation Trade** mechanisms.

For **Entitlement Leases**, **Term Transfers** may also be used to deliver the product.

Water Market Product	Product Definition	Trade Mechanism	Where are Secondary Products traded?
<b>Entitlement Lease</b>	An Entitlement Holder ( <b>Lessor</b> ) transfers complete access to the Entitlement to a second party ( <b>Lessee</b> ) for a specified period of time - one or more water years. At the end of that period, the access to the Entitlement returns to the Lessor.	<b>Allocation Trade</b> or <b>Term Transfer</b>	Secondary Products are mostly traded in the <b>Southern Murray-Darling Basin (MDB)</b> because of a greater diversity of irrigated agriculture and connectivity between catchments.
<b>Forward Allocation Trade</b>	Allocation water is traded with a future delivery date at an agreed price. The date of delivery may be in the current water year or over multiple water years.	<b>Allocation Trade</b>	Secondary Products are also traded in some parts of the Northern MDB, but the demand and market liquidity is generally much lower.
<b>Carryover Parking</b>	Certain types of Entitlements can allow unused Allocation water to be 'carried over' from one water year to another. In a Carryover Parking contract a party with excess Allocation water ( <b>'Placer'</b> ) rents carryover space from an Entitlement <b>Holder</b> to carry water over. The 'parked' Allocation water is returned to the Placer in the following water year.	<b>Allocation Trade</b>	

## Secondary Water Market Product delivery overview



## Secondary Water Market Products allow market participants to manage water assets

Product	What are the benefits of Secondary Products?	Who uses Secondary Products?	Product Trend
<b>Entitlement Lease</b>	<p>For <b>Lessees</b>, leasing water provides water and financial security by guaranteeing access to a Water Entitlement for a known period. Compared to buying Water Entitlements outright, leases are a less capital-intensive alternative for water users to diversify and mitigate risk.</p> <p>For <b>Lessors</b>, Entitlement Leases provide secure income for the lease term while retaining the potential for longer-term asset appreciation.</p>	<p><b>Entitlement Leases</b> are suitable for all water use types, including irrigated agriculture.</p> <p><b>Water Lessors</b> are typically water investors and agricultural fund managers.</p>	<p>Intermediaries have reported significant increases in demand for <b>Entitlement Leases</b> over the last two water years (2018-2020) due to high prices for <b>Water Entitlements</b> and other <b>Water Allocation Products</b>.</p> <p>As lessors seek greater flexibility, <b>Entitlement Leases</b> are increasingly completed through <b>Allocation Trades</b> rather than <b>Term Transfers</b>.</p>
<b>Forward Allocation Trade</b>	<p><b>Buyers of Forward Allocation</b> are guaranteed future access to a certain volume of water at predetermined prices. This certainty enables irrigators to mitigate risk and secure water within set budget.</p> <p><b>Sellers of Forward Allocations</b> are provided secure income for the term of the trade.</p>	<p><b>Forward Allocation Buyers</b> are predominantly larger water users, often corporate farmers with permanent crops.</p> <p><b>Forward Allocation Sellers</b> are typically water investors and agricultural fund managers.</p>	<p>Since 2014-15 the demand for <b>Forward Allocations</b> has been significant - especially from growers seeking early water security for crop programs and/or seeking to avoid mid-season peaks in <b>Water Allocation</b> market prices.</p> <p>However, compared to <b>Entitlement Leases</b>, overall demand for <b>Forward Allocations</b> is reportedly decreasing due to recent high <b>Water Allocation</b> prices and doubts over future water availability.</p>
<b>Carryover Parking</b>	<p>By renting other Entitlement Holders' carryover capacity, parties with Allocation water (<b>Placers</b>) can 'park' and carry over unused water. This allows them to temporarily increase their own carryover capacity and, as a result, water availability in the next season.</p> <p><b>Holders</b> of Water Entitlements can generate income from their unused or underutilised carryover capacity.</p>	<p>A broad range of market participants employ <b>Carryover Parking</b>, including irrigators and corporate farmers.</p>	<p>The demand for <b>Carryover Parking</b> varies and is a function of overall water availability. In times of low water availability, the demand for <b>Carryover Parking</b> is expected to remain low.</p>

### How popular are Secondary Products?

They are becoming increasingly popular. Marsden Jacob assesses that the size of the southern MDB Allocation market in 2018-19 was ca. 1,300GL. The market size of the individual Secondary Products is estimated to be in the range of 5-30% of the Allocation market size.

For more information see Marsden Jacob's technical report: *\*insert link\**



## Overview of Secondary Water Market Product features and Trade Information

Product	Typical Contract Features	Timing of Secondary Product Trades	Information about Secondary Product Trades
<b>Entitlement Lease</b>	<ul style="list-style-type: none"> <li>Entitlement Type and Location</li> <li>Price and Volume</li> <li>Length of Lease (X years)</li> <li>Annual Price Increases (e.g. CPI)</li> <li>How and when Allocation is transferred (<b>Term Transfer</b> or separate <b>Allocation Trade</b>)</li> <li>Responsibility for ongoing Entitlement Fees</li> <li>Capped Downside Risk<sup>1</sup></li> </ul>	<p><b>Entitlement Leases</b> are written throughout the water year.</p> <p>For <b>Entitlement Leases</b> completed using <b>Allocation Trades</b>, transactions occur throughout the water year at the time Allocation increases are announced. Trades then appear on <b>Public Water Registers</b>.</p> <p>If <b>Entitlement Leases</b> are completed using <b>Term Transfers</b>, Allocation will be automatically credited to the Lessee whenever Allocation increases are announced, without separate transactions.</p>	<p>1. <b>Public Water Registers</b> provide Secondary Product trade information; however the level of detail varies from State to State. For example, price information on <b>Term Transfer Leases</b> is currently only available for <b>VIC</b> and <b>SA Water Entitlements</b>.</p> <p><b>Entitlement Leases</b> via <b>Allocation Trades, Forward Allocations and Carryover Parking</b> are captured and displayed amongst general <b>Allocation Trades</b> in all <b>State Water Registers</b><sup>2</sup>.</p> <p>For that reason, separating individual Secondary Product trades from general <b>Allocation</b> trades or from other Secondary Product trades is difficult.</p> <p>2. <b>Water Market Intermediaries</b> provide specific commercial trade information for <b>Entitlement Leases, Forward Allocations and Carryover Parking</b> on their websites and through promotional advice such as newsletters and market reports.</p>
<b>Forward Allocation</b>	<ul style="list-style-type: none"> <li>Price and Volume</li> <li>Date and Zone of water delivery</li> <li>Length (if multi-year)</li> <li>Buyer Deposit (% of trade value paid upfront)</li> </ul>	<p><b>Forward Allocations</b> are typically written during the second half of the water year at the time when next season's Allocation outlooks are released.</p> <p>Transactions typically appear on <b>Public Water Registers</b> close to agreed delivery dates (either intra-season or the following year).</p>	
<b>Carryover Parking</b>	<ul style="list-style-type: none"> <li>Price and Volume</li> <li>Responsibility for 'spill risk' if carryover water is lost due to spills or account limits</li> <li>Responsibility for storage fees</li> <li>When and how parked water is to be returned</li> </ul>	<p>Most <b>Carryover Parking</b> contracts are written in the final quarter of the water year when water users assess their current carryover capacity.</p> <p>Transactions for placing and returning water are recorded in <b>Public Water Registers</b> on both sides of the water year.</p>	

<sup>1</sup> In this type of 'hybrid' lease the lessor will 'top up' lessee's Allocation if the announced Allocation for the leased Entitlement does not reach a certain level.

<sup>2</sup> Excluding Queensland, where there is currently no public water register with Allocation trade information.