



## **JOINT MEDIA RELEASE**

### **MINISTER FOR CLIMATE CHANGE AND WATER**

### **ASSISTANT TREASURER**

### **PRODUCTIVITY COMMISSION STUDY INTO MECHANISMS TO PURCHASE WATER ENTITLEMENTS**

24 July 2009

Minister for Climate Change and Water, Senator Penny Wong, and the Assistant Treasurer, Senator Nick Sherry, today announced a Productivity Commission study into alternative market mechanisms that the Australian Government could use to diversify its purchase of water entitlements in the Murray-Darling Basin.

As part of the Government's \$12.9 billion *Water for the Future* plan, \$3.1 billion over 10 years has been committed to buying back water entitlement so the Basin's rivers and wetlands get a greater share of water when it is available.

To 30 June 2009, the Rudd Government had bought some 446 gigalitres of water entitlement worth just over \$660 million.

Along with investment in more efficient irrigation infrastructure, the water purchase program is playing a crucial role in smoothing the transition for irrigation communities as they adjust to the lower diversion limits expected under the new Basin Plan.

The Productivity Commission has been asked to examine how the Government could use alternative market-based mechanisms to diversify its water purchase program in the Murray-Darling Basin.

The program, titled *Restoring the Balance in the Murray-Darling Basin*, currently uses an open tender process as the principal way of purchasing water entitlements.

The study was part of an agreement in February with South Australian Senator Nick Xenophon relating to the Government's \$42 billion Nation Building Package.

The Productivity Commission is required to provide the final report within six months. To register an interest in the study or for further information please

visit [www.pc.gov.au](http://www.pc.gov.au) or phone 02 6240 3239. The terms of reference for the study are attached.

## **Terms of Reference – Productivity Commission Study into Mechanisms to Purchase Water Entitlements**

### **Background**

On 13 February 2009 the Australian Government agreed to request that the Productivity Commission conduct a study into alternative market-based mechanisms that could be used to diversify its water purchase program and secure access to the suite of entitlements necessary to restore balance to the use of the Murray-Darling Basin water resources in a timely manner.

The *Restoring the Balance in the Murray-Darling Basin* program currently uses an open tender process as the principal way of purchasing water entitlements from willing sellers to restore environmental flows and is being implemented over a ten-year time frame. Restoring environmental flows will provide more water for high value environmental assets, as well as protect against algal bloom outbreaks, salinity and other water quality risks that threaten the health of our rivers and the livelihood of our farmers and regional communities.

### **Scope of the Study**

Review the mechanisms used nationally and internationally by governments to purchase water entitlements or similar property rights, including reverse tender processes.

Identify appropriate, effective and efficient market mechanisms that could be used to diversify the range of options to purchase water entitlements under the *Restoring the Balance in the Murray-Darling Basin* program to restore environmental flows.

The study would consider, but not be limited to, issues such as:

- the proposed pace of environmental water recovery and the depth of the water markets in the Murray-Darling Basin;
- transaction and compliance costs for applicants and the Government;
- impact on the water market, particularly where the Government may be the dominant buyer;
- the implications of a developing water market and limited market price information;

- potential to use existing or developing water exchanges, auction houses or on-line water trading platforms;
- potential methods to maximise synergies between water purchase and the Sustainable Rural Water Use and Infrastructure program;
- the capacity to use different mechanisms to purchase a mix of high, general and low security entitlements to meet identified environmental needs;
- the requirements of the Commonwealth Procurement Guidelines and the *Financial Management and Accountability Act 1997*; and
- identify impediments to new and established water purchase mechanisms and how these could be overcome.

The Commission is to consider the *Restoring the Balance in the Murray-Darling Basin* program guidelines, which specify the criteria used to assess sell offers and the conveyancing steps required to complete a water entitlement purchase.

In undertaking the study, the Commission is to consult widely with interested parties including Commonwealth and State Government agencies as well as industry and community groups.

The Commission is to produce and publish a draft report, and to complete its final report within six months of receipt of this reference.