



MARKET MECHANISMS FOR RECOVERING WATER IN THE MURRAY-DARLING BASIN

- The Australian Government has an ambitious agenda for increasing the availability of water for the environment in the Murray-Darling Basin: water will be reallocated administratively through a Basin Plan; and water will be recovered through a ten-year \$3.1 billion buyback of water entitlements, and a \$5.8 billion investment in water saving infrastructure.
- The 2011 Basin Plan will ultimately allocate water between consumptive and environmental uses, in each catchment. The buyback aims to assist irrigators to adjust to the much lower diversion limits that are likely under the Basin Plan and to regain some water for the environment in the interim. The infrastructure program shares these broad objectives but also aims to help sustain irrigation communities.
- The buyback is occurring before sustainable diversion limits (SDLs) are set under the Basin Plan, and before the liability for policy-induced changes to water availability has been resolved. This is creating uncertainty in the minds of irrigators and affecting the efficiency of the buyback.
- SDLs must be based on scientific assessments of the amount of water that is required to avoid compromising key environmental assets and processes. Good science is a necessary but not sufficient basis for optimising the use of the Basin's water resources. The value people place on environmental outcomes, the opportunity cost of foregone irrigation, and the role of other inputs, such as land management, must also be considered. If the Water Act 2007 (Cwlth) precludes this approach, it should be amended.
- The same cost effectiveness tests should be applied to all water recovery options. Purchasing water from willing sellers (at appropriate prices) is a cost-effective way of meeting the Government's liability for policy-induced changes in water availability. Subsidising infrastructure is rarely cost effective in obtaining water for the environment, nor is it likely to be the best way of sustaining irrigation communities.
- Other water products (for example, seasonal allocations and options contracts) are potentially valuable in meeting short-term environmental needs.
- Tenders are sound purchasing mechanisms where active markets for water entitlements do not exist. But where active markets do exist, acquiring water directly from those markets is likely to be more efficient.
- The 4 per cent limit on out-of-area trade of water entitlements should be eliminated as soon as possible. Limits on the amount of entitlements that can be sold to the Commonwealth through the buyback should also be eliminated.
- Using the buyback to achieve distributional goals, system rationalisation or to manage salinity is likely to compromise its efficiency and effectiveness. Other more direct instruments should be used to address these issues.
- Governance arrangements for the recovery and management of water for the environment are fragmented. Greater coordination of water recovery and environmental watering by Basin jurisdictions is required.

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