



Australian Government
National Water Commission

General Manager, Water Markets and Efficiency Group

Recovering Water in the MDB
Productivity Commission
LB2 Collins Street East
Melbourne VIC 8003

National Water Commission submission
Market Mechanisms for Recovering Water in the Murray-Darling Basin

The National Water Commission (the Commission) appreciates the opportunity to comment on the December 2009 *Market Mechanisms for Recovering Water in the Murray-Darling Basin Draft Research Report* (draft research report) prepared by the Productivity Commission.

The draft research report provides a welcome contribution to progressing environmental water recovery and water markets and trading outcomes. The National Water Initiative commits parties to facilitate efficient water markets, minimise transaction costs, enable appropriate water products to develop, recognise and protect the environment, and protect third party interests. Therefore, the Commission generally supports the findings and recommendations made in the draft research report.

On 9 October 2009 the Commission released *Australian Water Reform 2009: Second biennial assessment of progress in implementation of the National Water Initiative* (the 2009 Biennial Assessment). The 2009 Biennial Assessment made a range of findings and recommendations in areas related to the draft research report, including environmental water, water markets, and structural adjustment and water reform. Some of the main findings and recommendations are summarised below:

Environmental Water

The Commission strongly supports continued buybacks to improve environmental outcomes and to adjust to new sustainable diversion limits. The Commission does not support barriers to trade as an attempt to constrain environmental purchases and desirable adjustment. The Commission found that the role of environmental water managers is not well defined or resourced, and there is potential for confusion and inefficiencies between Commonwealth, state, and local environmental programs.

The Commission recommended that improvements be made in determining environmental requirements, and that reductions to the security of environmental water in extreme situations should be made transparent. The

Commission suggested clarification between buybacks, providing for environmental assets, and the transition to new sustainable diversion limits is necessary. Institutional improvements were also recommended, such as clearly specifying environmental water holders' authority, responsibilities and accountabilities, and improving the alignment and integration of environmental water recovery and management programs. (See 2009 Biennial Assessment finding 4.4, to 4.6, and recommendation 4.1 to 4.5).

Water Markets and Trade

The Commission found that the 4% limit has had a range of negative effects, including impeding buyback programs. The Commission recommended that all artificial barriers to trade, including the 4% limit, be removed in a coordinated manner. (See 2009 Biennial Assessment finding 7.2 and recommendation 7.1).

Structural Adjustment and Water Reform

The Commission found that both water markets and environmental purchase programs can facilitate positive structural adjustment, facilitate structural adjustment. But there is a risk that some structural adjustment measures are uncoordinated, ineffective, and counterproductive. The Commission found that there is significant uncertainty in the community about the implications of further water reform and that water users and irrigation-dependent communities require a clearer articulation of government intentions. The Commission also found that overinvestment in infrastructure may result if the extent of future structural adjustment is not recognised, and that paying price premiums for water entitlements is unlikely to be effective and risks distorting water market outcomes.

The Commission suggested further consideration be given to alternative approaches to investment in irrigation infrastructure renewal in the context of water recovery. (See 2009 Biennial Assessment finding 10.2 to 10.8, and recommendation 10.2 to 10.4).

On 10 December 2009 the Commission released its *Australian Water Markets Report 2008-2009* (the Markets Report). The report aims to inform market participants about market structure, trading activity, prices and key policy drivers. It also provides authoritative figures on environmental water purchasing and overall trade volume and price data.

Relevant to the research report, section 3.5.4 of the Markets Report provides data and analysis on the Commonwealth's environmental water purchasing, including average price data for Commonwealth purchases.

Of note, the Commission reported 64GL of entitlements had been transferred to the Commonwealth (and registered) in 2008-09, representing 4% of registered entitlement sales in 2008-09. As many additional transactions occurred in 2008-09 that were not registered in that year, but which will be registered in 2009-10, reporting in 2009-10 may reveal a significantly higher volume and proportion of Commonwealth purchases.

The Commission looks forward to the release of the Productivity Commission's final research report. If further contact or information is required, please contact Ryan Gormly on 02 6102 6042 or ryan.gormly@nwc.gov.au.

Yours sincerely,



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