

**Queensland Department of Environment and Resource
Management**

on behalf of the Queensland Government

Submission to the Productivity Commission

regarding

**Market Mechanisms for recovering water in the Murray-Darling
Basin**

February 2010

General Comments on the Water for the Future program

Queensland supports the Commonwealth programs: *Restoring the Balance and Sustainable Rural Water Use and Infrastructure* for purchasing water entitlements and investing in water-saving infrastructure. These programs improve environmental outcomes in the Murray-Darling Basin and Queensland has been pleased to provide input to the Productivity Commission's review.

Queensland generally supports the findings of the Productivity Commission's report and provides the following comments on specific aspects.

Purchases of Environmental Water

Draft Finding 9.1

Transparency in environmental water recovery by the Commonwealth would be improved by providing clear and public information summarising the existing and planned holdings of environmental water across the Basin, and explicitly explaining how Commonwealth water recovery is being coordinated between the two Commonwealth water recovery programs (Restoring the Balance and Sustainable Rural Water Use and Infrastructure), and with other environmental water holdings.

Queensland Comment

Queensland strongly supports this recommendation, particularly the benefit of improved clarity on the specific environmental objectives for the planned holdings of environmental water across the Basin and the process for coordinating those purchases with infrastructure investments. These need to be closely aligned with Basin Planning.

Savings from Investment in Infrastructure

Draft Finding 6.4

Funding infrastructure upgrades is generally not a cost effective way for governments to recover water for the environment. It is also unlikely to be an effective or efficient means of sustaining irrigation communities.

Draft recommendation 6.2

Rigorous approval processes should be applied to all projects under the Sustainable Rural Water Use and Infrastructure program. In particular, projects should generally only be approved where the cost per megalitre of water entitlements recovered is similar to the market price. Premiums above this price should only be paid in exceptional circumstances.

Queensland Comment

Queensland considers that, while investment in infrastructure may be less efficient than direct purchase of water entitlements, there may also be social benefits that are harder to quantify. Market purchases of water tend to reduce the number of irrigation enterprises without reference to the viability of rural communities. Investment in infrastructure can be used to promote efficient irrigation enterprises and communities and assist in managing the impacts of any reduction in irrigated agriculture as a result of the Murray Darling Basin Plan.

Queensland therefore supports evaluation of applications under the *Sustainable Rural Water Use and Infrastructure Program* on both economic and broader community bases.

Extent of Water Trade

Draft finding 3.1

Water markets are well developed and active in the southern-connected Basin, but not in parts of the northern Basin. This has implications for the buyback – market-based water recovery is more difficult where markets are not well developed.

Queensland Comment

The method of determining a reserve price for water has difficulties in catchments where there is no market. For example, the reserve prices set for water of similar reliabilities in adjacent catchments with similar productivity capabilities should generally be similar.

Queensland considers that where no market exists for water entitlements, a range of methodologies for determining the reserve price for water purchases should be applied.