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14 July 2006

Dr Neil Byron  
Commissioner  
Productivity Commission  
Level 28, 35 Collins St East  
MELBOURNE VIC 3000

Dear Dr Byron

## **RURAL WATER STUDY**

The Murray-Darling Basin Commission ('MDBC') welcomes the release of the discussion draft *Rural Water Use and the Environment: The Role of Market Mechanisms*. We consider the discussion draft provides valuable insights into the appropriate use of market based instruments in designing policy.

We note that many of the key findings are at a more theoretical level, and further elucidation as to how these suggestions could be implemented at a practical level would be helpful. In particular, we believe the final report would benefit from further discussion on the following issues:

- Integration of groundwater and surface water 'Caps',
- Possible policy mechanisms to address the increasing interceptions from private dams
- The farm-level consequences (including effects on on-farm investment) of accounting for return flows on a 'net' basis
- Describing the possible costs and benefits of storage capacity sharing arrangements
- Describing the possible costs and benefits of alternatives to exit fees
- A more detailed analysis of the proposal to 'flush' salt from rivers, including analysis of likely volumes and flows required, the time period for which flushing would be required, and the likely consequences of being unable to maintain the flushing for a sufficient period
- Further possible design features of catchment (or smaller scale) 'cap and trade' arrangements for salinity.

Please do not hesitate to contact the Commission if you require any further information. We await the final report with interest.

Yours Sincerely

**Wendy Craik**  
Chief Executive