

Pricing of Water – a comment

Price has a role to play in allocating water among potential users and in encouraging efficient usage. However, price is not appropriate for allocating water between consumptive and non-consumptive uses. Nor is it an appropriate mechanism for stopping irrigators from using water in some absolute way. Australia's water storages exist in the first instance as economic entities for the purpose of generating wealth and providing family businesses with the scope to generate a livelihood – and in the process support local communities and the natural environment. Charging more for water does not necessarily lead to the creation of new supplies nor does it affect the demand for the end products of irrigation. In this context, price is a 'blunt instrument' that should not be used beyond its natural ability to bring about desirable outcomes.

The basis for this position is a realistic assessment of what price can and cannot do. If the environment is not capable of competing for its share of the total water supply (ie, it won't pay the market rate) then it has to beg the support of statute. This might allow the environment to get first chop at the total supply. What's left should be allocated among commercial users using a combination of several mechanisms:

1. Access rights: These are highly defined real property rights and can be traded among users according to rules agreed by the local users association. In the first instance the rights relate to the water source that defines the volume and reliability of the water through time. Where quarantining supplies for the environment or whatever damages the quality of rights, there should be compensation at market rates – to avoid any overtones of outright theft.
2. Monitoring and auditing: These mechanisms are a substitute for price to the extent they will allocate the available supply among users according to a pre-determined plan. Providing individual users only take the volume they are entitled to, there should be a close parallel between pre-season expectations and post-season outcomes. Thus enforceable penalties related to future water usage would discourage users from breaking the rules.
3. Price: Monopoly suppliers should be subject to 'fair competition' rules and then only charge to recover costs of supplying the water. This has the appearance of fairness and will keep both the supply and demand systems in place. Moreover, a 'reasonable' price will keep a measure of diversity in place and allow a broader cross-section of producers to participate in the irrigation industry.
4. Other: There may be other mechanisms that can contribute to the robustness of a multi-faceted system. My main point is that stored water is there to be used and singular reliance on price will undermine the economics of both the practice of irrigation and water supply infrastructure. It should be possible to satisfy the water needs of the environment by quarantining mechanisms that have minimal impact on the commercial usage sector.

Yours sincerely

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