

# Agri-Environmental Policy in Australia: Water, a Case Study

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# Outline

- Paper in context of workshop
- Brief overview of water reform in Australia
- Agri-environmental approaches in the Murray-Darling Basin
- Benefits and limits of market-based approaches
- Policy lessons and concluding remarks

# Markets and Water

- Conflicts over water resources can be resolved with markets
- In theory, markets can deliver win-win outcomes, including across agricultural and environmental interests
- In practice, politics can limit how well markets work



# Water Reform in Australia

- Drivers
  - Environmental concerns
  - Government budgets and competition policy

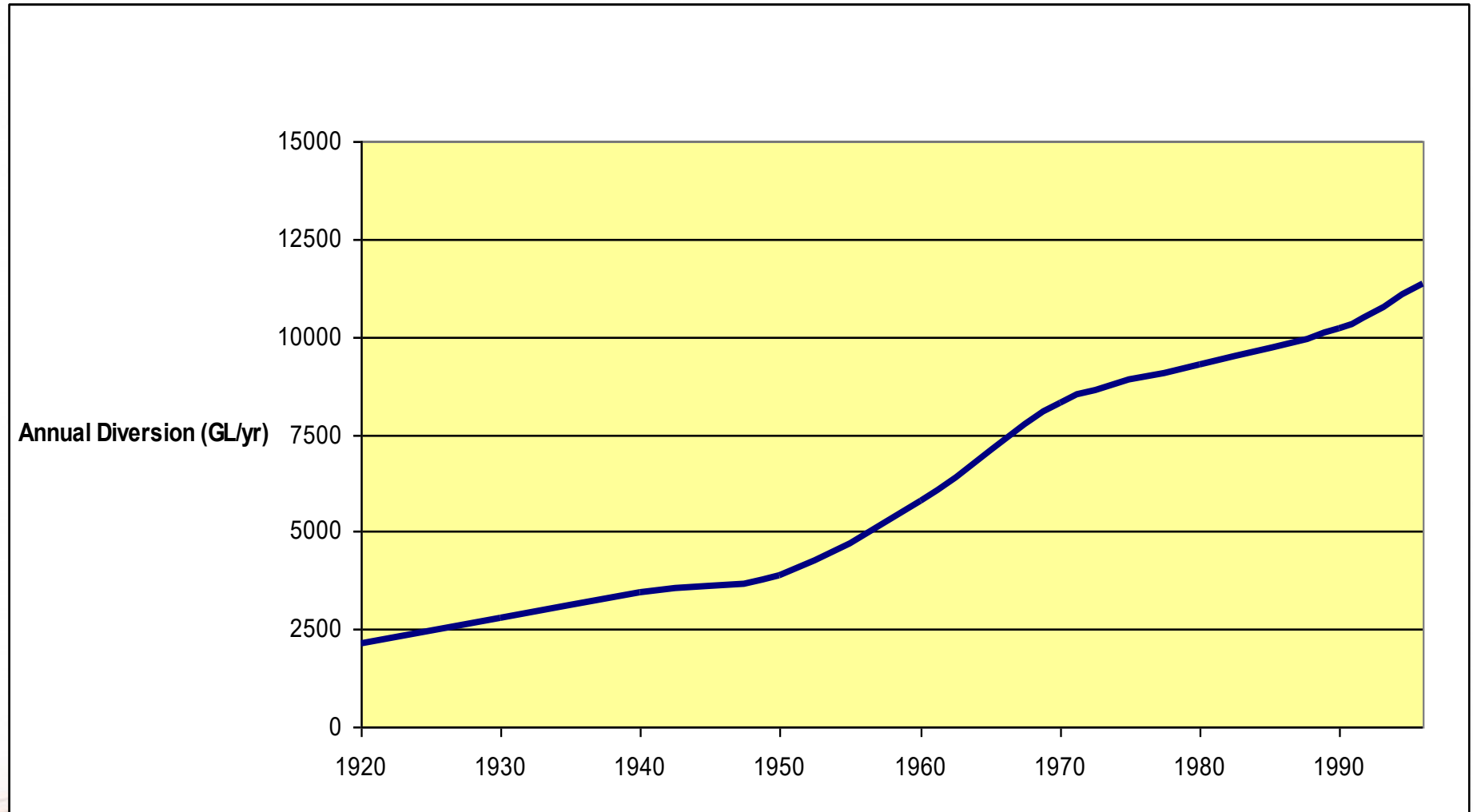
# Water Reform Framework (1994)

- Water Reform Framework (1994)
  - Cost recovery pricing
  - Volumetric and tradeable water rights
  - Separation of regulation from other functions
  - 2 part tariffs
  - Scrutiny of investments

# National Water Initiative (NWI)

- water plans with provision for the environment
- **deal with over-allocated systems**
- registers of water rights and standards for water accounting
- expand the trade in water
- improve pricing for water storage and delivery
- meet and manage urban water demands

# Extractions?



- Diversions from the M-D Basin



# Policy Choices for Dealing with Over-Allocation

- Administrative changes to extractive rights
- Infrastructure to 'save' water
- Buy-back



# Enter the Commonwealth and the Basin Plan

- The Plan and SDLs
- 3000-4000 Gigalitres needed?
- Now 2,750 Gigalitres

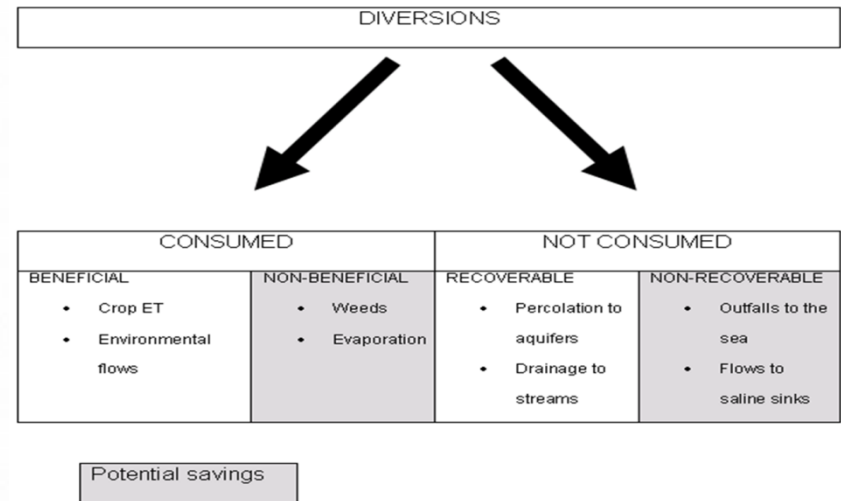


# How to Redistribute 1,468 Gigalitres?

- Administrative adjustments
  - Low budgetary cost
  - High political cost
  - Concerns re sovereign risk

# How to Redistribute 1,468 Gigalitres?

- Infrastructure subsidies
  - Illusory at scale
  - Costly



# How to Redistribute 1,468 Gigalitres?

- Buy-back
  - Market win-win
  - Politically contentious



**Australian Government**

Department of Sustainability, Environment, Water, Population and Communities

**Water for the Future  
Restoring the Balance in the Murray-Darling Basin**

**Expression of Interest (Eoi)**

**Targeted water purchasing in the Southern Murray-Darling Basin**

# Policy Lessons

- Look ahead and reason back
- Sequencing matters
- Beware rent seeking
- Adaptiveness is important and non-adaptation does not mean the approach is wrong – Tinbergen rule
- Scientifically measuring environmental benefits?

# Concluding Remarks

- NWI a useful blueprint
- Markets producing efficient outcomes between agriculture and environment
- Social concerns best addressed with other policies

Thank You

