

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
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Water Reform in Australia

- Drivers
 - Environmental concerns
 - Government budgets and competition policy
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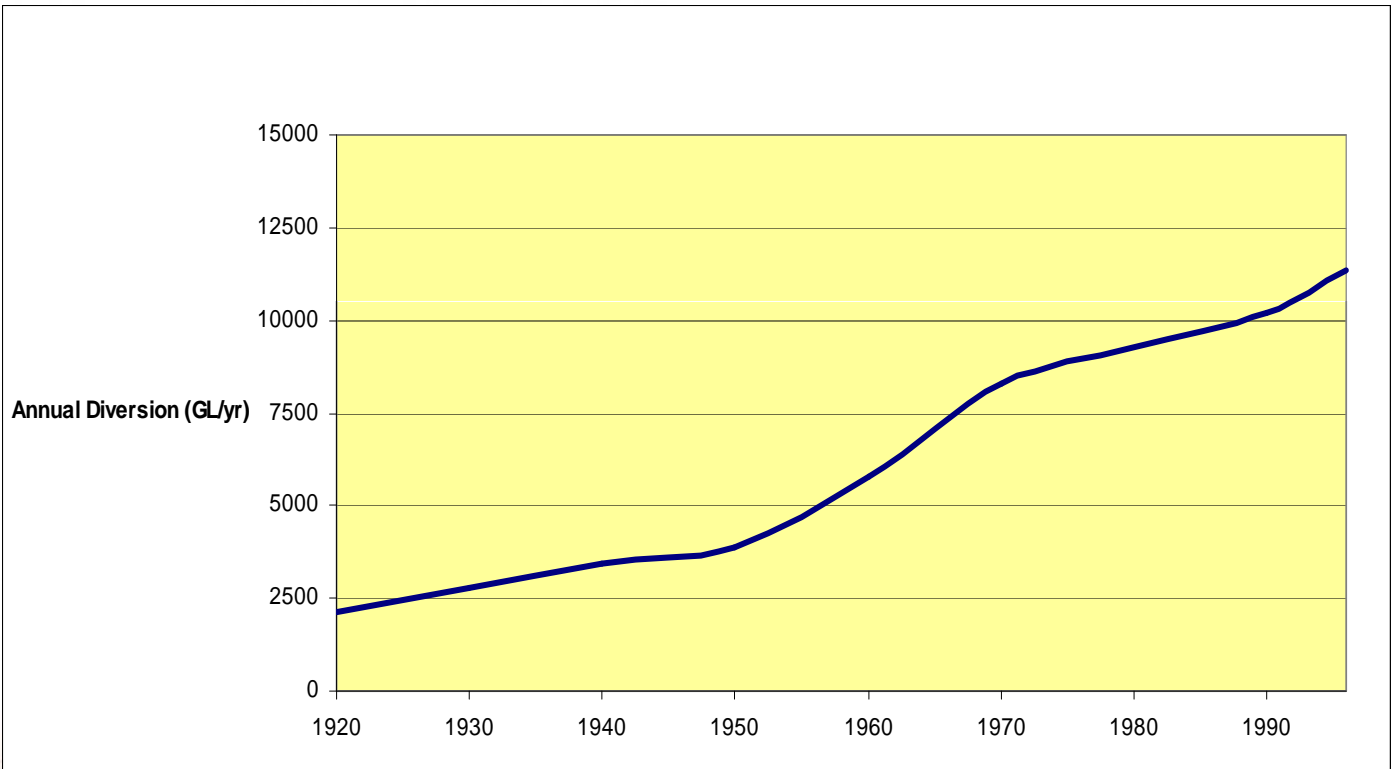
Water Reform Framework (1994)

- 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

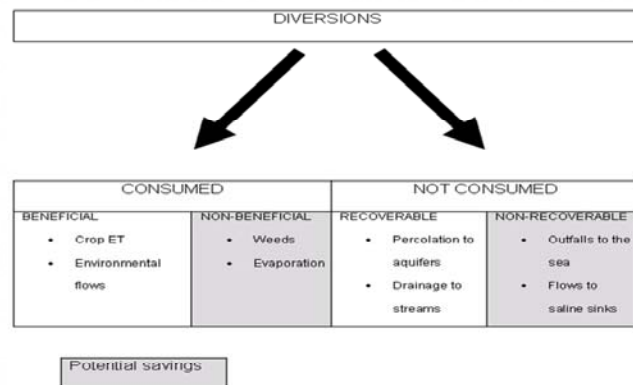


How to Redistribute 1,468 Gigalitres?

- 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?
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Concluding Remarks

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

