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The neglected economics of water policy

Forthcoming decisions about future water availability in the Murray-Darling Basin have the potential to have an enormous economic and social impact on the region, yet these impacts are largely being ignored in current decision-making processes and will inevitably result in decisions that are politically unsustainable.

This is the conclusion of a feature article in the Australian Farm Institute's quarterly publication *Farm Institute Insights*. The article reviews the legislative framework under which the Murray-Darling Basin Authority (MDBA) is preparing the Basin Plan, which will determine how much water is available for irrigation in the Murray-Darling Basin in the future. It highlights that despite probable multi-billion dollar implications, there is no requirement to consider or even estimate the socio-economic implications as part of the decision-making process.

Some idea of the scale of the potential impacts is available from modelling that has been carried out of related water-policy decisions. For example, ABARE carried out economic modelling to assess the impact of the first half of the Australian Government's current water buy-back program. On conservative assumptions it estimated that irrigation output would decline by an average of 2.4% per annum, although the impact would be almost double that amount in some valleys. Given that this analysis only involved half the proposed buy-backs, it means the total impact of the buybacks could be between \$300 and \$500 million per annum, even on conservative assumptions.

The volume of water removed from irrigation in the buy-back program is relatively modest compared to the amount of water some groups have proposed should be removed from irrigation under the Basin Plan. This means that decisions that could have a multi-billion dollar impact on the regional economy of the Murray-Darling Basin are being made without any detailed understanding of the potential economic and social impacts.

"It is difficult to envisage any other government decisions of this magnitude that would proceed with such scant understanding of the potential economic and social impacts. This highlights a major shortcoming in both the legislation and in government decision-making processes," according to Mick Keogh, Executive Director of the Institute.

The article concludes that "at the very least, the government should require that the MDBA make available a full socio-economic analysis of the implications of the forthcoming Basin Plan at the time of its initial release, so that the proposals contained in the plan can be subject to balanced analysis and discussion. Without such information, it is highly unlikely that a sustainable policy outcome will be achieved."

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