

# A I T H E R

## MEDIA RELEASE

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### New report shows impact of drying climate and government buybacks on southern Murray Darling Basin water price

Independent economics and policy advisory firm Aither has completed a report for the Commonwealth Department of Agriculture and Water Resources showing the impact of climatic conditions and government water entitlement purchases (buyback) on water allocation prices in the southern Murray-Darling Basin.

The report, "Supply-side drivers of water allocation prices", has been completed with reference to Aither's water allocation price model – allowing Aither to model the impact of climatic conditions and environmental water purchases on water allocation prices.

Aither Director and lead report author, Chris Olszak, said "Aither's modelling has shown that by contributing to the reduction in water supply available for consumptive use, Commonwealth water purchases have increased the annual median water allocation price in the southern Murray-Darling Basin".

"For example, in 2014-15, 15 per cent of water was allocated to the Commonwealth's purchased entitlements in the southern Murray-Darling Basin. The modelled impact of this on the annual median price was \$24 per ML or a change from \$88 to \$112 per ML".

"However, Aither's modelling also showed that, while Commonwealth environmental water purchases increased the price of water allocations, they were a less important factor than climatic conditions," Chris said.

"Aither's modelling shows that about a quarter of the increase in water allocation prices in the southern Murray-Darling Basin between 2010-11 and 2014-15 was attributable to Commonwealth environmental water entitlement purchases, with drying climatic conditions being the prime driver".

The modelling examines the historical price impact of government water purchases, the price impact of current government water purchases under future seasonal conditions, and the impact of a hypothetical additional 200 gigalitre government water purchase.

The scope of Aither's independent report was limited to the impact of changes in water availability caused by climatic conditions and government water purchases on water allocation prices. It did not assess the financial impacts of water purchases on irrigation businesses or the social or environmental impacts of Commonwealth water purchases. It also did not compare the impacts of water purchases with other options for water recovery under the Basin Plan.

"This report is just one piece of the puzzle. It provides information for stakeholders and policy makers but does not assess the merits of environmental water purchases or whether further purchases are warranted," Chris said.

Aither's analysis was provided for peer review to two leading water economists. Both peer reviewers confirmed that the approach taken to the project was robust and that the conclusions were sound.

This report complements Aither's recently released report for the Rural Industries Research and Development Corporation (RIRDC), "Contemporary irrigation trends and drivers in the southern Murray-Darling Basin", which outlines the future demand side drivers of water allocation prices.

**Aither's full report is available online at:** <http://www.aither.com.au/published/>

**Media inquiries:** Brendan Rowswell, 0402 916 952

#### About Aither

Aither is a leading independent Australian economics and public policy advisory firm with deep expertise in water management, infrastructure, the environment and natural resources. Aither provides independent water market advisory services in the Murray Darling Basin and beyond. Aither won the 2015 Australian Water Association – Victorian Research Innovation Award, for work on Australian water markets reporting.