ACCI POLICY STATEMENT

WATER POLICY

The implementation of water-related National Competition Policy reforms in April 1995 showed an understanding by all Australian jurisdictions that water (and its efficient collection, distribution and use) plays a pivotal role in Australia's economic well-being.

However, with the inconsistent implementation of water reform across jurisdictions, the continuing deterioration of the Murray-Darling Basin River system and other systems, and the subsequent lack of certainty confronting parties with a vested interest in water usage, there is a need for more concerted and nationally consistent water reform.

Since 1995 the debate has progressed with calls for nationally consistent water entitlements; water trading; the promotion of water sustainability to mitigate the adverse environmental effects associated with rural over-allocation; tailored structural adjustment packages; and urban water measures.

These are significant reforms that impact on Australian industry. Industry wants reforms to be introduced in ways that do not unfairly disadvantage stakeholders, are efficient and equitable and achieve environmental benefits. Likewise, industry acknowledges that water management and conservation is a community-wide issue and therefore business as a member of the wider community is affected.

Water, and its continuing accessibility, affordability and responsible use, are profound issues for Australian industry. Continuing environmental degradation and un-unsustainable water use will impact upon industry both directly and indirectly.

Directly, there are many industries that rely upon a high quality and quantity of supply, notably resource industries, primary production, construction and manufacturing. Indirectly, a decrease in productivity caused by unsustainable water use, an increase in salinity levels and the deterioration of available land generally, threatens productivity and the general prosperity of local communities putting considerable strain on flow-on industries. There are also industries such as tourism and recreation that rely upon the general 'health' of river systems.

PRINCIPLES OF WATER POLICY

Business:

- supports carefully considered water reform that guarantees the improved health of Australia's river systems and ensures that all Australians have access to clean usable water;
- calls on governments not to rush the reform process. Reform that is ill-conceived may be costly to the Australian taxpayer, may result in significant unintended/inadvertent transfers of wealth and may not achieve the desired long-term environmental outcomes;
- supports an integrated approach to reform of both groundwater and surface water conservation and management;
- recognises that the management of groundwater supplies (the aquifer) is as important as surface water management, as there is a risk to the long-term health of ecosystems if the aquifer supplies are depleted and mismanaged;
- recognises that as a consumer of water, and a party dependent on sound environmental flows, especially in regional

Australia, it will be a significant stakeholder in the reform process;

- calls on governments to pursue policy reforms that allow industry to actively respond to water reform but do not place an unreasonable burden on business. Business, as a member of the Australian community, has a role to play in addressing the issues. But reform should not unnecessarily impede the competitiveness of Australian trade-exposed industries, should attempt to minimise cost differentials between and across jurisdictions and should be commensurate with industry's contribution to the problem

- calls on governments to provide an institutional framework conducive to improved water conservation and management. Governments should introduce incentives such as grants and subsidies and provide general demand-management information to encourage the uptake of new technology, greater innovation and to promote the commercialisation of improved water management;

- recognises that governments will need to determine targets or levels for water quality and flows for catchments, but that the principal responsibility for managing and meeting those targets should lie with the local community;

- supports the development of re-use strategies in the short-term that promote safe re-use and recycling of waste water for non-drinking purposes, such as irrigation, residential garden watering, toilet flushing, fire protection and industrial uses including cooling water and for drinking purposes in the longer term. Any strategies must address the purpose and standards for re-use, the costs and any subsidies, and how those subsidies are allocated;

- supports arrangements for stable, well-defined water access entitlement regimes to create certainty, promote investment in water consumption and to achieve the maximum potential economic gains from a nationally-consistent water-trading regime. These arrangements should contain sufficiently long terms for entitlements to encourage security in tenure (ACCI proposes 10 years), a general presumption that they will be transferable and clear specifications so entitlement holders are fully aware of their obligations and the processes that determine and influence their allocations;

- supports calls for water access allocations to be initiated from a planning process that determines the balance between 'consumptive use' and the quantity of water that needs to be allocated for environmental purposes;

- supports an approach whereby the amount of resource to be allocated for consumption in a particular catchment or zone is reassessed in light of changing environmental conditions. The amount of resource that an entitlement holder takes from the 'consumptive pool' should move proportionally to the increase or decrease in the size of this pool over time;

- calls on governments to determine the size of the 'consumptive pool' and 'environmental pool' through quality economic and scientific analysis and extensive community consultation;

- calls on governments to consider the sequencing of water policy reform. The transition to a nationally-consistent system for specifying water access entitlements, water use conditions and trading must be properly sequenced to mitigate against unnecessary costs;

- supports, in principle, flexible water trading arrangements that take into account the unique conditions of different environmental zones in Australia and as a means of facilitating the movement of water to its highest value use. However, there must be common principles that underpin a nationally consistent approach. Any trading price should take into the account the true value of water consumption (including all associated externalities) and the price that is paid for water equates to the opportunity cost of additional water for the environment; and

- asks that water reform complements other broad government policies, notably regional development, innovation and climate change.

POLICY OBJECTIVES

In light of the significant reforms currently proposed for the management of Australia's water reserves, the overarching objective of ACCI's water policy is to develop industry's understanding of the issue, to influence the likely future policy direction of Australian water management and to identify the risks and opportunities for business of this proposed approach.

THE POLICY FRAMEWORK

The Issue and the Need for Reform

There is much conjecture about the current status of Australia's water resources. Three key biophysical observations driving the debate include:

- by 2020, unless significant action is taken, it is expected that Murray River salinity at Morgan over 50 per cent of the time will fail to meet World Health Organisation desirable drinking standards (Murray-Darling Basin Commission 1999);

- between 20 and 40 per cent of irrigation water needs to be returned to the stem of the Murray River so that it can be treated and restored to a healthy working river (Murray-Darling Basin Ministerial Council 2002);

- the Australian Government's *2001 State of the Environment Report* describes the current situation:

  - increasing pressures to extract surface and groundwater for human use are leading to continuing deterioration of the health of water bodies;

  - surface water quality has deteriorated further in many areas because of increasing salinity;

  - difficulties in managing water resources across state borders continues to hamper effective management;

  - the complexities of the linkages between inland waters and their catchments are often beyond the capacity of our management systems;

  - as more controls are placed on the use of surface waters, more groundwater is used. The overuse of surface and groundwater resources affects aquatic ecosystems. About 26 per cent of Australia's surface water management areas are close to, or have exceeded, sustainable extraction limits;

  - water use has increased from 1985 to 1996/97 by 65 per cent and water is overused in some regions;

  - water extraction for irrigation has increased by 76 per cent from 1985 to 1996/97; and

  - river water in several catchments is predicted to have salinity levels that will exceed drinking water guidelines within the next 20 years.

To date, the success of governments in addressing these issues has been indifferent with water over-allocation resulting and in-ground and surface water being removed more quickly than it is being replaced.

Although all states and territories have legislative frameworks in place that separate 'water property rights' from land and title, it is generally agreed that these frameworks are inconsistent, are subject to continual change, are unfair in their application and often do not allow stakeholders to form a reasonable expectation about the tenure and security of their entitlement.

Under current state and territory water regimes bulk access regimes can be altered at any time by the respective State Water Minister creating security and value concerns and there is no pathway in the respective pieces of legislation to automatically provide parties with compensation. These issues have resulted in a significant reduction in asset security, which in turn has discouraged investment, created lending risks as financial institutions seek certainty and has had a negative impact on the environment.

Australian industry is both a significant consumer of water in Australia and a party largely dependent on the vitality of regions that rely on sound environmental flows. The Commonwealth Scientific and Industrial Research Organisation (CSIRO 2002) estimated that the decline in regional net agricultural returns, largely as a result of increased salinity, will range from 0.2 per cent to 2.2 per cent per annum over the next 25 years. The variability represents the likely success of a number of future policies to address river salinity and land quality over this period.

CSIRO has also estimated the percentage decrease in business turnover for those flow-on businesses that support the grazing, grains, dairy and irrigated horticulture industries if productivity falls. An example is if activity in the dairy industry in the Torrumbarry to Darling Junction falls by $3.5 million per annum, this will flow through to a 33 per cent decrease in revenue (or $1.2 million) for supporting businesses that supply fertilizers and pesticides, farm equipment, consulting services etc.

However, CSIRO estimates that if future policies are successful in reducing the concentration of salt in river water and environmental flows are returned, the benefits to the urban, commercial and industrial sectors in terms of less damage to property and production costs will be in the vicinity of $71 million to $129 million depending on the amount of environmental flows that are returned to the system.

The Future Policy Direction of Australian Water Management

On 25 June 2004, the Council of Australian Governments (COAG), excluding Western Australia and Tasmania, signed the National Water Initiative. The initiative is expected to achieve the following results:

- expansion of permanent trade in water bringing about more profitable use of water and more cost effective and flexible recovery of water to achieve environmental outcomes;
- more confidence for those investing in the water industry due to more secure water access entitlements, better and more compatible registry arrangements, better monitoring, reporting and accounting of water use and improved public access to information;
- more sophisticated, transparent and comprehensive water planning that deals with key issues such as the major interception of water, the interaction between surface and groundwater systems and the provision of water to meet specific environmental outcomes;
- a commitment to addressing overallocated systems as quickly as possible, in consultation with affected stakeholders, addressing significant adjustment issues where appropriate; and
- better and more efficient management of water in urban environments, for example through the increased use of recycled water and stormwater.

Member jurisdictions of the Murray-Darling Basin also agreed to provide new funding of $500 million over five years to address over allocation in the basin. To oversee the implementation of the Initiative, the National Water Commission was established as an independent statutory agency in December 2004. The Commission also oversees the $2 billion Australian Water Fund which was established to improve Australia's water infrastructure, management and stewardship.

Water Allocations and Water Trading

The proposal to introduce a water-trading regime that is compatible across jurisdictions and as wide as practical in geographical scope may, if not implemented correctly, create further environmental harm and significant (adverse) transfers of wealth. Its poor introduction may also result in significantly higher water prices than what otherwise may be expected.

To ensure that the environment is allocated a proportion of resource in excess of what the unregulated market would typically deliver, allocations for 'environmental use' and consumptive use' must be determined. This process must occur before a trading regime is implemented. There is a variety of ways to allocate water between these two 'uses' – including setting restrictions on price or restrictions on quantity. Both can be achieved in a variety of ways. The method ultimately adopted should be that which disperses the benefits of greater environmental flows as widely across the population as possible and the approach that is the most equitable, efficient and minimises sovereign risk. These issues must be carefully worked through via extensive scientific and economic analysis and consultation with community groups.

Getting water allocations correct is imperative and should not be rushed at the expense of equitable, efficient and effective outcomes. Further, due to the many market impediments and externalities associated with water use and water trading, it will need to be regulated to achieve its desired outcomes.

A significant adverse effect (both environmental and socio-economic) that can occur with water trading is if water is taken out of the catchment (either tangibly by physically moving the water elsewhere or non-tangibly by virtue that a water allocation is granted or an entitlement is purchased) by a water purchaser with no intention of consuming the allocation or trading the allocation in the period it relates. However, there should be no limits placed on sectoral trading, that is, water should be able to be traded in a reach or sub catchments by farmers to industry and vice versa.

Water users, brokers or third party intermediaries can potentially, and perhaps inadvertently, restrict the ability of those water users who wish to obtain a quantum of resource over and above their allocation from accessing that allocation because either the supply in the consumptive pool is exhausted or because the available supply is so low, and the demand so high, that the price is inhibitive. If water users cannot obtain access to more water in a fair and equitable way (that is, at a true market price based on agreed allocations and right of access), there may be cause for government intervention.

Due to the intricate and intertwined nature of Australia's main waterways, removing water from one region can have a very large adverse impact on regions that rely on this flow downstream. From this perspective, if scientific analysis fails to take into account these concerns, and if regulations are not placed on who can purchase water, and in what quantities in specific zones, the amount of water needed to achieve environment benefits may never be achieved.

Water Entitlements

Competitive markets for water will only work well if the rights and conditions of use for water are clearly specified (for example as to the volume of water, reliability of supply and any charges); that these rights are enforceable and enforced; and that there is a right of voluntary transfer of ownership. Essentially, a water access entitlement should have secure tenure, transferability and clear specifications.

In many cases current rights for water within a season and within a region meet these criteria, but for most cases of trade over years and across regions, and also for trade between agriculture and urban uses, property rights are uncertain and/or constrained.

Properly defined water entitlements will allow stakeholders to form a reasonable expectation about the tenure and the security that their water entitlement will deliver over time which in turn should encourage investment (for example, fostering innovation and accelerating the development and uptake of new technology) in activities that encourage greater efficiencies in water collection, distribution and use.

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