

Submission to the inquiry into WATER AMENDMENT (RESTORING OUR RIVERS) BILL 2023

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I welcome the opportunity to offer a short submission on the proposed Bill. By way of background, I am an applied economist with decades of experience analysing water policy reforms and related changes in Australia and abroad. The suggested amendments around water markets are largely uncontroversial and appropriate, so the bulk of this submissions deals with other aspects of the Bill, namely the reinstatement of voluntary water purchases. While not wishing to provide a complete overview of the history of water reform, it is important to understand the context of the water amendment bill.

What went wrong?

Historically, Australian governments of all persuasions were keen to exploit water resources to promote their own conceptualisation of development. It goes without saying that this approach was (and is) at odds with First Nations' world view.

This 'development phase' was most pronounced in the 20th Century and gave rise to notions like 'water running to sea being a waste'. Extractive rights were generously assigned and linked to the idea of 'nation building' and the expansion of inland communities. These sentiments are still heavily engrained in some communities today and result in spurious associations between the level of water abstraction and community prosperity.

The bulk of the agriculture in the MDB is actually tied to dryland activity and this remains profitable in the main. This arises because dryland, broadscale agriculture is capital and land intensive – both resources are in relatively abundant supply in Australia. In contrast, irrigated agriculture is always more reliant on water and labour – both are relatively difficult to source at times in rural Australia.

The upshot is that longer term, some irrigated enterprises will struggle to compete and adapt to global demands. That doesn't mean they should be abandoned, but it's important to recognise their limits and the importance of not locking communities or individuals into a single trajectory.

Benefits of the earlier reforms?

The water reforms that started in the 1980s and progressed through to the early 2000s were largely motivated by having to confront some of these realities. River systems had been over-allocated and as the basin entered a drying phase the environmental consequences were clear, even if the remedies were disputed.

Tradable water rights were also introduced at this time, largely as a way of allowing resource reallocation between extractive users while trying to cap extractions. Unfortunately, some jurisdictions, especially NSW, choose to ignore the initial caps, making the current situation more challenging.

This phase was also characterised by enthusiasm to be more transparent about the economics of irrigation. States like NSW moved their communal irrigation districts ‘off the state’s books’ and established them as farmer-owned irrigation service providers. The broad idea was that investments in things like irrigation projects would need to pass basic economic tests before public monies were invested.

The MDB Plan and the odd alliance of environmental and irrigation influences

The MDB Plan came after a range of initiatives, including the Living Murray program and other water recovery endeavours. The MDB Plan was presented as revolutionary, but arguably that might be an overstatement given the progress that was already underway at the state level.

The politics of the Plan is detailed elsewhere and doesn’t make for a happy read for economists. The commitment to not waste public money on irrigation was largely undone by the political manoeuvring that accompanied the Plan.

Unequivocally, the most cost effective and fairest way to recover water for river systems is through voluntary water purchases. However, sensing the political gains, irrigation lobbyists took the opportunity of the Plan to offer up ‘infrastructure projects’ that would purportedly ‘save water’ that could then be reassigned to the environment. Regrettably, this approach was also supported by some environmental groups at the time, arguably giving it more credibility than it deserves.

As taxpayers have come to realise, these types of infrastructure projects are very expensive, relative to voluntary purchase of entitlements from willing sellers. The hydraulics of some projects is also very poorly developed, which partly explains why so little water has been delivered against their targeted savings. The idea that water is ‘wasted’ still accompanies some of this thinking and is naive in the extreme. Water does not go to Mars if it leaks from an irrigation channel so preventing the leak simply shifts water in space and time – it doesn’t create more water per se.

There is extensive evidence in Australia and from around the world that ‘water saving infrastructure’ seldom delivers more water for the environment. Credible agencies have been writing about this misnomer for decades, but that hasn’t stopped Australian government spending billions of dollars on this false premise and claiming it as some form of zombie ‘win-win’.

Getting back on track

The move to reinstate voluntary water purchases to meet the environmental requirements of the MDB is welcome, if long overdue. This offers both financial reprieve for taxpayers and additional comfort for environmental interests.

That said, we know that sensible policies don’t last forever and this is especially the case when it comes to rural Australia. Whenever a climatic event or economic adjustment besets rural communities it becomes too-easily entwined with other aspects of rural and regional life. A drought becomes a reason to spend on roads or schooling, a bushfire leads to enhanced funding for a hospital. A water recovery scheme results in calls for improved regional health services. In this type of environment it is simply too easy to lose sight of what government is trying to achieve.

This is also not helped by the fact that we don’t have a clear view of what we want for and of rural and regional Australia. Rural and regional people should have access to decent public goods and it shouldn’t take a climatic event or an economic or environmental adjustment for those to be on offer. Unless this is seriously addressed, it’s quite likely that sensible policies, like water buybacks, will be easily reversed.