

## **Water policy framework**

### **Background**

- 3.1 Water policy in Australia is founded upon a range of Commonwealth and State instruments and bodies which, taken in their entirety, present a complex and sometimes contradictory mosaic of policies and initiatives.
- 3.2 Water policy and related natural resource management issues are primarily the responsibility of the States, and through them, of local government and other local bodies. As well as having independent policy development frameworks of their own, the States contribute to the development of water policy at a national level through COAG, the Natural Resources Management Ministerial Council (NRMMC), and the Murray-Darling Basin Ministerial Council (MDBMC). The States, through their membership of COAG, define their policy objectives in terms of nationally agreed goals.
- 3.3 On a national level, the overarching policy instrument is the Council of Australian Governments (COAG) water reform framework – now called the National Water Initiative. This sets the national policy parameters and direction of the water reform process.
- 3.4 The Commonwealth plays an extensive role in water management issues through the Natural Heritage Trust (NHT), the National Action Plan for Salinity and Water Quality (NAP), and through the activities of various government departments and agencies.

- 3.5 The resulting policies and policy frameworks have been diverse in their objectives and outcomes. A plethora of legislation, State water plans, and local management plans of various sorts govern water management in Australia, with a greater or lesser degree of overall coordination and funding.
- 3.6 It is the view of the Committee that facilitating and achieving greater coordination upon this array should be one of the principal objectives of future policy development.

## **Stakeholder reactions to rural water reform**

- 3.7 During the course of its investigations the Committee received a considerable amount of evidence on the success or otherwise of the implementation of the COAG Water Reform Framework which commenced in 1994. Much of this related to the crucial questions of water rights and water trading which are dealt with in the next chapter, but also indicated a general sense of frustration with the wider water reform process.
- 3.8 According to the National Competition Council (NCC), rural water reform relates primarily to water used in irrigated agriculture. The reforms are designed to:
- address damage to river systems and groundwater resources and increased salinity (which have resulted from excessive allocations to irrigators in the past) by ensuring adequate water is available to the environment;
  - ensure water infrastructure is efficiently maintained and developed;
  - ensure new dams are economically viable and ecologically sustainable; and
  - establish a system of tradable water rights to help ensure water is used where it is most valued.<sup>1</sup>
- 3.9 The water reform process has now been in train for nearly a decade, but, on the whole, the results have been less than ideal. In its 2002 assessment, the NCC noted:
- When adopting the water reform framework in 1994, CoAG stated that the reforms could be implemented within five to seven years, although it acknowledged that the speed and extent of reform

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1 NCC, *Annual Report 2001–2002*, p. 46.

depended on the availability of financial resources to facilitate structural adjustment and asset refurbishment.

- 3.10 The COAG agreement established completion dates for the major reforms (1998 for urban water pricing, the institutional reforms, water trading and allocations for the environment, and 2001 for reform of rural water pricing), but some of these deadlines were later extended. In particular, the timetable for environmental water allocations was extended to 2001 for stressed rivers and 2005 for all river systems and groundwater.
- 3.11 The initial timetable was overly optimistic; it underestimated the reform task. Significant constraints on the implementation of the reform framework included:
- the complexity of some of the reforms (for example, those that required much research and analysis before effective application);
  - the need for extensive consultative and educative processes;
  - the demands that the reforms placed on governments, institutions and stakeholders, including financial demands; and
  - the low base from which many of the reforms were initiated.
- 3.12 State and Territory jurisdictions have introduced the reforms at different rates and in different ways. Variances in implementation have reflected differences in jurisdictions' starting points (in their legislative frameworks for water, for example) and in the health of their river systems; the diversity of administrative and legislative environments across States and Territories; and differences in the interests and strengths of the relevant stakeholder groups.
- 3.13 According to the NCC:
- Progress in implementation of the reforms has been satisfactory generally, given unforeseen difficulties and the implications of some reforms for the interests of key stakeholders. CoAG (2002) noted that 'substantial progress' was being made on the national water reforms, but that 'water management is currently in a transition phase as jurisdictions implement new water allocation arrangements'.<sup>2</sup>

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2 National Competition Council 2002, *Assessment of governments' progress in implementing the National Competition Policy and related reforms, Volume one: assessment*, AusInfo, Canberra, pp. 3.47–8.

- 3.14 The NCC's view is that the process of urban water reform is nearly complete.<sup>3</sup> On the other hand, progress in rural water reform has been much slower. For example, price reform of rural water is less well advanced than urban water, and has proceeded at an uneven rate across jurisdictions.<sup>4</sup> As noted in paragraph 1.8, the Committee believes that this is a narrow view of water reform.
- 3.15 The question of water allocations for environmental purposes is also yet to be settled. Given the complexity of the environmental issues, gains from the reforms have taken longer to achieve, and proved more expensive and challenging than the other elements of the reform framework. Moreover, the knowledge base is still limited, and the nature and extent of the environmental improvements less predictable than other outcomes from reform.<sup>5</sup>
- 3.16 Nonetheless, the NCC believes that governments are now taking integrated approaches to natural resource management and, in the process, spending much more on research.<sup>6</sup>
- 3.17 In evidence presented to the Committee, Professor Cullen said of the COAG water reforms:
- The tragedy is that they have only been half-implemented and we need to reinvigorate that water reform agenda. If you look at the pricing aspect of COAG, I think we have the full cost charging in the urban area, but probably not quite so full cost for waste water services. As to full cost in the rural sector we have made very limited progress in most jurisdictions, so we are not necessarily covering the full cost there...A comprehensive system of water entitlements was a cornerstone of the COAG water reforms and where we have failed. When we talk about the agenda which will go forward, setting out those water rights is fundamental.<sup>7</sup>
- 3.18 Overall, Professor Cullen rated the results of COAG as 'pretty patchy. There are some very good principles on the table but we have not done all that well with them'.<sup>8</sup>

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3 NCC, *Annual Report 2001–2002*, p. 46.

4 NCC, *Annual Report 2001–2002*, p. 48.

5 NCC, *Annual Report 2001–2002*, p. 49.

6 NCC, *Annual Report 2001–2002*, p. 50.

7 Transcript of evidence, p. 1.

8 Transcript of evidence, p. 2.

- 3.19 Mr Leutton of the National Farmers' Federation told the Committee that with the advent of the 2003 National Water Initiative, COAG was now where it should have been in 1996.<sup>9</sup>
- 3.20 Similar views were expressed in other evidence presented to the Committee. In its submission, the Twynam Agricultural Group, an agricultural enterprise with substantial holdings in New South Wales and Queensland, was critical of the States (particularly NSW) for failing to carry out their obligations under COAG, and the Commonwealth for failing to enforce those obligations.<sup>10</sup> Nekon Pty Ltd, an investment company in Tasmania was critical of the Tasmanian Government's failure to implement price reform.<sup>11</sup> C. R. and S. P. Dyke, citing instances where the Tasmanian Government has failed to live up to its COAG obligations, called for the tightening of the NCC's assessment processes, and for National Competition Payments to be based on verifiable compliance with the COAG water reform agenda.<sup>12</sup> In their submission, the Combined Environment Groups (World Wide Fund for Nature—WWF, Australian Conservation Foundation, Nature Conservation Council of NSW, and the Inland Rivers Network) called for a new COAG agreement, citing the importance of the full implementation of the water reform agenda to securing better environmental outcomes.<sup>13</sup>
- 3.21 In its submission, Boonah Shire Council, highlighted a range of problems related to the COAG water reforms.<sup>14</sup> In evidence before the Committee Boonah Shire's Mayor, Councillor John Brent, reiterated these shortcomings and emphasised the confusion created in rural communities through the often-thoughtless implementation of the COAG reforms.<sup>15</sup>
- 3.22 Others saw problems in the reforms themselves, not their implementation. For example, Mr Matthew Arkinstall, of Rathdowney Queensland, wrote:

I believe that COAG and NCP have had a major unintended impact on rural and regional communities. Firstly, that the COAG requirements have resulted in price increases for water but have not brought about sufficient savings for the cost of implementing it, and that tying it to NCP, it has put rural users at a disadvantage. The major disparity here is that urban users only have to change simple

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9 Transcript of evidence, p. 688.

10 Submission no. 99, p. 3.

11 Submission no. 139, pp. 1-6.

12 Submission no.82, pp. 3-4.

13 Submission no. 103, pp. 2-3.

14 Submission no. 65, p. 4.

15 Transcript of evidence, p. 46.

lifestyle habits to reduce their usage and therefore costs, but in rural areas, there are no alternate sources of water, and for rural industries, often the water usage is directly correlated to income, i.e. the more available the higher the income.

COAG has also brought about a drift of water from rural areas to the coasts, and with it jobs and the very survival of some rural communities. Whilst those industries may have higher value uses, it is often outweighed by the negative impacts upon communities where the water once was.<sup>16</sup>

3.23 A similar view was propounded by the Beaudesert Shire Community Advisory Panel:

The current method of assessing the provision of water infrastructure, e.g. the National Competition Policy and The C.O.A.G. Water reforms, effectively devalue the existing social infrastructure and social network of communities. It is believed that this process can result in making decisions, which will have significant impact in the overall sustainability of regional and rural Australia.<sup>17</sup>

3.24 Kalfresh, a vegetable packing company located on south-east Queensland, was scathing in its assessment of COAG, arguing that ‘the mistakes and uninformed decisions of Water Reform will plague us long after this drought has broken’. It added:

Much of the CoAG inspired legislation flies in the face of good economic policy and logical growth paths for regional economies. Moreover it treats those of us who have invested in these regions with contempt and will stifle investment long into the future. It has robbed regional areas of confidence and the desire to press on.<sup>18</sup>

3.25 The submission from the Lockyer Valley Irrigators raised questions about the way reform was implemented in Queensland by the Department of Natural Resources and Mines (DNRM). Their submission contends that in their haste to meet NCC deadlines, DNRM based their decision making on questionable science, a one-size-fits-all approach, and little or no regard for economic impact. No compensation is planned for those impacted, a position the irrigators regard as being inconsistent with the intent of National Competition Policy. The Lockyer Valley Irrigators contend that

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16 Submission no. 24, p. 1.

17 Submission no. 25, p. 2.

18 Submission no. 138, p. 4.

this form of policy making ‘in fact stifles competition and retrospectively penalises small family farmers, the backbone of the area’.<sup>19</sup>

3.26 The Committee visited the Lockyer Valley and inspected water infrastructure and farms there. Local irrigators were particularly critical of the poor standard of some of the engineering designs and sites chosen for local water storage facilities.

3.27 A problem highlighted by Mr Jolyon Burnett, Chief Executive Officer of the Irrigation Association of Australia, in his evidence before the Committee was the lack of understanding in rural Australia of COAG reform processes:

I think that is a significant task that faces us all to raise the level of understanding of what is trying to be achieved at a national level. All too often the responses to inquiries like yours, or the presentations that are made at regional fora, are based on very parochial and local understanding of the issues. While that is important, I think we would get a better outcome if more people understood the broader context of the reform agenda that is happening.<sup>20</sup>

3.28 The Inquiry revealed a great deal of anger and frustration in rural Australia at the way the COAG reforms have been implemented in the past, which brought the reforms themselves into question. Processes need to be employed which make future reforms more transparent and better understood.

3.29 In the Committee’s view, the National Water Initiative presents an important opportunity to review the implementation of water reform and the management of the reform process. It is clear that both the process, and people’s understanding of the process, are deficient in many respects, and that these deficiencies should be urgently addressed. It is essential that the further development of the National Water Initiative follow a process that is open and consultative with all stakeholders.

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19 Submission no. 87, pp. 2-3.

20 Transcript of evidence, p. 598.

## **Recommendation 4**

**3.30 The Committee recommends that the Commonwealth urges the Council of Australian Governments to:**

- **undertake a national public communications strategy to disseminate the policies and goals of the National Water Initiative; and**
- **provide formal avenues for public feedback and consultation under the National Water Initiative.**

## **The need for greater accountability**

**3.31** The Committee received evidence suggesting that some of the key participants in the reform process, particularly the States, are not sufficiently accountable for their actions. The NCC has responsibility to police the COAG agreements, but only within the broad terms of those agreements, and National Competition Payments are untied.

**3.32** Mrs Christine Campbell, Executive Chairman of the Twynam Agricultural Group, in her evidence before the Committee said:

A couple of times, in previous submissions through the water-sharing plan process, we have participated in requesting the federal government to withhold those tranche payments. Each time we have had a report come back from the authority, the NCC, that says that the state governments are working within their legislation and that it has been an ineffective request on our behalf as irrigators. If we were able to say that these blueprints and their obligations has meat in them, that would be a very big plus.<sup>21</sup>

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21 Transcript of evidence, p. 608.



- 3.33 In his submission, Mr Beris Hansberry, of Gould's Country, Tasmania, noted how readily environmental protection policies broke down in the face of State and local expediency.<sup>22</sup> Mr Hansberry also highlighted the pitfalls of the local action dependent on ongoing funding from the NHT:

Currently many beneficial & worthwhile programs for water management are in place, but they are often blighted by funding reductions, uncertainty of future funding & excessive paper work to gain said funding. (Thus using many vital hours which could be spent 'on the ground' providing solutions.)<sup>23</sup>

- 3.34 Dr Gary Sauer-Thompson, in a submission entitled 'Local Government and the Sustainable Governance of Water Resources in South Australia', cites the example of the Eyre Peninsula as a case study of 'a region struggling with its management of water resources to achieve ecologically sustainable development' due to poor planning.<sup>24</sup>

- 3.35 In his submission to the Inquiry, Mr John Hyde, an Eyre Peninsula farmer, also expressed concern about water resource management on the Eyre Peninsula. He cites the approval given to vineyard developments by the District Council of the Lower Eyre Peninsula, despite the absence of a water management plan and an acknowledgement that the water supply is in crisis:

Having listened at the Inquiry to the submissions put before the members, I must comment on the particular submission by Mr Vance Thomas on behalf of the Local Government Association. To make a statement that LEP [Lower Eyre Peninsula] was ideal for horticulture and viticulture must be challenged. There is no doubt the area's climate is ideal, but we lack one essential ingredient, and that is water. Water that is being extracted from our critical catchment creeks in the WPZ [Water Protection Zone]. This hasn't deterred our District Council from proceeding with approvals for irrigation for this purpose. Once more it relates to catchment management, or more precisely the total lack of it.

- 3.36 Mr Hyde further describes the apparent unwillingness of the State Government to interfere in a matter over which the District Council was the prescribed authority under the *Water Resources Act 1997*.<sup>25</sup>

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22 Submission no. 34, pp. 1-5.

23 Submission no. 34, pp. 3-4.

24 Submission no. 62, pp.22-23.

25 Submission no. 156, pp. 1-4.

- 3.37 In its submission, the Eyre Peninsula Catchment Water Management Board was also critical of the role of the State Government:

The State Government water resource agencies have not undertaken to remediate the catchment salinity problem or weed invasion, acid sulphate or erosion problems that also threaten the catchment. The Board believes that no Government has the right to allow a catchment to degenerate to the detriment of present or future generations or the environment...

Whilst the Government subsidises the development of new sources of water but not the sustainable management of existing supplies, there is little incentive for a commercial water supply entity to contribute to catchment management. It is believed that this is not a problem specific to South Australia and for reasons of fair competition, it is considered that Nationwide coordination is appropriate.<sup>26</sup>

- 3.38 There was also some concern expressed over accountability for the monies allocated to the Murray-Darling Basin under the National Water Initiative. In evidence before the Committee, Professor Cullen urged that the money be spent on actually obtaining water for the environment. He stated:

At the moment there are all sorts of people suggesting how the \$500 million should be spent on a whole variety of things ... I fear that a large proportion of the money will go on tarding up infrastructure works and having negotiations and we will not necessarily get the outcomes that I believe we have enough knowledge now to get.<sup>27</sup>

- 3.39 Mr Peter Cosier, fellow member of the Wentworth Group, and Director of Conservation for WWF Australia, put the matter even more directly:

\$500 million is a lot of money and Australians are watching this process. It is taxpayers' money that is being put up. If we do not get \$500 million worth of water in rivers for the \$500 million investment, Australians are hardly likely to come back and say, 'You can have some more.' What we think is absolutely crucial is that the process by which that is done is (a) transparent but (b) done by experts.<sup>28</sup>

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26 Submission no. 97, p. 2.

27 Transcript of evidence, pp. 674–5.

28 Transcript of evidence, p. 675.

- 3.40 The Committee agrees that the outcome of this expenditure in the Murray-Darling Basin is crucial. However, as noted in its interim report the Committee is very concerned at the knowledge gaps which still exist.<sup>29</sup> It believes that, to achieve the best long-term outcomes, part of the \$500 million should immediately be invested in upgrading data and information sets and developing the best possible scientific methodology.<sup>30</sup>
- 3.41 A significant aspect raised in evidence presented to the Committee was the cost of implementing the national water reform agenda at a local level.
- 3.42 In its submission and in evidence provided at a public hearing, the Pioneer Valley Water Board expressed concern that the water reform agenda is being driven by the problems of the Murray-Darling Basin; that the cost of reform is being borne by irrigators 'who can least afford it at this time'; and that none of the payments made to the States for their part in the water reform process are being passed on to local bodies to help them to meet the cost of reform.<sup>31</sup> Their submission noted:

The Pioneer Valley Water Board fully supports the general intent of the Water Reform Agenda but is now confronted with an extremely time consuming process through new legislation and with the potential for increased costs of its operations that will result in significant increases in water charges.<sup>32</sup>

- 3.43 The Eyre Peninsula Catchment Water Management Board was concerned about the equity costs of the current system of environmental management:

South Australian Catchment Water Management Boards are funded through a levy system collected from local land and water users. This fund is collected and spent in each catchment. There is however a serious social inequity in this process

A City Catchment may have a population of 300 000 in an area of 200 square kilometres and have very little natural catchment to manage. Arguably, most of the catchment issues therefore are a result of poor planning, design and construction and are the responsibility of the developers and Local Government to fix. Meanwhile, Eyre Peninsula has a population of about 30 000 and an area of 55 000 square kilometres to manage. The water resource and

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29 The Committee presented an interim report to Parliament on 5 April 2004. See Chapter 1, paras 1.32 – 1.37.

30 See Recommendation 2 in the interim report.

31 Submission no. 9, pp. 2-5.

32 Submission no. 9, p. 2.

water dependent environment of the catchment is not owned by the whole community, but shared by the whole country.

It is clearly the responsibility of every citizen to do their bit to ensure that their use of the environment is sustainable, however there must be a matrix applied to ensure that rural communities are not held responsible for the management of the whole water environment to a greater degree per-capita than the urban community ... Social equity needs to be addressed throughout all areas of Australian life to ensure that rural communities have equitable financial resources to manage local natural and social resources. Rural water supplies are no different.<sup>33</sup>

- 3.44 The Committee shares the concern of local authorities at the apparent ease with which State Governments and statutory authorities can pass on the costs of water reform to local communities. This clearly impacts not only on the ability of local communities to carry out their obligations, but also on their willingness to do so. Indeed, it has the potential to undermine the whole process.
- 3.45 The Committee also believes that under the current framework, rural and regional Australia is bearing a disproportionate amount of the cost of water reform. Water resources management is a national responsibility, with each community given a share of available resources proportionate to their burden of responsibility.
- 3.46 It is the Committee's view that there is a clear need for a more integrated planning process, encompassing different levels of government and different aspects of water management (and other aspects of environmental management) in one vertically and horizontally integrated planning framework.
- 3.47 The key aspect of this must be a combination of national coordination and local ownership and control. For the most part, the necessary parts of this framework are already in place—the task now is to integrate them, and harmonise them within and between jurisdictions. (Aspects of the Commonwealth's possible role in such developments is discussed in the section titled 'Future Directions', below).
- 3.48 The Committee is wholly in sympathy with stakeholder concerns about the National Competition Payments process and the enforceability of the COAG agreements generally. Those charged with responsibility for the implementation of the agreed changes under the Water Reform Framework should be accountable for the discharge of that responsibility.
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33 Submission no. 97, pp. 6-7.

- 3.49 A number of submissions suggested ways to address these issues. Macquarie River Food & Fibre suggested giving the NCC more teeth.<sup>34</sup> C. R. & S. P. Dyke urged that competition policy 'tranche payments be withheld until the actual (rather than theoretical) performance and compliance can be positively demonstrated as meeting progress criteria'.<sup>35</sup> The Victorian Farmers Federation wanted national competition payments tagged to ensure the money was spent on those projects or reforms which formed part of a State's COAG obligations.<sup>36</sup>
- 3.50 The Committee agrees that specifications for tranche payments should be tightened, and where governments fail to meet their obligations, payments should be withheld.

### **Recommendation 5**

- 3.51 **The Committee recommends that the Commonwealth, as part of the National Water Initiative, ask the Council of Australian Governments to provide:**
- **that requirements for receipt of National Competition Payments are transparent and clearly spelt out in each phase of the reform process and developed in consultation with water users, including farmers and should include positive initiatives that have the potential to provide more water, such as stormwater harvesting and grey water recycling;**
  - **the tagging of National Competition Payments to specific verifiable outcomes, and supplied directly to the end-users; and**
  - **that National Competition Payments are withheld where those outcomes are not met.**

### **Recommendation 6**

- 3.52 **The Committee recommends that the Commonwealth, as part of the National Water Initiative, considers direct funding for natural resource management, including National Competition Payments, directly to regions according to their targeted needs.**

34 Submission no. 78, p. 3.

35 Submission no. 82, p. 3.

36 Transcript of evidence, p. 256.

## Pricing of rural water

- 3.53 The Inquiry received a considerable amount of criticism directed at the COAG policy objective of pricing rural water based on full cost recovery, both by those frustrated by the failure to achieve it, and those potentially impacted by it. Current charges for bulk water vary between suppliers.<sup>37</sup>
- 3.54 In its submission, the Australian Water Association (AWA) highlighted the need to achieve water prices that reflected the actual value of the commodity, and the opportunity costs reflected by different uses:
- The current price of water, even in the urban context and particularly in the rural bulk water context, does not reflect a highly valued commodity. The appropriate price, which will promote sustainable management, is uncertain, however, it is most definitely higher than it is now. The value of water is difficult to determine; however we should be actively trying to improve our ability to measure value. In general, it is possible to generate far greater GNP through using water for industrialization than it is for agricultural use, particularly for high water/low cash value crops. There are of course other considerations—this is not a suggestion that we should not have irrigated agriculture. However, we should give greater consideration to the opportunity costs associated with allocation and policy decisions.<sup>38</sup>
- 3.55 According to the AWA's Mr Davis, failure to institute full cost recovery sends the wrong price signals and leads to inefficiency in agricultural production.<sup>39</sup>
- 3.56 Professor Cullen, also stressed the need for prices to reflect the cost of production, including getting 'the real costs of production into the food prices'. He also supported using price signals, such as rebates, to support efficient water use.<sup>40</sup>

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37 Indicative prices charged by two Rural Water Authorities are on the website of the Victorian Water Industry Association [www.vicwater.org.au](http://www.vicwater.org.au) accessed in March 2004. Goulburn Murray Water charges: 'Prices for gravity irrigation supply range from \$17.60/ML to \$28.10/ML, with higher charges for some pumped and pipelined supplies.' Southern Rural Water charges: Macalister Irrigation District \$32.58/ML, groundwater (general) \$1.40/ML, most rivers \$4.30/ML.' (ML= megalitre=1 million litres).

38 Submission no. 71, p. 7.

39 Transcript of evidence, p. 541.

40 Transcript of evidence, p. 9.

3.57 In its submission, the CSIRO emphasised the need to fully implement the original COAG water reform intention of full cost recovery including that needed to cover the cost of “externalities” (i.e. third party impacts and environmental degradation arising from water use).<sup>41</sup> According to the CSIRO:

A combination of full cost recovery, a directed water trading market, an explicit water allocation policy and the development of an ethos that values water conservation will be needed to underpin the stability of water supply and use. This combination represents the balance between the external motivations of pricing and self interest and the moral values associated with notions of “a fair go” and having the opportunity to be involved in the decision making.<sup>42</sup>

3.58 In its submission, ABARE argued that pricing needs to reflect the increasing social costs in water supply and use, and to take account of capacity constraints in delivery systems that may impart costs to all irrigators. ABARE, believed a system of marginal cost pricing and multipart tariffs would better reflect the actual cost of delivering water to individual properties, thus ensuring more efficient water use on-farm.<sup>43</sup>

3.59 On the other hand, there were those critical of the policy objective of full cost recovery in the pricing of rural water.

3.60 Mr James Florent, Policy Manager, Environment, for the NFF, argued before the Committee that factoring environmental impacts into water prices was very subjective and would distort the water market. Environmental objectives were best managed through other policy mechanisms.<sup>44</sup>

3.61 Mr Andrew McMillan, Director of Policy for the Western Australian Farmers Federation, indicated that he believed that full cost recovery was not a viable proposition in Western Australia, with its sparse population. He also emphasised that farmers were price takers when it came to marketing their produce. They could not simply pass on increased water charges to consumers.<sup>45</sup>

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41 Submission no. 59, p. 8.

42 Submission no. 59, p. 12.

43 Submission no. 94, pp. 7-9.

44 Transcript of evidence, p. 688.

45 Transcript of evidence, p. 656.

- 3.62 Mr John Palmer, Manager of the Pioneer Valley Water Board, regarded the current pathway to full cost recovery in Queensland as ‘simply another form of state government taxation on a group of water users who have no capacity to pass on additional costs through their produce’.<sup>46</sup> He also expressed concern at the lack of actual cost data:

The other aspect of rural water pricing in Queensland is that the present price paths have been set with some seriously flawed cost data for the operation of the schemes. The government is refusing to allow access to that data for examination by water users. My board, like most irrigators in the Queensland government owned corporation SunWater run schemes, has indicated to the government that we are prepared to pay the true lower bound costs [i.e. covering operation, maintenance and refurbishment of assets, but not return on capital] of irrigation water supply. The imposition of water charges without details of actual costs of supply is a major impediment in Queensland to the acceptance by irrigators of the COAG water reforms.<sup>47</sup>

- 3.63 The Queensland Farmers’ Federation raised the issue of the speed with which price paths were established and the lack of transparency in the process.<sup>48</sup>

- 3.64 Mr Patrick Murphy, Director of Works and Technical Services, Boonah Shire Council, was concerned that commercial pressures would see water move from rural uses to urban uses under full cost recovery:

If we go on a purely commercial basis, urban will continue to outbid rural with regard to water price. In urban areas there is industrial and domestic use, but there is also garden use, which is about aesthetic value. In rural areas water has more value than just price—it has production value. When you weigh up the total value of water there is more than just the commercial value. COAG is pushing everyone towards a commercial price rather than an actual value of production, or value adding the water.<sup>49</sup>

- 3.65 Boonah Shire Council’s Mayor, Councillor John Brent, put the position even more starkly, stating that rural water pricing was about the future of rural industries in Australia.<sup>50</sup>

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46 Transcript of evidence, p. 109.

47 Transcript of evidence, p. 109.

48 Submission no. 116, pp. 9-10.

49 Transcript of evidence, p. 39.

50 Transcript of evidence, p. 40.



- 3.66 Like Boonah Shire Council, Beaudesert Shire Council believed that unless pricing regimes reflected a broader vision for rural Australia, they would undermine the ability of rural communities to survive:

The drive to a market-based water system, particularly for rural areas fringing on expanding urban areas (a Shire like ours and our neighbours, Boonah Shire) will effectively sound the death knell of those communities. Unless action is taken to change that system, their demise would appear inevitable.

It would appear to be smarter economics to ensure that these small rural communities continue to thrive so that rural production close to urban areas continues, so that the huge investment in community infrastructure is not wasted, so that the critical asset for their continuation is not destroyed, and so that the jobs these people currently enjoy do not need to be provided within the urban area. In addition, without these communities, the 'growth industry' of rural-based tourism will cease to exist as the very things that make these areas 'Australian' or 'the bush' just will not be there.<sup>51</sup>

- 3.67 Mr Vance Thomas, executive officer of the Eyre Peninsula Local Government Association, urged a uniform national approach to water pricing. The alternative was that those districts that acted responsibly on water pricing would be undercut by those that did not. Speaking of the Eyre Peninsula, he stated:

I believe there is a willingness for this region to pay a premium for its water. But should it have to? The other side of that equation is that, as I mentioned, we have difficulties in business and industry because of the size and remoteness of this region. They really have to fight to remain competitive because of those issues alone. If you added an additional impost of higher priced water to that and it was not being paid anywhere else they would lose whatever edge they have; whatever margins they have would be whittled away even further.<sup>52</sup>

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51 Submission no. 18, p. 2.

52 Transcript of evidence, p. 364.

- 3.68 In its submission, the Victorian Farmers Federation supported full cost recovery in principle, but within certain parameters. The price of water should be set to allow water authorities to remain financially viable, but reflect no more than the marginal costs associated with efficient water delivery. There should be no positive rate of return. The VFF also opposed placing environmental charges in price structures. Charges for asset refurbishment were to be based on reasonable time frames and expectations of cost. ‘Gold plating’ was to be avoided.<sup>53</sup>
- 3.69 While the Committee supports the principle of full cost recovery in the pricing of rural water, there are clearly serious issues that must be addressed concerning the implementation of this policy. The Committee agrees that factoring environmental impacts into water prices is both subjective and likely to distort prices. Such costs, unless readily identified on a catchment or regional scale, are better left to the use conditions of individual water licences.
- 3.70 A problem with full cost recovery in areas of government-provided infrastructure is that development frequently occurs outside market discipline and accumulated costs may be excessive. For example, the South East Drainage Scheme in South Australia where farmers believe that they are paying additional costs due to excessive bureaucracy, and environmental demands which should more properly be borne by the wider community.
- 3.71 Moreover, while the Committee also believes that it would be virtually impossible to institute uniform water pricing without extensive price subsidies, there is a clear case for taking into account historical and regional differences in the application of full cost-recovery pricing. Those regions where public investment has historically been low, or where infrastructure condition has declined for lack of recent public investment, have a strong claim to some level of government assistance, at least in the short term.
- 3.72 The Committee believes that water prices should be determined on a uniform basis—a common set of pricing principles—and that charges applied by monopoly suppliers, especially bulk suppliers, should be subject to full public scrutiny.

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53 Submission no. 73, pp. 1-2.

## Recommendation 7

- 3.73 **The Committee recommends that the Commonwealth urge the Council of Australian Governments, to adopt a national water pricing framework as part of the National Water Initiative, based on the principle of full cost recovery, and that:**
- **Water pricing reflect operational costs and asset renewal, with externalities dealt with through water use licences;**
  - **The implementation of full cost recovery pricing take into account different historical and regional circumstances such as monopoly markets without market discipline; and**
  - **All pricing regimes are transparent and open to full public scrutiny.**

## Future directions

- 3.74 From evidence received during the course of the Inquiry, it became apparent to the Committee that the future management of Australia's water resources required four basic factors—
- A national vision for water
  - Commonwealth leadership and coordination
  - Greater public engagement in the reform process
  - A stronger and better coordinated research effort (see Chapter 7)
- 3.75 The Committee believes that as part of the process of developing the National Water Initiative, COAG should outline a national vision for water, and set definite targets for enhancing the other factors.

## A national vision

- 3.76 The need for a national vision for water was articulated by several witnesses during public hearings of the Inquiry.<sup>54</sup> A number of written submissions also emphasised that water is a national responsibility, and argued for a national vision.<sup>55</sup>
- 3.77 In his evidence before the Committee, Professor Don Bursill, CEO of the CRC for Water Quality and Treatment, argued that ‘we need a much clearer national vision for what we want to see regarding our water resources in this country, and the consequent objectives and strategies need to be focussed on achieving that vision’.<sup>56</sup> Professor Bursill ‘could not imagine the individual states coming up with a common vision. Maybe I am wrong—I hope I am wrong. That is the point I am trying to make here: I would like to see the Commonwealth show that leadership’.<sup>57</sup>
- 3.78 In its submission, the CSIRO stated:

Development and conservation of water needs to be directed through enunciation of a set of values. These values should encompass the notions of efficiency, fairness, sustainability and reward for effort within the obligation to others. In every day language these might be expressed as ‘waste not, want not’, ‘a fair go’ (for people and the environment), ‘something for our grandchildren’ and ‘return in proportion to risk and investment’.

The vision should also set out the fundamental principles for water use. It should assert that the primary right to water should be to satisfy the basic human need for sufficient water of adequate quality for drinking and hygiene. It should assert the right of the environment to have adequate water to maintain the integrity of dependent ecosystems.<sup>58</sup>

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54 For example transcripts of evidence, pp. 564–6, 602, 612.

55 For example, Boonah Shire Council, Submission no. 65, p. 2; NSW Irrigators’ Council, Submission no. 105, pp. 8-9; Macquarie River Food & Fibre, Submission no. 78, pp. 2-3.

56 Transcript of evidence, p. 289.

57 Transcript of evidence, p. 297.

58 Submission no. 59, p. 4.

3.79 Twynam Agricultural Group, a major agricultural producer in New South Wales and Queensland, emphasised the need for a national vision—one encompassing rural communities and irrigated agriculture:

To achieve adequate and sustainable water supply the needs and rights of all members of the community and the environment need to be respected. Twynam wish to see positive change in the context of a clearly enunciated ... vision for the environment, irrigated agriculture and rural communities. Without that vision the future for investment in business, people and rural communities is undermined.<sup>59</sup>

3.80 In July 2003, the Wentworth Group articulated a vision for water in Australia comprising three fundamental goals:

- Protecting river health by recovering environmental water in stressed rivers, and avoiding the mistakes of the past in our undamaged rivers;
- Promoting opportunity by fully specifying water entitlements and responsibilities, and then removing impediments to water trading; and
- Engaging communities and ensuring a fair transition, so no group is asked to bear an unreasonable burden.<sup>60</sup>

3.81 The Committee endorses both the concept of water being a national responsibility, and the need for a vision encompassing the environment, irrigated agriculture and rural and urban communities. At present, the people of Australia are presented with a range of partial and sometimes conflicting policies which fail to meet the need for a coherent national vision.

## Recommendation 8

3.82 **The Committee recommends that the Commonwealth, working through the Council of Australian Governments, develop a comprehensive national vision for water in Australia, balancing the needs of the environment, irrigated agriculture and rural and urban communities.**

59 Submission no. 99, p.2.

60 *Blueprint for a National Water Plan*, Wentworth Group, July 2003, p. 6.

## Commonwealth leadership and coordination

3.83 During the course of the Inquiry, the Committee received considerable evidence on the need for the Commonwealth to take a leading role in coordinating national water policy.

3.84 Typical were the comments by Mr Kent Martin, Chair of the Natural Resources Committee of the South Australian Farmers Federation. He told the Committee:

We have always believed that the Commonwealth's role was to show leadership. I live on the border and I see the problem of states squabbling and having different regulations. I guess we have always seen that the Commonwealth has a role to play in leadership and in taking control of some of the border squabbling, where people could not agree to the difficulties of different regulations.<sup>61</sup>

3.85 The need for strong, national leadership of this vital resource is a view with which the Committee concurs. Indeed the Commonwealth already plays an active role through policy formulation and national coordination especially through COAG, and the provision of financial assistance.

3.86 A significant barrier to stronger Commonwealth involvement is that under the Australian Constitution the States and Territories have responsibility for water issues. Commonwealth power over water is specifically limited by section 100, which reads:

The Commonwealth shall not, by any law or regulation of trade or commerce, abridge the right of a State or of the residents therein to the reasonable use of the waters of rivers for conservation or irrigation.<sup>62</sup>

3.87 In a submission the federal member for Sturt, Mr Christopher Pyne MP<sup>63</sup>, argued that the Commonwealth should assume responsibility for water. At a public hearing he said that the States have allowed such a degradation of the health of many rivers that the Commonwealth should challenge the concept of 'reasonable use' under section 100 with the aim of assuming a greater responsibility for water:

What I propose is that the Commonwealth take an action in the High Court to seek from the High Court its opinion on what reasonable use means and whether the states have over the last 102 years used the waters of the Commonwealth reasonably,

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61 Transcript of evidence, p. 327.

62 *Australian Constitution*, s. 100.

63 Submission no. 110.

particularly in relation to the Murray–Darling Basin. If the High Court found that it was not reasonable use, you would argue that, therefore, section 100 no longer protects the states’ power over the Murray–Darling Basin, or the rivers generally, and that power then devolves to the Commonwealth, and the Commonwealth would then have a head of power to control the waters of the Commonwealth.<sup>64</sup>

3.88 A number of submissions supported the appointment of a federal Minister for Water Resources as a means of focusing sharper attention on this vital resource.<sup>65</sup>

3.89 At a public hearing, Mr Davis of the Australian Water Association told the Inquiry:

We would much prefer to see a single minister having the full purview for water. We are conscious of the fact that AFFA and EA are both working much more collaboratively and that they are running the NAP with a joint management team, which is a very positive movement, but, in the long term, it would still be better to have a minister who is solely responsible for water and who can make it more coherent.<sup>66</sup>

3.90 In its evidence before the Committee, the Wentworth Group proposed the appointment of a Minister for Natural Resource Management, emphasising that water management should be integrated with land management. Dr John Williams, a member of the Wentworth Group and chief of the CSIRO’s Land and Water Division, told the Committee:

We really need to make sure we keep water as part of a whole system. That is absolutely important. We have to make sure we integrate clearly the groundwater and the surface water systems and recognise that the water use in either irrigation or urban and the linkage to the river needs to be treated as a whole system.<sup>67</sup>

3.91 The Committee believes that water is of critical importance and it supports the concept of a Minister for Water, who would be responsible for formulating and coordinating policy at the federal level.

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64 Transcript of evidence, p. 302.

65 For example, Boonah Shire Council, Submission no. 65, p. 1; Australian Water Association, Submission no. 71, p. 2; Mr A. S. Davey, Submission no. 61, pp. 1-4.

66 Transcript of evidence, p. 542.

67 Transcript of evidence, p. 667.

## Recommendation 9

- 3.92 **The Committee recommends that, as a matter of priority, the Commonwealth Government create a ministerial portfolio for water, with clear responsibility for the formulation and management of water policy at the federal level.**

### Public engagement in the reform process

- 3.93 In establishing a vision and related policy mechanisms, the Committee believes that process is as important as outcome, that extensive and effective community engagement is required to create a vision. This is a matter which received widespread endorsement in the evidence presented to the Committee.
- 3.94 Part of that process may be through programs such as FutureWater, bringing environmentalists and farmers together in public meetings and irrigation forums.<sup>68</sup> Another is a process recommended by the National Farmers' Federation, where farmers visit different regions to gain an appreciation of the problems faced by others, an important step in creating coherent policies in a diverse but connected system such as the Murray-Darling Basin.<sup>69</sup> Such a scheme was also endorsed by Mr Leon Ashby, a South Australian farmer and convenor of Landholders for the Environment, a group looking at issues of sustainable production and conservation, and land-holders rights, from a grass-roots perspective.<sup>70</sup>

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68 Transcript of evidence, pp. 564–5.

69 Transcript of evidence, p. 696.

70 Transcript of evidence, pp. 185–6.



