

National Water Reform

(Notes on Productivity Commission Issues Paper)

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1. The National Water Initiative of 2004 has been overtaken by events. A major part of the Murray-Darling Basin Plan – public investment in off-farm and on-farm irrigation infrastructure – is contrary to the ethos of water policy ‘reform’, the supposed rationale for the NWI, the Council of Australian Governments’ water reform framework of 1994, and numerous measures undertaken by individual jurisdictions and water-related agencies over the last couple of decades.
2. The part of the Plan that might have been consistent with the notion of economic reform – buyback of entitlements in over allocated irrigation schemes – is being curtailed. Unfortunately, buyback had already been compromised in its implementation. Purchases were made without accounting for the spatial nature of irrigation networks, imposing additional costs on remaining irrigators. There was also no clear plan or process to determine how purchased water would be used for environmental purposes.
3. Put another way, there is a substantial gulf between the intentions of the NWI, COAG and jurisdictions and what has happened in the application of water policy.
4. Introductory material in the Issues Paper refers to the establishment of a Stakeholder Working Group to assist the Inquiry. Over time, the original idea of ‘stakeholder’ as an independent party holding the stake (literally) in gambling endeavours, or in legal disputes, has followed a not uncommon path in the English language and morphed to a contradictory meaning. Contemporary use of the term stakeholder now often includes those with a direct interest in a commercial or political outcome. Perusal of the website for this Inquiry suggests the Productivity Commission is following modern rather than traditional usage.
5. This is a pity because Australian water policy has long been diminished by isolation from mainstream public administration where the economy-wide effects of water policy and the public interest are centre stage. Those of carping disposition might even regard many so-called stakeholders as rent seekers. Issues of water and environmental policy transcend the sectional interests of irrigators and the limited perspective of the political environmental movement.
6. Indeed, the negative aspects of the MDBP alluded to above could easily be attributed to a knock-for-knock type situation with irrigator organisations accepting restrictions on water extractions in return for expenditure on infrastructure, and vice versa for environmental organisations. Both groups were willing to gloss over the anomalous situation whereby MDB irrigators now have their capital needs subsidised, unlike the rest of farming and small business generally. Moreover, irrigators and environmentalists, unchallenged by independent officials with hydrological expertise, accepted the fallacy that water could be saved via expensive investment in irrigation infrastructure.

7. As recognised by the Issues Paper, a key benefit of water sector reform in Australia has been the gradual introduction of water trading between irrigators; not just allowing water to move reasonably freely between farms, commodities and regions but also contributing to better management of climatic risks, as most strikingly manifested in the Millennium Drought. More problematic has been water trading involving agencies charged with environmental responsibilities, as already introduced in this submission. It should be acknowledged that all water trading raises difficult spatial issues. Additional costs will be imposed on remaining irrigators whether water leaves a region because of buyback or private commercial trading decisions. Nevertheless, when substantial amounts of public money are being spent on irrigation infrastructure, some effort is justified to reconcile these issues. In the worst possible case, assets could become 'stranded' before their construction is completed.
8. Given the selective ways irrigator interest groups operate, there is less acknowledgement of the positive cash injection provided by buyback to struggling dairy farmers in the Goulburn Valley than the potentially adverse effects of the accumulation of substantial environmental water holdings by the Commonwealth, should dry conditions re-emerge. This reflects a fundamental defect of the whole MDBP process – the naïve belief that a prescriptive plan was called for rather than a more incremental approach needed to cope with the gross uncertainty of the Australian climate and markets, inevitable gaps in environmental knowledge and the difficulty of selecting from, and sequencing, a multitude of potential environmental projects.
9. The really tricky part of the preliminary framework set out by the PC at Table 1 is thus the desideratum that 'Environmental management is efficient and effective'. The most difficult conceptual issue in dealing with environmental issues is establishing a starting point for analysis. Unfortunately, in the usually low-rent discourse on water policy, many irrigators want to deny that taking so much water out of river systems for irrigation has had deleterious effects on the environment in all its dimensions – avian fauna, floodplains, wetlands, fish – native and introduced, macro-invertebrates in the river, water quality and more. No more productive are the arguments of unsophisticated environmentalists that restoring some original state of nature is desirable, or even possible.
10. Instead, the river system has multiple environmental attributes, flow and non-flow related. The clues to successful environmental policy are to recognise the difference between reversible and irreversible environmental damage; to separate on-site and off-site effects; to distinguish public and private responsibilities for the environment; and, to consider the appropriate division of financial responsibilities between the Commonwealth, state and local governments. Not dissimilar to the economic domain, there are multiple possibilities arising from environmental management which may or may not be 'sustainable' in the broadest use of that term. As already suggested, an adaptive stage-by-stage approach dealing with environmental issues project by project will be better than any long-term plan. Indeed, the defensible role of planning in the presence of uncertainty is not to develop a plan intended to be applied per se, but to enable the best possible decision to be taken in the first period.

11. The challenge for the PC in refining its framework is to consider the institutional and funding arrangements most propitious for environmental management.
12. On a wider perspective, the reasonable concerns shown for Indigenous values in water planning and associated expenditure over the last couple of decades are out of whack with the neglect of widespread Indigenous disadvantage of even greater concern (employment, health, housing and education), inside and outside the Murray-Darling Basin.
13. Contrary to the impression left by the Issues Paper, there is now too much official confidence in public investment in new irrigation infrastructure in northern Australia given well-known shortcomings in the technical and economic prospects for major agricultural developments in that part of the world. Consistent with the traditional standpoint of the PC, it needs to be emphasised that the owners of large farming properties in the north of Australia are more than capable of taking advantage of profitable opportunities for water use via small-scale engineering works as they arise.
14. One of the more droll Information Requests at page 22 of the Issues Paper concerns the robustness of cost-benefit analyses applied to irrigation infrastructure. If only cost-benefit analysis and standard role of government logic were being applied at all to public investment in irrigation infrastructure in northern Australia, or ever had been done properly in the development of irrigation in southern Australia, most recently under the aegis of the MDBP.
15. The section on 'Urban water services' in the Issues Paper suffers because it does not emphasise that different pricing principles are applied to urban water and water supplied to irrigators. Public authority dividends and rate of return charges based on existing assets are applied to one, and not the other. Without canvassing the whys and wherefores of dividends and charging rates of return on capital, such obviously inconsistent and opaque practices would normally attract the attention of the PC. At least in Victoria, transfers are made to irrigators from urban water consumers under the guise of environmental levies.
16. Natural monopoly urban water infrastructure providers are notoriously prone to cost padding. Token involvement of customers in regulatory decision-making concerning water is the latest example of this. Busy work at best. While urban water customers are interested in the cost and quality of service, most are happy to leave professionals within water authorities do their jobs as they see fit, subject to appropriate regulatory supervision. 'Focus groups', 'consultation' with 'stakeholders' and the like are a poor substitute for a disciplined approach to reducing entrenched cost padding in urban water authorities and unreasonable transfers from hapless consumers and taxpayers to irrigators.