



National Irrigators' Council

**Submission in  
response to draft  
Productivity  
Commission Report  
on Water Reform**

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## Summary of responses to draft recommendations

Draft Recommendation from Productivity Commission	NIC Response
<p><b>DRAFT RECOMMENDATION 3.1</b> State and Territory Governments should ensure that entitlement and planning reforms are maintained and improved. Priorities are:</p> <p>a. Western Australia and the Northern Territory should establish statutory based entitlement and planning arrangements that provide for water access entitlements that are long term, not tied to land, and tradeable</p> <p>b. State and Territory Governments should ensure that water entitlement and planning arrangements explicitly incorporate extractive industries, such as by ensuring entitlements for extractive industries are issued under the same framework that applies to other consumptive users unless there is a compelling reason otherwise</p> <p>c. State and Territory Governments should develop a process to regularly assess the impact of climate change on water resources. Where this is considered to have been significant and detrimental, they should ensure that the next water plan review fundamentally reassesses the objectives of the plan (including environmental and consumptive) and the consequent balance between environmental and consumptive use of water, to ensure it is suited to a drier climate</p> <p>d. State and Territory Governments should ensure that, as water plans reach the end of their planning cycle, suitable review processes are undertaken that allow optimisation of water use and system operation across all users, include explicit consideration of Indigenous cultural values and involve adequate community and stakeholder engagement</p> <p>e. State and Territory Governments should ensure that their entitlement frameworks can incorporate alternative water sources, such as stormwater, wastewater, and managed aquifer recharge, so they do not present a barrier to efficient investment in these supply options.</p> <p>Australian, State and Territory Governments should revise relevant provisions in the National Water Initiative to align with recommendations 3.1(b) to 3.1(e).</p>	<p><a href="#">Draft recommendation 3.1</a> <b>a – agree in principle</b> <b>b – strongly agree</b> <b>c – more consideration and information required about how State Governments would deal with risk allocation</b> <b>d – agreed</b> <b>e - agreed</b></p>
<p><b>DRAFT RECOMMENDATION 3.2</b> State and Territory Governments should ensure that:</p> <p>a. Indigenous cultural objectives are explicitly identified and provided for in water plans, and progress in achieving Indigenous cultural objectives is regularly monitored and publicly reported on</p> <p>b. there is public reporting of how Indigenous cultural objectives have been considered in the management of environmental water — both held and planned.</p>	<p><a href="#">Draft recommendation 3.2</a> <b>a – agreed</b> <b>b - agreed</b></p>
<p><b>DRAFT RECOMMENDATION 3.3</b> Where State and Territory Governments provide access to water for Indigenous economic development they should:</p> <p>a. source water within existing water entitlement frameworks, such as by purchasing water on the market or as part of transparent processes for releasing unallocated water</p> <p>b. ensure adequate supporting arrangements (such as training and business development) are in place to enable Indigenous communities to maximise the value of the resource</p> <p>c. involve Indigenous communities in program design</p> <p>d. ensure future governance arrangements are specified and implemented.</p> <p>Australian, State and Territory Governments should revise relevant provisions in the National Water Initiative to align with recommendations 3.3 (a) to 3.3 (d).</p>	<p><b>Draft recommendation 3.3</b> <b>a – strongly agree</b> <b>b – agreed</b> <b>c – agreed</b> <b>d - agreed</b></p>
<p><b>DRAFT RECOMMENDATION 4.1</b> Australian, State and Territory Governments should maintain trade reforms to date and improve arrangements to facilitate open and efficient water markets. Priorities are:</p> <p>a. State and Territory Governments should remove those residual trading rules, policies (whether or not explicitly stated) and other barriers that prevent water being traded, or otherwise transferred, between the irrigation and urban sectors</p> <p>b. the Australian Government should commission an independent review of the effectiveness and efficiency of service standards for trade approvals. The review should consider whether the standards should require shorter approval times</p>	<p><a href="#">Draft recommendation 4.1</a> <b>a – <a href="#">NIC would like more information</a></b> <b>b. agreed</b> <b>c. agreed</b></p>

<p>c. the role of governments in providing water market information should be focused on ensuring the quality and accessibility of basic trading data. In fulfilling this role, State and Territory Governments should improve the quality and accessibility of trade data in water registers. Australian, State and Territory Governments should revise relevant provisions in the National Water Initiative to align with recommendation 4.1 (a).</p>	
<p><b>DRAFT RECOMMENDATION 5.1</b> Australian, State and Territory Governments should ensure that their policy frameworks provide for the efficient and effective use of environmental water to maximise environmental outcomes, and where possible, provide additional community outcomes relating to water quality, Indigenous values, recreation and economic benefits. Australian, State and Territory Governments should enhance the National Water Initiative to align with this recommendation.</p>	<p><b>Draft recommendation 5.1</b> <b>Strongly agree</b></p>
<p><b>DRAFT RECOMMENDATION 5.2</b> State and Territory Governments should ensure the management of environmental flows is integrated with complementary waterway management at the local level. To achieve this: a. State and Territory Governments should ensure that consistent management objectives for rivers, wetlands and floodplains govern the use of environmental water and complementary waterway management activities b. where possible, one planning process should be used to set objectives for both activities, but if not, State and Territory Governments should ensure planning at the local level is aligned and coordinated. Planning processes should also provide explicitly for other public benefit outcomes where these are compatible with environmental outcomes. Australian, State and Territory Governments should enhance the National Water Initiative to align with recommendations 5.2 (a) and 5.2 (b).</p>	<p><a href="#">Draft recommendation 5.2</a> <b>a. Agreed</b> <b>b. Agreed</b></p>
<p><b>DRAFT RECOMMENDATION 5.3</b> Where governments own significant environmental water holdings, they should ensure that decisions on the use of the holdings are made by independent bodies at arm's length from government. The Australian and New South Wales Governments should review current governance arrangements for held environmental water to ensure holdings are managed: a. independently of government departments and political direction b. by statutory office holders with an appropriate range of expertise. Australian, State and Territory Governments should enhance the National Water Initiative to align with this recommendation.</p>	<p><b>Draft recommendation 5.3</b> <b>a. Agree in principle</b> <b>b. agree</b></p>
<p><b>DRAFT RECOMMENDATION 5.4</b> Australian, State and Territory Governments should ensure there are clear roles and responsibilities for managing environmental water in shared resources, with no duplication. Consistent with this principle, The Living Murray program should be disbanded as there is no clear rationale for its continued existence in the context of the Murray Darling Basin Plan. Each Basin jurisdiction should manage its share of former Living Murray entitlements as part of its broader portfolio of held environmental water. The Murray Darling Basin Authority should complete the divestment of its holdings.</p>	<p><b>Draft recommendation 5.4</b> <b>Agree in principle</b></p>
<p><b>DRAFT RECOMMENDATION 5.5</b> Where capable partners are available, Australian, State and Territory Governments should devolve the use of held environmental water to the lowest practical level, consistent with the principle of subsidiarity. Australian, State and Territory Governments should enhance the National Water Initiative to align with this recommendation.</p>	<p><a href="#">Draft recommendation 5.5</a> <b>Agree in principle</b></p>
<p><b>DRAFT RECOMMENDATION 5.6</b> Australian, State and Territory Governments should improve monitoring, evaluation, auditing and reporting to demonstrate the benefit of allocating water to the environment, build public trust in its management, keep managers accountable and make better use of environmental water over time. Priorities are: a. Australian, State and Territory Governments should increase their focus on monitoring environmental and other public benefit outcomes — not just flow delivery — where additional effort would be commensurate with the risk to, and value of, those outcomes</p>	<p><a href="#">Draft recommendation 5.6</a> <b>a. strongly agree</b> <b>b. agree</b> <b>c. agree</b> <b>d. agree</b> <b>e. strongly agree</b></p>

<p>b. monitoring and evaluation should involve collaborative and complementary partnerships, consistent methods that enable the synthesis of outcomes across different temporal and spatial scales, and long term investment. In the Murray Darling Basin, governments should develop a strategy to coordinate monitoring and evaluation of the outcomes of environmental flows, both planned and held</p> <p>c. all managers of environmental flows should publicly report on whether outcomes have been achieved or not, and the reasons why</p> <p>d. Australian, State and Territory Governments should establish arrangements for independent auditing of environmental flow outcomes to support transparency</p> <p>e. managers of held environmental water should use the results of monitoring, evaluation and research to improve water use as part of an adaptive management cycle. To achieve this, managers should clearly allocate responsibility and provide adequate resourcing for adaptive management. Australian, State and Territory Governments should enhance the National Water Initiative to align with recommendation 5.6 (e).</p>	
<p><b>DRAFT RECOMMENDATION 7.1</b> State and Territory Governments should ensure the delivery of government owned irrigation infrastructure services is underpinned by full cost recovery and economic regulation that is proportionate to the scale of the regulated service. Priorities are:</p> <p>a. any terms of reference issued to the Queensland Competition Authority by the Queensland Government for advice on the pricing of irrigation infrastructure services should be aligned to the National Water Initiative Pricing Principles. The reason(s) for any Government decision to diverge from price recommendations based on those principles should be published</p> <p>b. the Western Australian Government should amend the role of the Economic Regulation Authority (ERA) so that irrigation bulk water customers can request the ERA to review the infrastructure prices and / or services proposed by Water Corporation (WA) as part of bulk water supply contract negotiations</p> <p>c. the Tasmanian Government should amend the role of the Office of the Tasmanian Economic Regulator (OTTER) so that irrigation bulk water and distribution customers of Tasmanian Irrigation can request OTTER to review the infrastructure prices and / or services of Tasmanian Irrigation</p> <p>d. an equitable share of the cost of any price review requested by users should be treated as a regulatory cost and passed through to users at the discretion of the bulk water supplier in Western Australia and Tasmania.</p>	<p><a href="#">Draft recommendation 7.1</a> <b>Not supported</b></p>
<p><b>DRAFT RECOMMENDATION 7.2</b> Relevant jurisdictions should ensure that the cost of River Murray Operations (RMO) are recovered from water users. RMO costs should also be subject to a periodic independent review. Specifically:</p> <p>a. South Australia should pass through RMO costs to bulk water entitlement holders</p> <p>b. RMO should be subject to transparent and independent five yearly efficiency reviews overseen by the economic regulators in New South Wales, Victoria and South Australia. The next review should be completed by 31 December 2019.</p>	<p><a href="#">Draft recommendation 7.2</a> <b>a. Not supported (see detail)</b> <b>b. Strongly agree</b></p>
<p><b>DRAFT RECOMMENDATION 7.3</b> Governments should not provide grant funding for irrigation infrastructure, or that part of infrastructure, that is for the private benefit of irrigators. Rather, Australian, State and Territory Governments should ensure that:</p> <p>a. National Water Initiative-consistent water entitlements and planning are in place before any new irrigation infrastructure is considered (including infrastructure being financed under the Northern Australian Infrastructure Facility)</p> <p>b. government grant funding is limited to those projects, or parts of projects, delivering a public good. Any grant funding should be subject to an independent analysis of the project being completed and available for public comment before any government announcements on new infrastructure are made. The analyses should establish that the project will be:</p> <ul style="list-style-type: none"> <li>• environmentally sustainable</li> <li>• economically viable and deliver public benefits that are at least commensurate with the grant funding being provided</li> </ul> <p>c. government financing (such as loans) for infrastructure generating private benefits should only be provided after:</p> <ul style="list-style-type: none"> <li>• an independent assessment has confirmed the finance can be repaid on commercial terms. The assessment should be released for public comment before any announcement on new infrastructure is made</li> <li>• robust governance arrangements have been put in place to deliver merit based decision making and the ongoing monitoring of (and public reporting on) the government’s investment</li> </ul>	<p><b>Draft recommendation 7.3</b> <b>a. agree in principle</b> <b>b. NIC has reservations</b> <b>c. NIC has reservations</b></p>

<ul style="list-style-type: none"> <li>sufficient water entitlements have been sold to reduce the project's risk profile and provide assurance the finance will be repaid.</li> </ul> <p>Australian, State and Territory Governments should enhance the National Water Initiative to align with recommendations 7.3 (a) to 7.3 (c).</p>	
<p><b>DRAFT RECOMMENDATION 8.1</b></p> <p>Australian, State and Territory Governments should:</p> <ol style="list-style-type: none"> <li>identify the key knowledge and capacity building priorities needed to support the ongoing implementation of the National Water Initiative (including the revisions and enhancements recommended in this report)</li> <li>develop mechanisms through which the jurisdictions can work cooperatively and share knowledge to build overall capability and capacity.</li> </ol> <p>Australian, State and Territory Governments should update relevant provisions in the National Water Initiative to align with recommendations 8.1 (a) and 8.1 (b).</p>	<p><a href="#">Draft recommendation 8.1</a></p> <ol style="list-style-type: none"> <li>Agreed</li> <li>agreed</li> </ol>
<p><b>DRAFT RECOMMENDATION 8.2</b></p> <p>Where Governments consider there are significant and rapid adjustment issues affecting communities as a consequence of water reform, the response should:</p> <ol style="list-style-type: none"> <li>avoid industry assistance and subsidies</li> <li>consider all the factors impacting on the community (not just water reform)</li> <li>target investment to developing the capacity of the community to deal with the impacts of structural adjustment</li> <li>be subject to monitoring and publicly reported evaluation of outcomes.</li> </ol> <p>Australian, State and Territory Governments should revise relevant provisions in the National Water Initiative to align with recommendations 8.2 (a) to 8.2 (d).</p>	<p><b>Draft recommendation 8.2</b></p> <ol style="list-style-type: none"> <li>agree with some conditions</li> <li>strongly agree</li> <li>strongly agree</li> <li>strongly agree</li> </ol>
<p><b>DRAFT RECOMMENDATION 9.1</b></p> <p>Australian, State and Territory Governments should recommit to a renewed National Water Initiative through COAG by 2020. This should:</p> <ol style="list-style-type: none"> <li>maintain the achievements in water entitlements and planning, water markets, water accounting, water pricing and governance, knowledge and capacity building, and community engagement delivered by the current National Water Initiative as the key foundations underpinning sustainable water resource management and efficient infrastructure service delivery</li> <li>revise a number of policy settings: <ul style="list-style-type: none"> <li>incorporating extractive industries and alternative water sources into water entitlement frameworks</li> <li>water planning to take account of climate change and enable ongoing optimisation</li> <li>Indigenous access to water for economic purposes</li> <li>arrangements for water trading between irrigation and urban sectors</li> <li>better targeted adjustment assistance</li> </ul> </li> <li>significantly enhance policy settings relating to: <ul style="list-style-type: none"> <li>urban water management to ensure innovative and efficient provision of services in the future under the combined pressures of population growth and climate change</li> <li>environmental water management to ensure maximum return on government investment in this area</li> <li>decision making on building and supporting new infrastructure for agriculture.</li> </ul> </li> </ol>	<p><a href="#">Draft recommendation 9.1</a></p> <ol style="list-style-type: none"> <li>agree</li> <li>as outlined in main points above</li> <li>no view on urban water</li> </ol>
<p><b>DRAFT RECOMMENDATION 9.2</b></p> <p>In developing the renewed National Water Initiative, Australian, State and Territory Governments should:</p> <ol style="list-style-type: none"> <li>consult with relevant stakeholders, including by establishing an Indigenous working group to provide advice on the development of relevant provisions</li> <li>ensure that progress with implementing a renewed National Water Initiative continues to be independently monitored and reported on every three years.</li> </ol>	<p><b>Draft recommendation 9.2</b></p> <ol style="list-style-type: none"> <li>agree</li> <li>agree</li> </ol>

## Introduction

The National Irrigators Council (NIC) welcomes the opportunity to respond to the Productivity Commission's draft report on national water reform.

It is certainly encouraging that the draft report acknowledges the huge change that has happened in water reform in Australia in the last 20 years, a change in which irrigators have played an integral role. It is also good to see the Productivity Commission acknowledge the gains that have been made in; management of water; allocation of water and for the environment.

NIC sees the broad theme of the draft report as a due acknowledgement of a lot of hard work that has gone into water reform and of the massive change irrigators have been a part of in that process.

NIC would not endorse all elements in the draft report, however, there are many aspects that are very welcome.

Australia's irrigators, particularly those in the Murray Darling Basin, have every right to feel that this report is an acknowledgement of the hard work they've put in. Also recognised is the fact that while taxpayers are making a huge contribution, there is some satisfaction that the report acknowledges the level of work by irrigators in achieving a very difficult and substantial change, involving sacrifices by many irrigation communities.

The endorsement of the water market and the property rights accompanying ownership of water is important.

NIC also specifically acknowledges that the Productivity Commission has taken up some of the themes of NIC's submission. That is, that much of the reform has already taken place in the Murray Darling Basin. Future efforts to pursue the National Water Initiative (NWI) should focus on areas where rollout has not been as consistent, and on bedding down the changes that have occurred, and are still occurring, in the Murray Darling Basin.

We have previously made the point that our members have reform fatigue; it is critical that time is allowed to bed down the work already completed through the NWI and through the Murray Darling Basin Plan.

Our response to the draft report will focus specifically on areas of interest to NIC. We are happy to comment or contribute further if required, and where issues are raised by other stakeholders that need a response.

## Chapter 3 – Water entitlements and planning

NIC welcomes the findings that entitlement planning reforms have provided economic benefits and promote certainty. This certainly accords with the experience of our members. Also welcome is the finding that acknowledges improved environmental outcomes from entitlement planning reforms. This acknowledges of course, that the benefits of environmental improvements will take some time to be fully realised.

NIC notes the theme in Chapter 3 that the benefits of reforms need to be rolled out to states where they are not currently in place.

NIC does not have members currently in Western Australia and the Northern Territory so we are unable to make comment on specific local impacts. We would however, endorse the recommendation in theory, the need to carry through entitlement reforms to those jurisdictions

Recommendations regarding the incorporation of extractive industries into entitlement and planning arrangements are also welcome

NIC notes the discussion in 3.4 around planning for the impacts of climate change and climate variability. In our original submission, we made the point that in planning for climate change, risk assignment needs to be clarified.

The Commission's point and reference to - *"finally, there needs to be clarity on who bears the risks for any future declines in the availability of water for consumptive use due to any change in the balance set in water plans"* is particularly important. The Commission has acknowledged that approaches to risk assignment vary across jurisdictions. NIC would suggest there is still a high level of uncertainty for our members and the community about how risk assignment would occur. It must be acknowledged in any long-term process for planning for impacts of climate change, that risk cannot be unfairly or disproportionately placed on water users.

In light of these comments, NIC broadly supports draft recommendation 3.1.

Of the priorities outlined, we express some caution about 3.1 and would seek much more clarity from governments about how they would intend to plan for the impact of climate change on water resources before we would feel comfortable in supporting actions which were built into a statutory framework

NIC would support recommendation 3.1 priority A B, D and E.

### Section 3.6 – Indigenous cultural and economic objectives

NIC welcomes the consideration of Indigenous cultural objectives and economic objectives in the draft report. This is an overdue consideration of this issue and recognition of the first people's connection to water.

NIC supports better recognition of Indigenous needs in planning for environmental water releases and in the overall planning process for water. We would endorse draft recommendation 3.2 which suggests that Indigenous cultural objectives be explicitly identified and provided for in water plans with regular monitoring and reporting.

The Commission's decision to separate cultural water from water provided for economic benefit is also a sensible approach. We recognise that there will be crossover between the two and we have no objection to economic benefit being accrued as an additional benefit of environmental water. However, in broad terms separating the two is sensible.

Environmental water planning should take more account of Indigenous needs and involve consultation with Indigenous communities and other impacted communities.

NIC also welcomes the broad approach which suggests that if state and territory governments are to provide access to water for Indigenous economic development, they should source water within existing water entitlement frameworks.

This provides the opportunity for government to explicitly work to meet development objectives with Indigenous communities but without devaluing or diminishing the property right held by the owners of water.

## Chapter 4 – Water trading

The Productivity Commission's discussion of water trading appropriately acknowledges the benefits water trading has had to better allocation of scarce resource, and to the environment.

It is unfortunate that in the wider community there is still significant misunderstanding of why we have water trading, what it achieves and its contribution to Australia's ability to have held environmental water.

It is probably not within the Productivity Commission's remit, but there is a need to better explain the benefits of water trading for the conservation of water and for achieving environmental benefits. Recent media stories have demonstrated a real lack of understanding of these issues. There has been a tendency to suggest that water trading was introduced to benefit a few large companies rather than, this was at the behest of all governments to assist with addressing over allocation, efficient entitlement regimes and to encourage efficiency.

NIC acknowledges that water trading has provided a benefit to many irrigators; it has enabled water to move to the production of the most valuable crops and we know of examples where it has enabled some farmers to survive through drought periods.

There will be a test of water trading in the next drought. There is no doubt that a number of farmers who sold entitlements will find it difficult to afford water allocations in the next significant drought; this will be a real test of the system's capacity to adjust and whether governments have the fortitude to stick with a market system only.

In general, NIC agrees with the points made about the need for greater transparency and information in water trading, and the general theme of the draft report which suggests that governments' primary objective should be to ensure that it processes trades in the most effective way possible.

We acknowledge the discussion in relation to the need to remove unnecessary barriers to trade, but would reinforce that physical barriers to trade, such as constraints, must be taken into account.

Those constraints must be regularly monitored. It may not always be a case of simply removing restrictions on trade; NIC has heard concerns from water owners who wish to use water in the lower Murray, that their ability to have water delivered may be compromised in future by the amount of water that is being transferred from above the Barmah Choke to below.

NIC notes the discussion on page 110 which quotes some submissions expressing frustration about the operation of the water market and restrictions designed to manage hydrological constraints.

It is impossible to look at this market on a purely economic basis. Restrictions imposed by the Barmah Choke are very real, and unless they are able to be physically addressed, it is unrealistic to think that the pure market envisaged in some submissions, can be achieved.

NIC noted ACCC arguments on water trading but we are pleased that the Productivity Commission has not explicitly endorsed them.

NIC agrees with the Productivity Commission's comment that *"the aim should be to ensure that net benefits are maximised and the restrictions that are in place operate in a fair and transparent manner. In doing this it is important to consider all options, including making the restrictions less (or more) stringent, altering river operation decisions to lessen the need for a restriction and replacing a restriction with a more efficient measure."* (Page 112)

In relation to comments on removal of restrictions or barriers to trade between urban and rural markets, NIC is not fundamentally opposed to this but does have reservations. In particular it is a concern that urban water utilities would have a very powerful market position and if they purchased significant amounts of water (rather than focusing on water savings) they could reduce productive capacity without producing any significant benefit for the economy as a whole.

Comments on the difference between states on charges for trading are very valid and are worthwhile pursuing.

Draft recommendation 4.1 a regarding trade between irrigation in urban sectors is one NIC would like to see more detail on before supporting implementation. NIC would support draft recommendations b and c.

NIC's direct interest in section 4.6 relates to the discussion on the Commonwealth Environmental Water Holder (CEWH) trade. NIC has strongly supported the capacity of the CEWH to trade its held water and note this is currently the subject of a discussion paper issued by the CEWH. We welcome the Commission's view that there are adequate arrangements in place to guard against negative outcomes.

NIC strongly supports CEWH trading and using the proceeds of trading to fund complementary measures. It was pleasing to see this reflected in the Commission's draft report. NIC will provide comprehensive detail regarding complementary measures in our submission to the CEWH discussion paper titled Investment Framework.

The discussion on foreign ownership of water has already resulted in requirements being placed on irrigation infrastructure operators to report foreign ownership of water. NIC recognises that this was a federal government initiative, committed during the 2016 federal election, and broadly prompted by concerns expressed by the general public. NIC continues to caution against additional administrative burdens being placed on infrastructure operators and on the irrigated agriculture sector.

## Chapter 5 – Environmental Management

The draft report makes it clear that despite the historic challenges of restoring the environment of Australia's rivers, the reforms over the last 20 years, and certainly since the implementation of the NWI and the Murray Darling Basin Plan, have started to show impacts. While this is a welcome conclusion, it is also important to continue to emphasise, as the Commission has, that environmental improvement will take many years.

NIC supports commentary in the draft report around the need for active management of environmental water and a recognition that *"the discipline of environmental water management is still in its infancy"*.

NIC strongly supports comments around the need to ensure that environmental water assets are managed efficiently and effectively to maximise environmental outcome, including seeking to provide additional community outcomes relating to water quality, Indigenous values, recreation and economic benefits where possible.

Accordingly, we strongly support draft recommendation 5.1

NIC has consistently suggested that in implementing the Murray Darling Basin Plan, focus should be on outcomes rather than just flow targets. The Commission's conclusions in this area are very welcome.

We also welcome the comments and recommendations around bottom-up management and integration of waterway management. Local knowledge is vital if we are to achieve the aim of healthy rivers. Our members consistently express concern about turnover of staff dealing with environmental water planning and those staff being remote from the on the ground knowledge.

In this regard, there is substantial benefit to be gained for the environment in working closely with private landholders and locals who understand the behaviour of waterways, including how water could be used to improve ecological outcomes.

The Commission's commentary around the type of management structure necessary to do this is of strong interest. It is important for state governments to have in place catchment based organisations which have the capacity to engage in this bottom up planning. NIC notes endorsement of the Victorian model, one that is close to the structure required and would hope that communities in other states are able to work with their respective governments to move towards models which genuinely meet the requirements of 'localism' in planning.

NIC strongly supports draft recommendation 5.2; we have for some time advocated for complementary waterway management, or complementary measures at a local level.

NIC notes the Commission's draft recommendations about the structure of environmental water managers (draft recommendation 5.3) and the need to be independent in decision-making. We would endorse this as a reasonable objective, assuming that adequate resourcing is made available to the organisation to ensure a strong presence at a local level, and the capacity to properly report on outcomes. This resource should be provided by government on behalf of all Australians.

As mentioned above, NIC very strongly endorses the point made on page 144 that *"the trade of environmental water can help maximise environmental and community benefits by putting water to better use in different locations or at a later time, or by using sale proceeds to fund complementary waterway management activities."*

Draft recommendation 5.5 regarding devolution of the use of environmental water to the lowest practical level is consistent with the philosophy of localism; it is supported by NIC and consistent with our advocacy.

NIC believes better environmental outcomes can be achieved by engaging people who are based in the catchments and who can assist environmental water planners in making full use of opportunities on public and private land.

Under the heading on page 151, **Monitoring and evaluation must focus on outcomes, not just flows**, NIC wholeheartedly agrees with the comment that *"consistent with the principles outlined above, this means looking not only at the immediate high drill hydrological results from flows, but also at the intermediate and longer term ecological responses, at both local and Basin scales."*

Draft recommendation 5.6 is very welcome.

This strongly accords with our calls for outcomes to be measured and monitored and for that to involve complementary measures.

Timely and transparent information is a key to ensuring public confidence in the results of environmental watering and in the long-term confidence in the outcomes of the Basin Plan.

## Chapter 6 – Urban Water

NIC has no comment on urban water recommendations.

## Chapter 7 – Water Infrastructure for Agriculture

NIC starts this chapter with some philosophical differences to the Productivity Commission. While agreeing that new irrigation schemes must be considered on a much more economically sound base to some older schemes, we certainly would not want to see Government dismiss the broader benefits of irrigation development for communities, in particular, for economic and social development in communities and for growth in jobs and exports.

A number of the recommendations in this chapter appear to ignore or underplay these flow on benefits

Irrigation infrastructure should provide an economic return on investment, however it is also critical to ensure that Australia achieves broader goals with regional development, export or even use of infrastructure to mitigate other environmental impacts.

NIC notes the principles outlined by the Commission on recouping costs for operations, such as pass through costs for the Murray Darling. We welcome recommendations backing calls for more transparency in the costs being passed through to irrigators, particularly in the Murray Darling.

Commission comments about areas that are failing to pass on costs or failing to recover the full cost i.e, subsidising irrigation infrastructure, are ones that we take seriously but would obviously be concerned about impacts of implementation We would also need to see more information about whether some of these costs are being picked up in other areas.

As this chapter highlights, irrigated agriculture provides massive economic benefits for Australia both for exports and domestic consumption. It would be a complex analysis to build in all those flow on benefits to the case for a new irrigation district, but is worth examination.

We note the Commission's negative commentary about the economic basis for expansion of irrigation in Tasmania for example. Our experience is that government engagement and financing of this expansion has led to considerable economic benefits for those parts of Tasmania, enabling growth in production and higher value product flowing through jobs and communities.

Expansion of the Barossa infrastructure scheme is one example of a program fully funded by subscribers prior to commencement. This program will result in a growth in a highly valuable product.

NIC agrees without reservation that all future schemes and future expansion should seek to avoid environmental mistakes of the past and be generally consistent with NWI principles on water entitlements.

In looking at the economic impacts of full cost recovery it is important to consider the impact on local economies. It is also important to remember that many schemes are being very negatively impacted by the market failure in electricity.

Draft recommendation 7.1 on full cost recovery and economic regulation is not supported by NIC. We acknowledge there is still a level of subsidy in some states for some irrigation infrastructure. Where such a subsidy exists, there should be extensive consultation about the impacts of potential removal.

### River Murray Operations

NIC and the New South Wales Irrigators Council (NSWIC) have consistently raised issues with transparency of River Murray Operations (RMO) pass through costs in that state. NIC reiterates the concern in our original submission that irrigators are paying costs which are more appropriately borne by government on behalf of all taxpayers.

In that sense, we welcome the Commission's comment on page 266 that *"there also needs to be transparency in what irrigators are paying for and assurance that they are not paying for services that are the responsibility of government. The latter is a concern irrigators and distribution works."*

NIC notes the Commission's conclusions about South Australia and its treatment of RMO costs. While acknowledging that RMO costs are not directly passed through in South Australia, NIC is aware that the South Australian Government levies landholders a per hectare NRM levy and puts an NRM levy of \$6.34 /ML on water users.

NIC understands from the South Australian Government that a proportion of the levies is used to offset the RMO costs. Given the size of this existing levy we would be concerned about any imposition of a new one.

NIC is not in a position to endorse draft recommendation 7.2 at this stage. We do however, strongly endorse recommendation 7.2 b.

NIC would endorse the opening comment at 7.5 on page 229 in relation to **Distribution services**, that *"distribution networks are generally delivering the pricing and infrastructure investment outcomes expected under the NWI."*

We appreciate recognition that there is a trend of declining delivery volumes for some networks, and recognition in particular, that this is due in part to reductions in diversion limits and the recovery of water for the environment.

Water trading also has a potential impact in this area which should not be underestimated. However, that trade has the potential to go both ways and some districts are seeing water brought into their areas.

It is important to consider the broad impacts of declines in volumes of water for irrigation districts. A pure economic assessment might just suggest it is the market doing its work; however, the impact of wasting existing investment in infrastructure should be considered and governments should consider the flow-on impacts on the regional community if overall viability is compromised.

This is a key reason why the NIC opposes buybacks or untargeted schemes that remove water from irrigation districts.

The Commission's commentary on issues raised by the ACCC is noted. In this regard, the Commission has not made specific recommendations endorsing the ACCC's view on delivery rights and exit fees, though we note the area is one that may cause competition concerns.

NIC supports draft recommendation 7.2. We certainly endorse the view that transfer of existing irrigation districts to local ownership has produced benefits for irrigators and for local communities. Where those transfers occur on fair terms they also reduce the government's risk.

As a general principle, we would support the model advocated by the Commission.

Comments on exploitation of market power are noted and the moderate language of the recommendation is also noted.

Draft recommendation 7.3 raises some concerns for NIC. In principle, we would not disagree with the need to undertake full and transparent assessment of a project prior to government funding being provided.

NIC would agree that NWI consistent water entitlements and planning should be put in place, that projects must be environmentally sustainable and economically viable and deliver public benefits commensurate with the grant funding being provided.

The proviso on the latter condition is that the public benefits considered need to be broad enough to look at a full range of regional development priorities, and benefits that regional Australia might gain from expanding food and fibre production to generate export income and supply local markets.

## Chapter 8 - key supporting elements of the NWI

Water metering: NIC agrees that the non-urban metering framework has been subject to delays, but would disagree with the Commission's assessment that these were only initially due to difficulties associated with having meters certified to the required standard. It is clear that there are ongoing problems with meters being certified.

These practical problems do not mean that the industry is failing to put in place modern accurate meters. In fact, quite the contrary. Australia is a world leader in metering standards with irrigators and irrigation districts utilising high-tech meters often with telemetric reporting.

State and territory governments do need to examine whether the proposed or existing standard is practical. NIC understands that for large volume meters, the standard has proved impractical and the facilities are not available to undertake appropriate testing at a reasonable price and in a reasonable timeframe.

Australian manufacturers are undertaking their own extensive testing, often in their own facilities and are achieving extremely good results, but unfortunately these are not recognised under the National Metering Standard.

Compliance: As the draft report indicates, recent media stories including the ABC 4 Corners program, made allegations of non-compliance or lack of compliance activity in relation to water users, particularly in the Northern Basin.

NIC and other bodies have responded in a comprehensive way to this as part of our participation in the Senate inquiry and other enquiries.

We have made it clear that we have no tolerance for illegal activities; irrigators need to compete on an even playing field and that means ensuring that everybody pays for the water they use.

In NSW, the Ken Matthews report has made a number of recommendations regarding improvements to the compliance activities of the NSW government. Irrigation groups will work with the government to assist the process of working through how those recommendations might be implemented and we will continue to work with government to ensure the highest possible standards of metering and compliance.

Knowledge and capacity: NIC agrees with recommendations emphasising that governments need to continue to invest in building their knowledge of the Basin and Australian river systems and the capacity to manage those systems.

Draft recommendation 8.1: identifying key knowledge and capacity building priorities and developing mechanisms to reach jurisdictions can work cooperatively and share knowledge is supported.

Stakeholder engagement: this is critical particularly in relation to the Basin Plan. While the MDBA has increased stakeholder consultation and engagement since 2011, it does need to continue a strong focus in this area and build its local network.

The same goes for the CEWH and other Commonwealth agencies with a role to play in this area; local engagement and building relationships through a local presence is critical.

Engagement with stakeholders should occur in a variety of contexts; this includes the potential for confidential meetings between stakeholder groups and government officials. NIC is concerned that recent publicity about meetings in New South Wales may prove to be detrimental to this sort of consultation and may eventually prove to be detrimental to the implementation of the Basin Plan.

It is noted that the Commission does not provide a specific draft recommendation on stakeholder consultation but NIC feels a strong recommendation about continuing engagement, and in particular, local engagement is justified.

Structural adjustment: NIC would broadly agree with the view that structural adjustment needs to focus on all factors impacting on a community. We have been concerned that some structural adjustment funding associated with the Basin Plan has not been well targeted in the past.

However, we would differentiate between funding provided for projects not associated with water efficiency and those directed at water efficiency.

NIC rejects some arguments that suggest that funds spent on irrigation infrastructure would be better spent directly in communities on community services. These arguments ignore the flow on benefits of ensuring that an area is able to renew or increase production and therefore support jobs and increase community capacity.

Draft recommendation 8.2 is supported with the caveat that 8.2(a) "*avoid industry assistance and subsidies*" - should not rule out well directed assistance to enhance the capacity of a region to generate jobs.

## Chapter 9 -progressing reform

NIC has no detailed comment on this chapter. We note recommendation 9.1 reiterates a number of the points already made in the draft report. We also support recommendation 9.2 in relation to ongoing reviews.