

Submission to the Productivity Commission's National Water Review – October 2017

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The PC was given the task of reviewing the status of water reform in this country and the draft report provides a comprehensive, if somewhat 'glass-half-full', update. Overall, I agree with the general sentiments in the draft report and the findings of the PC although there are several areas which fall short of the PC's historical approach to analytical and policy rigour.

1. The tension and contradiction between calls for the specification of entitlement, monitoring and water accounting and the simultaneous strong focus given to (arguably ill-defined) notions of water use efficiency.

It is disappointment that the PC has opted not to pursue these inconsistencies in a way that draws on the thoughtful contributions of international experts. It is well-known that one of the main limits to the manner in which many Australian water rights are defined is the limited attention to return flows and third party impacts. The upshot has been that very significant public monies have been invested in so-called water saving or water use efficient programs with insufficient knowledge of the overall impact on water availability and use. Savings in some cases have not materialised and the public has a right to know where the money went.

This should not be confused with other issues raised in the report. Yes, all jurisdictions should by now have defined water entitlements and put in place legislative mechanisms around planning. Likewise, it's a pity that jurisdictions have been slow to recognise indigenous right in water that go beyond the environmental improvements sought by the population in general (Chapter 3). But it is also possible to argue that there's not much point having entitlements that do a poor job of accounting for the rudiments of hydrology. It's a pity the PC didn't offer more direct advice in this context.

2. Water trading limitations go beyond residual barriers.

Water is already traded (at least on paper) from rural to urban areas (Chapter 4). Melburnians already have rights to access water north of the divide, but successive Ministers have prohibited the use of the pipeline that would deliver that water to the city. Again, the PC could have done more in pointing out that trade impediments are not simply legislative in nature. In addition this can lead to rationalising the promotion of IWCM plans for urban areas (Chapter 6) when high-level choices automatically rule out more cost-effective options. The tenor that IWCM is somehow disadvantaged under current approaches needs a rethink – my experience has been the opposite, with agencies all-too-keen to choose high-cost IWCM over low-cost traditional infrastructure, especially if the latter involves a transfer of 'rural' water.

3. Managing environmental water is not getting any easier and subsidiarity is more complicated than the PC seems to acknowledge.

There have been big gains made around the notion of environmental water requirements and active management of these. But a cursory view would have indicated that it's extremely complex, not

least because of historical legacies. Another challenge is that water reforms on this front have simply worked on the basis of 'add more water and the environment will improve'. Most know that that is not the case and yet rubbery exchange rates around environmental equivalence in GI or MI continue to abound. It's not clear to me how the recommendations on this topic (Chapter 5) address these thorny but critical issues.

4. Will we ever stop subsidising irrigators?

The discussion on water infrastructure could be more discerning. Victorian irrigation is not close to cost recovery and recent published estimates suggest prices are about a third of what's required. The 'gifting' of assets to regulated business remains a challenge so cost recovery might seem to occur but is illusory. The recommendation that government should wind back on subsidies is clear-cut but it's little different to earlier calls for fiscal prudence. The PC might strengthen this recommendation by quantifying the unpleasant legacy for future generations of taxpayers, along with current taxpayers.

5. Rebranding is for viewers of Utopia

The NWI was justifiably widely-heralded as a major reform. As the PC points out, some of it has been successful. The elements that have not been adequately addressed are not necessarily a consequence of the NWI – this is more to do with a lack of political will at points in history and opportunism on the part of rent-seeking interest on many sides. In that context the value of a 'new' NWI is not clear to me. It's also my view that the NWI worked in many cases because the circumscribing environment was conducive to reform – governments had an appetite for change and the drought pushed some of them along. I'm not convinced the same context exists in 2017-18 and the costs of a 'new' NWI might end up outweighing any benefits.