



Second Submission to the Productivity Commission Regarding the Draft Report on Rural Water and the Environment: the Role of Market Mechanisms

July 2006

If you have any questions or comments in relation to this submission please contact Dr Arlene Buchan, Healthy Rivers Campaigner with the Australian Conservation Foundation (03) 9345 1124; mobile 0407 883 907

Contents

	Page
1 The Australian Conservation Foundation	3
2 Comments on the Draft Productivity Commission Report	3
Environmental Manager Models	4
Complementary Regulation	4
Groundwater and Surface Water Interaction	4
3 Appendix 1: Environmental impacts of water trading within the Murray Darling Basin	6

1 The Australian Conservation Foundation

The Australian Conservation Foundation (“ACF”) is committed to inspiring people to achieve a healthy environment for all Australians. For 40 years it has been a strong voice for the environment, promoting solutions through research, consultation, education and partnerships. It works with the community, business and government to protect, restore and sustain our environment.

2 Comments on the Draft Productivity Commission Report

The ACF welcomes the Productivity Commission’s Draft Report on Rural Water Use and the Environment: The Role of Market Mechanisms. The ACF commented on many of the key issues in our earlier submission with Environment Victoria and are pleased to note that our input is reflected in the Draft Report.

In general, ACF agrees with most of the key points and preliminary findings of the Draft Report. We believe it makes a valuable contribution to water reform by highlighting the potential for market mechanisms or market based instruments (MBIs) to address problems of overallocation and overuse of water resources that are driving ecological decline in many of Australia’s river systems. There are clear opportunities for existing market mechanisms and novel markets in partial rights (including options, derivatives and attenuated licenses) to progress implementation of the National Water Initiative (NWI) and augment planning processes that are required to provide ecologically sustainable water allocation arrangements. This requires the active participation in the market place on behalf of the environment like any other water user, as noted in the Draft Report.

However, the context in which MBIs are used will be crucial in determining their success in achieving economic efficiency and addressing environmental externalities. Proper implementation of the National Water Initiative by all jurisdictions is necessary to achieve such an enabling context, ie, all jurisdictions must adopt targets and timelines for genuinely addressing overallocation and overuse, and returning extraction to ecologically sustainable levels through state based ‘Implementation Plans’.

Jurisdictions that we have studied are currently failing to implement the NWI as it relates to fully addressing overallocation and overuse. For example, the Water Sharing Plans in NSW have fail to provide adequate environmental water allocations for many rivers and wetlands¹ and the draft Sustainable Water Strategy for the central region also suggests providing environmental water reserves well below the minimum scientific recommendations in Victoria². These plans effectively close the window on water reallocation using planning processes for a considerable time period.

Whilst MBIs could make a substantial contribution to bridging the gap between the environmental water allocation made available through these planning processes and

¹ See the joint environment groups response to the NSW draft NWI Implementation Plan at: <http://www.irnsw.org.au/pdf/NWIINSWsubmission.pdf>

² See submission by EV and ACF on draft Sustainable Water Strategy for the Central Region of Victoria: http://www.envict.org.au/file/EV_and_ACF_CRSWS_submission_June06.pdf

the scientifically recommended environmental water allocation, it requires political will and commitment to achieving sustainable water allocation and setting the targets and timelines for doing so.

Without fully implementing the NWI framework for water reform, including adequately resourcing and empowering the environmental manager to achieve environmental outcomes and committing to fully address overallocation and overuse of water resources, it doesn't matter which tools for water recovery for the environment are used – planning, regulation, MBIs, or a combination of all three – they will fail to achieve the objectives of the NWI and fail to achieve health.

Following are brief comments on particular parts of the Draft Report

Environmental Manager Models

We note the importance the Draft Report has attributed to the model of environmental management and agree with the significance of the questions asked. The environmental manager role is crucial to the successful adoption of MBIs for addressing overallocation and overuse. The environmental manager must have a very clear objective in relation to river health outcomes and it is crucial to avoid conflicting objectives. Equally as important is their capacity to participate in the market to secure and be accountable for environmental outcomes and this requires providing adequate resources and skills to the role.

Further work is needed to investigate the different models for environmental water managers, recognising the differing commitments to existing institutional frameworks within and between jurisdictions.

Complementary Regulation

ACF agrees that an efficient water market could benefit irrigators and the environment as reported in the Draft Report but the benefits of trade risk being lost if the market is not complemented with a smart, regulatory framework that can prevent or address new or unanticipated problems that may compound environmental degradation.

For example, water trading is implicated in the sudden increase in water moving downstream through the lower Goulburn River in 2006 and the consequent loss of sand bars. Local observers are concerned that the constant, unseasonally high flows will cause bed instability, erosion and silting, and affect riparian vegetation and stream habitat (see Appendix 1 by John Pettigrew).

We acknowledge comments in the Draft Report that as well as addressing overextraction of water, MBIs may be able to address season inversion and channel capacity issues. Such mechanisms are not, however, currently available to deal with this issue but the problems are becoming apparent and should be addressed before they cause serious and irreversible environmental damage.

Surface and Groundwater Interaction

We welcome the Productivity Commission's recommendation that groundwater should be included under the MDB Cap and recognition of the importance of addressing the linkages between surface and groundwater resources. We are concerned that despite the increasing recognition of the importance of this issue, jurisdictions continue to deal with them as separate issues, for example, in NSW, where some Water Sharing Plans

and Macroplans are being developed separately for groundwater and surface water, with no clear mechanism for their integration or water accounting³.

Likewise, the need to understand and account for water use and return flows in water entitlements is important, especially when investing in efficiency with a view to water recovery for the environment.

³ See the joint environment groups response to the NSW draft NWI Implementation Plan at: <http://www.irnsw.org.au/pdf/NWINSWsubmission.pdf>

Environmental impacts of Water Trading with-in the Murray Darling Basin

A decade of Water Trading

The free market approach for improved utilization of the resource and economic growth has failed to consider social or environmental impacts.

Water trading has brought with it many benefits including some environmental improvement by moving water from unsuitable land and uses, however, allowed to continue unrestricted will cause ongoing and ever increasing environmental damage to our Rivers and streams.

Infrastructure access entitlement has been introduced by Water Authorities to both share and safeguard existing water delivery infrastructure with-in irrigation areas, however expect unlimited access to our natural carriers.

These natural carriers (rivers and streams) within the Murray Darling System will be most affected by unrestricted water trading.

Using the Goulburn River as an example, every megalitre transferred downstream that had previously been diverted at the Goulburn Weir for irrigation across Northern Victoria must be delivered through the lower reaches of the Goulburn River.

The Goulburn River is a declared Heritage River and features in the GBCMA Goulburn Broken River Health Strategy 2005-2015. Lower reaches are described as being in moderate to poor condition in the 2nd Benchmark of Victorian River Condition 2005.

The supply of water entitlements from Eildon and other storages result in a highly altered flow regime. These flows are affecting river health and water quality

2006 has seen the Goulburn River below the Goulburn Weir at Nagambie consistently flowing at approximately 1 meter above previous summer flow levels. This has been a quantum and sudden increase in summer flows.

Reasons for the increased seasonal flow.

The reasons for this present situation are a mix of water repayment obligations with other States and the effect of water trading moving entitlements downstream.

Despite the repayment situation not being the norm into the future, the effect of water trading downstream will continue in increasing volumes.

Immediate effects of this seasons flows

Few sandbars are exposed which have serious social and environmental implications.

High constant flows cause bed instability, erosion and silting, and effect riparian vegetation and stream habitat. The fish have been biting, the fishermen are happy!

Compounding issues into the future.

***Water trading**

1994 COAG agreement to separate water from land and let the free market drive efficiencies and improved returns from the resource.

The majority of water permanently transferred has moved downstream to horticulture and new corporate developments in all States.

Victorian water has to date been the most attractive and accessible to transfer.

* **Regional development** by definition is seen by Governments as new regions and new commodities to those regions, causing many opportunities in the earlier developed irrigation areas upstream to be overlooked.

*The value of existing infrastructure is often overlooked and obligates future Governments to meet the costly supply of new additional infrastructure.

* Many of these developments depend on Tax concessions or would not achieve the support from investors.

* Local Government and Government agencies are reluctant to modify planning schemes and regulations in existing closer settlement areas to attract or accommodate corporate development.

An immediate moratorium on water trading downstream, a scientific assessment of the effect of high flows on rivers and a study of social impacts would appear appropriate and responsible following a decade of free trade.

We now have a decades experience of the market, it's strengths and it's weaknesses.

Only after a thorough review and in an environmentally, socially and economically sustainable manner should Water Trading downstream be allowed to continue.