

USE MARKETS TO REPAIR RIVERS

Sinclair Knight Mertz Thought Leadership Forum
Progressive Pathways to Sustainability
6th June 2006
Hilton Hotel, Sydney

Peter Cosier
Wentworth Group of Concerned Scientists

I want to share some thoughts with you today on the progress of Australia's national water reforms under the title: Use Markets to Repair Rivers.

First, thanks to SKM for your kind invitation to speak today. I hope I can be a little 'frank and challenging' as your flyer suggests I should. SKM are an important part of the environment business, and it's great to see them making this contribution to public debate.

I don't know about you, but as an environmental scientist, I feel as though we are living in the most remarkable of times.

Paul Gilding, the former CEO of Greenpeace International, recently put it this way in his article: Climate Change Causes Backflips. Paul asks: "So what's going on? Conservatives worrying about climate change and endangered parrots? Business arguing for increased costs? Environmentalists accepting nuclear power?"

Many people would be forgiven for feeling the same about water reform in Australia.

I'm going to talk about the National Water Initiative, tell you about the \$2 billion Australian Water Fund that was set up to drive the Initiative, why it is failing in this task, and what I think we need to do to get it back on track. I'm going to canvas with you what I think are the policy flaws that have caused this problem.

First, let's take a look at the National Water Initiative.

Is it as good as people make it out to be?

I believe the 2004 National Water Initiative will go down as one of the most significant agreements in our nation's history, not only because of what it does, but also because what it represents.

It signals a fundamental change in our understanding of our place on this continent.

If you haven't read it I would encourage you to do so, because I believe it and the 2003 Agreement that framed its principles are truly historic documents. They are historic because they acknowledge we are here to stay, that we no longer see Australia as a place to mine wealth, and repatriate it back to Europe.

They are also outstandingly sophisticated documents, because they link ecological science, with efficient economic systems.

This agreement will stand the test of time, because it has got the foundations right. It will underpin water management in Australia for at least the next century – provided we can deliver its promised outcomes.

At its most fundamental level, the National Water Initiative is an agreement between Australians and irrigators:

- where irrigators get a secure title to water and the ability to trade this asset, and
- the environment gets water to improve the health of our rivers.

It promised to produce five outcomes.

Now, if you had to draft the 5 principles for managing Australia's water in the 21st century, what would they be? This is what COAG came up with.

I need to go through these quite slowly so that you can appreciate the substance behind them.

The first two address property rights and trading: One commits to: *“Expansion of permanent trade in water ... and more cost effective and flexible recovery of water ...”*, and two commits to: *“More secure water access entitlements”*.

Most Australian's would be amazed to learn we didn't sort these issues out 200 years ago, but in those days we had a Eurocentric view of property rights where we valued land, but not water.

The third is an outstanding ecological principle that builds the hydrological cycle into our economic and property title systems. It commits to: *“Comprehensive water planning that deals with major interception of water, the interaction between surface and groundwater and water to meet specific environmental outcomes”*.

The fourth principle addresses quote: *“over allocated systems as quickly as possible”*. It's the environmental dividend of the reform.

The fifth is *“better and more efficient management of water in urban environments”*. We all agree with the need for this.

So, just repeating, this is what our national water reform is all about:

- Secure property rights;
- The right to trade water to maximise economic development;
- Building the hydrological cycle into our economic system;
- Putting more water into over-allocated rivers; and
- Better management of urban water.

The Australian Government has also set up a National Water Commission to drive the reforms, and it created a \$2 billion Australian Water Fund as an investment vehicle.

So, where is it up to?

When it comes to water reform, I firmly believe that our Prime Minister and his then Deputy John Anderson have shown great leadership. We are standing at the door of some of the most remarkable environmental reforms in Australia's history, but I am disappointed to report that 2 years on, these great reforms have stalled.

Getting agreement to reform was hard enough, but implementing it is proving to be just as tough. The PM has handed this challenge to Malcolm Turnbull – the Minister for Water as he's now called in Canberra.

One reason the reform has stalled is because people don't like change and change brings out vested interests.

They invest a lot of energy trying to slow down the reform. They argue the science is wrong – and we've seen some of that recently.

Another more fundamental problem is that the underpinning institutional frameworks are not in place. Unlike other sectors such as education, health or tax law, we don't have accurate accounts and there are no reliable monitoring systems.

Imagine trying to build a hospital with no engineering drawings and no financial system in place to monitor expenditure. Well, that's what we've got underpinning the water reform.

There is a third reason, and that is the issue is so politically charged, implementing agencies try to please everyone, and have become risk averse.

I want to take the opportunity presented in the spirit of today's Thought Leadership Forum to have a mature discussion about this, because it risks crippling these remarkable reforms.

The \$2 billion Australian Water Fund was meant to be an investment vehicle to drive water reform. But instead of buying water and putting it back into rivers, it has built a set of politically correct, bureaucratic guidelines that are based on a tired old, ribbon cutting model.

The eligibility criteria are so loose you could fund just about anything provided the application's got the word water in it. As a consequence, this massive taxpayer investment is being wasted. Unless it's fixed we risk crippling this great reform, because this money is needed to get water back into our over-allocated rivers.

The Australian Water Fund has three components:

- \$200m is for raising National Water Standards; and
- \$200m is for investing in Water Wise communities grants.
- But the bulk is directed into the \$1.6 billion Water Smart Australia program.

Now, investing \$200 million in raising national water standards addresses the trading and water planning outcomes of the National Water Initiative – this is fundamental to its success. Recent history with Landcare and the Natural Heritage Trust also shows the great value of investing in community capacity building, so a \$200 million investment in Water Wise Communities is also welcomed.

But instead of using the \$1.6 billion to *“address overallocated systems as quickly as possible ... through more cost effective and flexible recovery of water”* (the actual words in COAG), it's been captured by the system.

I've had a look at the first round of grants - \$400 million worth by the way - and I can tell you the vast majority of them are not even close to providing value for money. Taxpayers were told they were getting water for our rivers and we are not.

Never mind what the Productivity Commission would say, imagine what a bus driver, a lifesaver at Bondi or a nurse at Concord Hospital would say, if they discovered their hard earned taxes were paying twice the price for environmental water that anyone else can pay on the open market.

Commonwealth funds should not be used to subsidise uneconomic projects put up by water utilities, nor should they be used to subsidise private land developers or irrigators. Let me use one example. There are others.

I have no reason to doubt that the Chatswood CBD stormwater management project will provide a public benefit by stopping polluted stormwater entering local streams.

But this project should have been paid for by the local authority and the costs passed on to water users - polluter pays remember. It is not the responsibility of the Commonwealth government to be funding pollution control projects in the Chatswood CBD. It's a National Water Commission, not a local waste management authority. These reforms were never about farm welfare nor were they about cost shifting core business of State and Local Government.

In contrast, the Living Murray Initiative set a clear objective of 500 GL, governments provided \$500 million to achieve that target, and then went hunting down the low hanging fruit. The first round of projects have delivered over 200 GL at well under this price.

The \$1.6 billion Water Smart Australia program needs to do the same.

It needs to set a target of 1,600 GL for the \$1.6 billion investment, just as the Living Murray Initiative has a 500 GL target for the \$500 million.

The economic logic of giving irrigators a more secure title to water and the ability to trade, is to provide greater investment security and to allow water to trade to its highest economic use. No longer will we differentiate between water used for rice and water use to grow other crops. We'll let the market determine the best use of that water.

If you accept that principle, you can't then credibly argue the environment is any different. It too needs a secure title and it too needs to be traded to maximise the environmental benefit of that water. We should be able to buy and sell water to optimise environmental benefits in the same way industry should be able to buy and sell water to optimise economic benefits.

Instead of water being bought and returned to the river, we have built bureaucracies. We've built programs, projects and processes, but we haven't bought any water. Not one cup of water.

I've been in the environment business for nearly 30 years. I've seen every imaginable method bureaucrats use to describe these schemes. As I've said, grants programs play an important role in capacity building but they can never fix the problem. So, in the spirit of this forum, where we can exchange frank and challenging ideas, let's cut to it.

Every body wins from having a healthy river and rivers are not owned by a handful of irrigators. They are national assets and must be kept healthy not only for the current generation of Australians but for all future generations. To argue that you

can't offer to buy water from a willing seller at a mutually agreed price is absurd, and needs to be exposed as such.

The way forward

We have 2 choices:

1. We can continue with the grants programs and risk losing support of the Australian community to these remarkable reforms.
2. Or we can adopt the tools we use to manage the rest of our country – that is, create markets in environmental services and allow the environment to become a mainstream part of our every day decision making.

The government buys hospital beds, it buys kilometres of road, and so it can also buy environmental services – such as water needed to make our rivers healthy.

We had a deal at the Council of Australian Governments:

- irrigators got property rights;
- the environment gets water.

So let's get on with it.

I have 4 suggestions:

1. Stop wasting tax payers money subsidising urban stormwater projects and focus on what COAG agreed needs to be done: "better manage demand for (urban) water:
 - water restrictions;
 - legislate for minimum water efficiency standards;
 - legislate mandatory labelling of household appliances; and
 - agree on national guidelines for water sensitive urban design".
2. Refocus the \$2 billion Australian Water Fund, away from grants, into a targeted water buyback scheme to 'address overallocated systems as quickly as possible'.

Again, this is precisely what COAG agreed to do. The \$1.6 billion Water Smart Australia program needs to set a target of 1,600 GL for the \$1.6 billion investment.

3. Get a system of accurate water accounts in place, in each river valley.
4. Agree on and resource a national monitoring program.
5. Establish environmental water trusts across the country, agree on what assets they will protect, and then give them the power to buy and trade water to deliver these outcomes.

Irrigators will win, local economies will win - and Australia will win.

Thank you.