

## Reforming Rural Water in NSW

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Thank you and thanks for CEDA for having me here today.

In my opinion there are 3 words that characterise the national and state water reform process right now and they are security, efficiency and sustainability. So security of short term and long term supply, rural and urban of course not just rural; water use efficiency, driving greater economic benefit per megalitre of water and that's not just dollars per mega litre but all sorts of economic benefits, public and private per megalitre of water used; and sustainability, triple bottom line, economic, social and environment. And for me that's about dealing with externalities to the water economy and the greatest externality to the water economy in the last 20 years is the environment. The environment has been a major externality of water use in Australia and that's changing and the water reform process is as much as anything... as much as it's about all the things that Geoff's talking about and Jock, and Brett will talk about as well, is very much about internalising the environment into the water economy.

So what's happened with the environment is the environment, to use public policy speak, the environment has become a legitimate user of water. From a private business point of view the environment is becoming a business. That's the plain simplicity of it. If the environment's a legitimate user it means we can't treat the environment as a special case anymore. It has to compete, it's a business, I don't mean that in a negative way but like any other business it has to get in there and do what it has to do on a level playing field with no special situations, no special case, no special treatment to every other legitimate water use irrigator or otherwise. That's... again these are my personal views in the matter.

There are 3 phases that that has occurred and is occurring and will continue to occur over the next 10 to 20 years. Three phases, the phase we where we're building... from a business perspective... We spent 20 or 30 years, we, environmental scientist in particular, building the case for investment in the environment, pointing out there was issues about river health, fish were disappearing, whatever, whatever you believe, that case has been put and that case has been won. We have legislation, federal now, the water bill 2 weeks ago, state legislation, the NSW Water Management Act 2000, everywhere else, that codifies and enshrines certain principles about water sharing, use for agriculture but also the environment and that process. That's the history of building the case for investment from a business perspective.

The second phase of all this, and I'll talk briefly about in a minute, is about raising the funds for investment. Like any other business opportunity you've got to raise the funds to do what you want

to do and also to put in place the governance and management structures to make all that work. And finally, and that's the part that's only just starting and has hardly started yet, is the operational phase of running the environment as a business and I do believe the environment will have to be run as a business because otherwise we'll keep treating it as a special case and as I'm about to tell you if we treat it as a special case, it will be public welfare dependant for the next 50 years and we don't want it to be public welfare dependent, the environment, in my opinion, if it's to do the things it needs to do.

So let me just raise that issue about raising. What have governments been doing in that area? Now clearly governments right now have a responsibility for running these processes, for raising the funds for the environment and for setting up the appropriate structures and governance relationships for the environment. Governments in New South Wales have set up planning and operational structures. Geoff's just told us about the formation of State Water, that was part of the process, it wasn't set out primarily for environmental reasons, but those kinds of state based structures are important. Murrumbidgee Irrigation that Brett represents is again part of that water reform process and you only have to read Murrumbidgee Irrigation's business plan to find out that that environment is part of their sustainability view of the world so it's not just something they do because they have to, it's fundamental to them as a business, so those structures have been important, both those public and private structures have been important. Catchment management authorities, the regional organisations partnerships, with all their strengths and still things to be learnt as we move forward are fundamental to this structural process of managing or raising funds and running the environment.

The governments also are the funder of the environment. They are the investor right now, primarily, notwithstanding a few things that we might talk about from the private sector that are starting to occur, but by and large the government is the funder. It's raising the funding and that funding is turning into environmental flow allocations, environmental water and then also making those available to the environment. If we just look at New South Wales, we had the New South Wales Riverbank, \$105 million over 5 years for environmental water. We got the New South Wales Wetland Recovery Project \$27 million of state and federal money and moving a little more broadly across the [Murridang] basin in partnership Victoria and other state and New South Wales. We've got the Snowy Initiative, Snowy River \$375 million for environmental water. Then we've got the living Murray \$500 million over 10 years. And of course most recently we had the Prime Minister's water security plan \$3 billion, not dressed up as being for the environment but... \$3 billion I should say, not \$3 million, \$3 billion for recovering water, most of which, or some of which will be used for the environment as well. So very significant investments, but government as the investor and government as the operator, where's the separation of interest that's occurring elsewhere in the economy?

So the couple of points I want to make is it's a lot of money being put into the environment but I can tell you right now it won't be enough in the long term. If you look at how much water that money can buy, it's a very small percentage of the total water use. It won't be enough long term in some rivers to get environmental sustainability and in fact you only have to read the National Water Initiative, you have to read the State Water Policy, the Riverbank Policy and the word 'first step' is used quite often in there. It's a first step in the process and it's a bloody good first step, no criticism from me, but it's a first step. So, and are we going to rely upon government handouts to keep the environment propped up on public welfare, I suspect there are other ways of doing it. Government also controls the process of actually implementing and applying and using that money and with no criticism of government, I believe there's enormous sovereign risk involved in letting that continue. I do believe, and that's not a critique of government, simply put governments have multiple issues they have to worry about, ministers are all subject to various issues, not just about the environment of course but great economic productions, social issues to manage, cultural issues to manage and if

the environment is going to compete as a business it needs to have some certainty or greater certainty, it needs to learn how to find a way to mitigate that sovereign risk that inevitably does exist and again no criticism of government in that, it's simply an inevitability of a governed control process and we've recognised this in many other parts of the economy, health, telecommunications, transport, it's been recognised, we have not yet recognised it... and even in parts of the water <inaudible> we've recognised it but not yet with the environment.

So what I want to put forward today and in the final few minutes I have is I do believe there is a case for increasing private investment in environmental water but also, and perhaps a little more radically, allowing private rights, private legal rights in environmental water as well.

So on the first issue, private investment, we already have, we're already starting to see this happen. I'll give you three examples. In South Australia there's a brokerage corporate company called Waterfind which many in the room will know about and in fact some of you may even have used. They are a company that was set up to broker sales of water and trades of water between farmers in different parts along the Murray River. Recently Tom Rooney, the proprietor of that company, set up an environmental fund as well to make water available for the environment, to take donations from farmers who, he was finding out in his travels, were interested in making at least donations of annual allocations to the environment, the wetlands, but also to make available cash donations. You can go to Waterfind's website, find a wetland and make a specific cash donation to help save that wetland by buying environmental water. How has that happened? Well Waterfind only have a holding right for that water, but they've developed a partnership with the South Australian Murray NRM board who are the legal custodian of those wetlands in South Australia to actually get the use used. Water's very complicated of course, you have to have an ownership and legal entitlement right but you have to have a use licence as well. So that's a great partnership that's starting, so already any of you in this room can go to that website and make that donation, but it's just starting.

Brett's group, I don't know whether Brett will talk about today, River Reach, a new initiative for Murrumbidgee Irrigation, a way of allocating water to the environment but on a market based approach, using a form of water options and Brett might even mention that today so I won't say anything more about it. A great initiative funded by the National Water Commission and Murrumbidgee Irrigation. And even the New South Wales Nature Conservation Council has just announced a prospectus for a water environment trust, environmental water trust where they're looking for private donations of water for, to help wetlands. So this is all about private citizens and companies investing in water and finally though right now none of us here, unless we're land holders, can own a right in environmental water. We can have an economic right in water if we are a land holder and irrigators, we have a nominal social right to water, water in our taps and stock and domestic water if we're farmers, we can't hold an environmental right in water. I think over time there is a case to be made for private citizens and companies to hold rights in environmental water as well. There are a lot of legal issues along the way, a lot of management policy issues along the way but it seems to me in time, as the market is deregulated, David is shaking his head already I can see that, over time, I'm not saying it will happen, I think there's, it's a natural way as we deregulate it from the market that it may happen, that private rights and environmental water may also exist. Those rights can be managed through trust, through wetland trusts, through existing CMAs who already have in New South Wales the opportunity to set up environmental water trusts, under legislation can do that.

So I think I might just leave it there and just make that point, the fundamental point I'm making here is we are deregulating the market, the environment is being asked to participate as a legitimate user, that means it has to have a business plan it has to have the right people, it needs the tools of trade but it also needs to get off public welfare I suspect and also open up the opportunities for private investment directly and indirectly as well.

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