

Business
Council of
Australia



submission

Submission to the National Water Commission on Implementing the National Water Initiative

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economic, social
and environmental
goals that will benefit
Australians now and
into the future*

The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia's leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

About this submission

The BCA is making this submission to the National Water Commission's review, 'Implementing the National Water Initiative: 2014 Triennial Assessment of Water Reform Progress in Australia', because water represents a fundamental input to both our quality of life and to economic growth.

This submission specifically responds to the aspects of the review that will look at 'emerging or changing water management challenges with recommendations on future reform priorities'.

While substantive reforms have been made to water markets to date, and this should be recognised in the assessment, opportunities remain to further raise efficiency in the water sector and create a stronger foundation from which to plan for future growth in water demand and supply.

Key recommendations

- ▶ Complete pricing reforms in the rural water sector, extend full and independent economic regulation to all urban water utilities, and pursue options for granting more pricing flexibility to water retailers.
- ▶ Regulatory restrictions to the effective operation of the market, such as those on recycled water and restrictions on water trading, should be reviewed with a view to removing any unnecessary restrictions.
- ▶ Where feasible, sell public water assets to private investors to realise efficiencies in management and to release capital for reinvestment in new infrastructure projects.
- ▶ The water trigger in the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act) should be removed because it duplicates existing state powers.
- ▶ The government's White Paper on developing Northern Australia should clearly outline the principles and policy frameworks that will be put in place to ensure that adequate water resources are made available, and so that the water market is capable of operating in an efficient and effective manner.

The importance of water

Water is fundamental to our quality of life and to our economic growth. The availability and price of water contribute to the viability of many businesses. Some 87 per cent of water use in Australia emanates from business and more than half by the agriculture sector.¹ A reliable and affordable supply of water is also important for Australia's growing number of households.

We will need to plan for growing demand for water to meet the needs of a growing population and to support new areas of regional development as they emerge, for instance, due to high levels of investment in the resources sector. This will need to be done in a way that is sustainable and promotes the efficient use of water.

We must ensure that Australia's water system provides the incentives for water resources to be made available to those who value them the most and where it is needed the most.

While we are not currently in a state of drought, the necessity of water means that we must remain vigilant in continuing to reform and improve our water markets.

1. BCA, *Action Plan for Enduring Prosperity*, 2013, p. 166.

Progress to date

Our interest in making a submission is in highlighting areas for future reform in the water sector. The BCA is not in a position to provide detailed comment on the implementation of National Water Initiative reforms for this review. Generally though, there is little doubt that significant progress has been made in reforming Australia's water sector, including in relation to the implementation of the National Water Initiative.

As demonstrated in a number of public reviews including by the Productivity Commission and the National Water Commission, there are a number of areas where there remains scope for further reform. These include:

- continuing to improve the efficiency of our water markets, through better pricing, encouraging private investment and removing undue regulatory restrictions on water supply and use
- improving access to water for use in new and existing business production processes
- removing unnecessary duplication of environmental assessment and approval processes across governments for new water supply projects
- giving appropriate consideration to the policy frameworks that will be necessary to access water resources in Northern Australia in light of the government's forthcoming White Paper on the development of Northern Australia.

These issues are addressed in the discussion below.

Water markets and pricing

The overarching objective of water policy should be the efficient provision of water in a manner that maximises community net benefits.

A prerequisite for the efficient provision of water is an effectively operating water market. Such a market should:

- provide appropriate price signals to end-users
- have clearly established water property rights
- have consideration of both supply and demand-side options in managing and meeting the demands of water consumers
- be technology and source neutral, subject to environmental and health considerations
- allow for the trade of water resources between users to ensure that water flows are allocated where they are most valued
- have regulatory frameworks which support the achievement of the objective of efficient provision of water and maximisation of community net benefits.

In many respects, the best means of addressing affordability concerns is through making improvements to the efficiency of our water markets. The BCA supports the view of the Productivity Commission, which stated that 'although access and affordability are important issues, distorting prices is not the best way to deal with them'.²

The Productivity Commission has previously noted that there is merit in providing more flexibility for retailers in their pricing of water and encouraging them to offer multiple service offerings (subject to certain conditions).

The BCA is supportive of more flexible pricing on the grounds that this will lead to a more efficient allocation of water over time as a result of more appropriate price signals.

² Productivity Commission, *Australia's Urban Water Sector*, 2011, p. xxvii.

In particular, in relation to the Productivity Commission's recommendation of freeing up the pricing of water by retailers and encouraging them to have multiple service offerings (tariffs). This would provide greater choice to consumers and will ultimately lead to a more efficient allocation of water, including through better enabling retailers to manage demand.

Additionally, pricing should not be used to address affordability issues (for example, the use of inclining block tariffs to establish a low price for 'essential' water). In relation to this the Productivity Commission noted:

It is likely that the costs created by interfering with water pricing, particularly the volumetric rate, outweigh any benefits low-income households received. Although access and affordability are important issues, distorting prices is not the best way to deal with them.³

There should be full and independent regulation of urban water utilities in each state that allows flexible pricing based on sound economic principles. Having these regulatory frameworks in place can also help pave the way towards private ownership of urban water businesses.

Remove regulatory restrictions

Water policy should be reviewed with an aim to removing undue regulatory restrictions on the trading of water and the use of recycled water.

Where recycled water is cleared by the relevant health experts for public consumption, this option should be part of future considerations for increasing the overall supply of water.

Limits on the amount of water trading that is permissible inhibit water resources from being traded to where they have the most value. This is particularly important given that households place a high value on water consumption – the loss of which has a real, and significant economic cost to them.

The Productivity Commission has also identified that restrictions on the use of recycled water and limits on trading of water rights are inhibiting the effective operation of Australia's water markets.

The BCA supports the view articulated by the Productivity Commission that:

Allowing voluntary trade between the rural and urban sectors can provide benefits to irrigators, urban water consumers and the community as a whole. Voluntary trading facilitates the efficient allocation of water from lower value uses to higher value uses, based on the willingness to buy and sell, and the cost of transport.⁴

Private investment in water

There is significant scope for pursuing benefits from more private investment in Australia's water businesses. Major private investors are looking to invest in long-lived assets with positive and stable returns on investment. Australia's superannuation system has funds under management worth \$1.6 trillion today, rising to over \$6 trillion by 2037.

The benefits to the community are twofold. First, there is a potential efficiency dividend to be gained from further privatisation and the sale of corporatised water assets due to the private managerial expertise of the asset. Second, the sale of government-owned water utilities can provide funds to governments for reinvestment in other new infrastructure projects to better the lives of members of the community.

Infrastructure Australia has previously identified⁵ that there is scope for more water assets to be owned by the private sector.

³ *ibid.*, p. xxvii.

⁴ *ibid.*, p. xxxiii.

⁵ Infrastructure Australia, *Australia's Public Infrastructure: Part of the Answer to Removing the Infrastructure Deficit*, 2012.

In 2012, Infrastructure Australia estimated the potential proceeds from the sale of public assets, including water assets. They estimated (using enterprise value) that the Water Bulk asset class had a valuation of between \$54 and \$61 billion and that the Water Distribution and Retailers asset class had a valuation of between \$32 and \$35 billion. This represents a substantial amount of funding which could be unlocked and utilised elsewhere. To ensure that they operate as efficiently and effectively as possible once privatised, the sale of any water assets must be accompanied by an appropriate regulatory regime.

Water triggers in the EPBC Act

Earlier this year the Commonwealth passed amendments to the EPBC Act.

These amendments make water resources a 'matter of national environmental significance' in relation to coal seam gas and large coal mining development.

However, these amendments mean that coal seam gas and large coal mining projects now require approval from the federal government in addition to existing state government assessment processes.

These amendments were made in the absence of a Regulation Impact Statement to assess the costs and benefits of the proposal (including any identified environmental benefit), without genuine stakeholder consultation, with little, to no, regard for the unnecessary duplication of existing state responsibilities regarding water resources and the uncertainty created for affected projects.

The recently introduced amendments should be reversed as they create a process that will add a significant burden in the form of delays and increased cost to proponents' operations with no commensurate environmental benefit.

Northern Australia development

The new government has committed to producing a White Paper on the development of Northern Australia within 12 months of being elected.

Compared with the rest of Australia, Northern Australia remains relatively under-developed. In no small part this is because as a region, Northern Australia is unique in the challenges that it presents.

Northern Australia is a vast area, but one that is remote from the majority of the population and associated infrastructure of the rest of Australia. In terms of total volumes, Northern Australia's rivers carry a considerable amount of Australia's overall annual stream flows.

However, distance to markets, soil type and quality, and water storage options are limiting factors in terms of development in the region.

These challenges are significant, and any potential development of the region must address them. Any assessment of potential development should start by addressing the costs and benefits of all available options. Furthermore, any assessment should be technology neutral and consider the full suite of options available.

In particular, the government's White Paper should clearly outline the principles and frameworks that will be put in place to ensure that adequate water resources are made available, and so that the water market is capable of operating in an efficient and effective manner.

The White Paper should also build on the work previously undertaken by the Northern Australia Land and Water Taskforce, the Northern Australia Sustainable Futures Program and CSIRO's Northern Australian Irrigation Futures project.

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