

COUNCIL OF AUSTRALIAN GOVERNMENTS

COMMUNIQUE

29 AUGUST 2003

The Council of Australian Governments (COAG) agreed that there is a pressing need to refresh its 1994 water reform agenda to increase the productivity and efficiency of water use, sustain rural and urban communities, and to ensure the health of river and groundwater systems.

Investment in new, more efficient, production systems is being hampered by uncertainty over the long-term access to water in some areas. Fully functioning water markets can help to ensure that investment is properly targeted and water is put to higher value and more efficient uses. However, current arrangements are preventing those markets from delivering their full potential. Furthermore, there are significant concerns over the pace of securing adequate environmental flows and adaptive management arrangements to ensure ecosystem health in our river systems.

COAG has therefore agreed to develop a National Water Initiative to:

- improve the security of water access entitlements, including by clear assignment of risks of reductions in future water availability and by returning overallocated systems to sustainable allocation levels;
- ensure ecosystem health by implementing regimes to protect environmental assets at a whole-of-basin, aquifer or catchment scale;
- ensure water is put to best use by encouraging the expansion of water markets and trading across and between districts and States (where water systems are physically shared), involving clear rules for trading, robust water accounting arrangements and pricing based on full cost recovery principles; and
- encourage water conservation in our cities, including better use of stormwater and recycled water.

The National Water Initiative will build on the achievements of the 1994 COAG strategic framework for the reform of the Australian water industry, the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality. Details of the Initiative are to be settled over the next six months, for consideration at the first COAG meeting in 2004. Further details are attached.

Recognising the declining health of the River Murray system in particular, COAG noted that member jurisdictions of the Murray-Darling Basin have agreed to provide new funding of \$500 million over five years to address water overallocation in the Basin. Forty per cent of this \$500 million would be contributed by the Australian Government and 60 per cent by New South Wales, Victoria, South Australia and the Australian Capital Territory.

Contributions are: Australian Government (\$200 million), New South Wales (\$115 million), Victoria (\$115 million), South Australia (\$65 million) and the Australian Capital Territory (\$5 million). This funding would be subject to finalisation of details.

COAG reaffirmed its commitment to the 1995 National Competition Policy agreement.

PROPOSED NATIONAL WATER INITIATIVE

The Council of Australian Governments (COAG) agreed to the following scope of a National Water Initiative, for consideration at its first meeting in 2004.

Nationally Compatible Water Access Entitlements

A key focus of the National Water Initiative will be to implement a robust framework for water access entitlements that encourages investment and maximises the economic value created from water use, while ensuring that there is sufficient water available to maintain healthy rivers and aquifers. The framework will be compatible between jurisdictions and reflect regional variability in the reliability of water supply and the state of knowledge underpinning regional allocation decisions.

A key element of the framework will be a nationally-compatible system of water access entitlements including:

- firm pathways and open processes for returning overallocated surface and groundwater systems to environmentally sustainable levels of extraction;
- unless fixed-term water access is required for particular purposes, access entitlements to be defined as open-ended, or perpetual, access to a share of the water resource available for consumption (subject to water users meeting their conditions of entitlement);
- clear identification and assignment of risks between governments and water users over possible future reductions in water availability. Water access entitlement holders should generally bear the risks associated with natural events, such as reductions in water due to climate change or drought, and risks associated with bona fide improvements in the knowledge of water systems' capacity to sustain particular extraction levels. Governments should bear the risks arising from changes to water access entitlements not previously provided for, arising from changes in government policy (for example, new environmental objectives). A framework will also be established to address water use where water is intercepted before entering ground or surface water systems due to changes in land use (for example, large scale plantation forestry, changes in agricultural use, harvesting of surface water flows, revegetation for salinity control et cetera);
- water-sharing plans based on best-practice system modelling developed through transparent processes involving all stakeholders, subject to review when necessary, and with regular reporting on progress; and
- best practice specification of the responsibilities of water users.

Nationally Functioning Water Markets

An objective of the National Water Initiative is to achieve an efficient water market structure and expand markets to their widest practical geographical scope, enabling increased returns from water use. Where applicable, and particularly in the Murray-Darling Basin, this will involve a review of the various water entitlement products, pricing policies, exchange rates and trading rules with a view to ensuring compatibility across jurisdictions.

Best Practice Water Pricing

A key objective of the National Water Initiative will be the establishment of best practice water pricing. Best practice water pricing will involve the principles of user pays and full cost recovery, and include where appropriate, the cost of delivery, planning, and environmental impact.

Integrated Management of Environmental Water

The National Water Initiative will establish new arrangements dedicated to the management of water at a basin, aquifer or catchment scale to deliver agreed environmental outcomes. For example, in the Murray-Darling Basin, a basin-wide system of mechanisms will be established to enable environmental water management, including through the market. A flexible trading model has the advantage of being able to purchase water for the environment in a cost-effective manner when needed, and selling or leasing water back to other water users at other times.

Water will also be provided for the environment through targeted public and private investment in engineering works to improve 'leaky' infrastructure, based on rigorous investment criteria.

Measuring, Monitoring and Information

Accurate measurement, monitoring and reporting is raised to a new level of importance when there is increasing competition for water and where the proposed water management system depends on secure entitlements, market approaches, water recovery and environmental flow management.

Under the National Water Initiative, jurisdictions will establish a robust, transparent regulatory water accounting framework that protects the integrity of entitlements.

Governments will also continue to invest in improving the scientific understanding of our water resources, and the industries and ecosystems which depend on them.

Urban Water Reform

The urban component of the National Water Initiative will reinforce the need for urban users to use water efficiently for example by promoting water reuse and recycling, the adoption of more efficient technologies and by reviewing the effectiveness of pricing policies. These issues will continue to be progressed through a number of Ministerial Councils.

Next Steps

The National Water Initiative will be detailed in an intergovernmental agreement, based on the scope outlined above, for consideration at the first COAG meeting in 2004. The agreement will indicate specific actions for addressing the issues outlined above in each jurisdiction.

Development of the agreement will involve advice from experts in the water industry, the environment and the finance sector. Governments will also consult with stakeholders representing industry, environment, local government and Indigenous interests.