

ATTACHMENT A

FURTHER INFORMATION ON THE NATIONAL WATER INITIATIVE

The National Water Initiative (NWI) agreed by the Council of Australian Governments (COAG) contains a number of actions to be implemented as priorities by the Commonwealth, State and Territory Governments over the next 10 years. In combination, these actions have the objective of achieving a nationally-compatible, market, regulatory and planning-based system of managing surface and groundwater resources for rural and urban use, that optimises economic, social and environmental outcomes, and is able to adapt to future changes in the supply of, and demand for, water.

Some highlights of the NWI Agreement and their implications are outlined below, and a full copy of the NWI Agreement is at www.coag.gov.au. States and Territories will be developing detailed implementation plans over the next 12 months indicating how the NWI will be rolled out in each jurisdiction.

Water access entitlements

The consumptive use of water will generally require a water access entitlement, separate from land, and described as a perpetual or open-ended share of the consumptive pool of a specified water resource. Entitlements will have characteristics to allow their free and open trade, and will only be able to be cancelled by governments in the case of water users not meeting their conditions of entitlement.

A perpetual share-based approach to water access entitlements provides water users with confidence that their entitlements are unable to be 'taken away' unilaterally, and that the amount of water they are entitled to receive is a share of that which is available for consumptive use in the system.

Environmental and other public benefit outcomes

Water that is provided by States and Territories to meet agreed environmental and other public benefit outcomes (such as good quality drinking water and recreational water use) will be given statutory recognition and at least the same degree of security as water for consumptive use and be fully accounted for. If held as a water access entitlement, such water may be traded temporarily when not required to meet the defined environmental outcomes nor in conflict with them. Improved institutional and accountability arrangements will be required to address environmental outcomes in systems that cross borders and highly interconnected ground and surface water systems. Where necessary to recover water to achieve environmental outcomes, the selection of measures will be

based primarily on cost-effectiveness with a view to managing socio-economic impacts.

Maintaining healthy surface and groundwater systems is fundamental to a sustainable water industry. Under the NWI, Agreement Governments agree to specify the environmental outcomes to be achieved in surface and groundwater systems, and require explicit provision of water and associated management arrangements to meet those outcomes in an accountable manner. Achieving environmental outcomes will no longer be seen as an optional extra in water management.

Overallocation

Water extraction in systems that are currently *overallocated* (that is, have entitlements issued for more than the sustainable level of use) or *overused* (that is, the consumption of water is more than the sustainable level of use) will be adjusted to meet environmental and other public outcomes required in water plans, with substantial progress to be made by 2010. In doing so, any significant adjustment issues affecting water users will be addressed and existing commitments under National Competition Policy to provide appropriate allocations to the environment in overallocated or stressed water systems will still apply.

Overallocation of water is a threat to the integrity of water access entitlements and to the achievement of environmental outcomes. Potential investors in the water industry will understandably be concerned if overallocation is not dealt with and entitlements are unable to be seen as secure into the future. Achieving a return to sustainable extraction levels may take time in some severely overallocated systems. Governments agree that substantial progress towards addressing overallocation will occur by 2010, and to consult with affected stakeholders and provide adjustment assistance if necessary.

Risk assignment

COAG agreed to a framework that assigns the risk of future reductions in water availability as follows:

- reductions arising from natural events such as climate change, drought or bushfire to be borne by water users;
- reductions arising from bona fide improvements in knowledge about water systems' capacity to sustain particular extraction levels would be borne by water users up to 2014. After 2014, the water users would bear this risk for the first three per cent reduction in water allocation; State/Territory and the Australian Government would share (one-third and two-third shares respectively) the risk of reductions of between three per cent and six per cent; State/Territory and the Australian Government would share equally the risk of reductions above six per cent;

- reductions arising from changes in government policy not previously provided for would be borne by governments; and
- where there is voluntary agreement between relevant State or Territory Governments and key stakeholders, a different risk assignment model to the above may be implemented.

Interception

A major objective of the NWI is to secure the integrity of water access entitlements and environmental outcomes. As part of this COAG agreed that land-use change activities, that have the potential to intercept significant volumes of surface or ground water, need to be addressed.

COAG acknowledged that there is an acceptable level of interception that is part of the mix of land use in catchments, and that interception activities, such as large scale plantations, also have positive benefits on the environment and the productivity of water resources. The intention of the NWI framework on interception is not to pre-determine whether an activity is a significant interceptor, but instead to determine whether the volume intercepted from any land-use change activity is “significant” in the context of the water system within which it occurs. “Significance” will be determined through the planning process, which is based on best available science and informed by socio-economic analysis and community and industry input.

The NWI sets the broad approach, with specific implementation to be settled by States on the basis of specific regional circumstances. The approach involves assessing land use change activities in water systems (these can be as large as a basin or small as a catchment, depending on the level of management required for water planning purposes). The NWI provides for the setting of a water system threshold limit for land-use change activities determined as intercepting “significant” volumes, having regard to regional circumstances and taking account of both positive and negative impacts of water interception. The NWI framework on interception is intended to apply to future proposals for land-use change rather than retrospectively.

Additional land-use change activities can proceed in water systems that are not fully allocated without the need for an access entitlement, provided that the threshold level determined for that water system has not been reached. In those water systems that are fully allocated, the effect of the NWI as it is progressively implemented by States and Territories, will be to require water access entitlements for additional land use change activities determined as intercepting “significant” volumes of water.

Water Markets and Trading

Compatible institutional and regulatory arrangements to facilitate intra and inter-state trade in water will be established including, where applicable, the adoption of trading zones, compatible and publicly accessible registers of water access entitlements and trades, trading rules that account for resource and infrastructure constraints, and the use of exchange rates and/or tagging of entitlements. In relation to institutional barriers to trade, temporary trade will be immediately freed up and barriers to permanent trade out of irrigation areas will be progressively phased out by 2014.

In the southern Murray-Darling Basin (MDB), necessary legislative and other actions will be taken to establish, by June 2005, an interim threshold limit to water trade out of irrigation areas of four per cent per annum, with regular assessment of progress with these actions including any regional impacts. A study into the legal, commercial and technical mechanisms to enable interstate trade in the southern MDB will also commence as soon as possible.

At present, trade in water is hindered due to the complexities of numerous different water product specifications, cumbersome administrative arrangements, lack of up-to-date market information, and the policies of some water corporations and other water providers. By creating an environment in which individual water users are able to trade water relatively quickly and easily, a far more dynamic water market will emerge, resulting in more productive and efficient use of water over time.

National standards for water accounting, reporting and metering

Water accounting systems in each jurisdiction will be benchmarked, and national standards introduced for accounting systems, reporting formats, water meters, and environmental water accounting.

Accounting for water use in a transparent and comparable manner across jurisdictions is fundamental to: improving the hydrological models that underpin water allocation decisions, ensuring there is confidence in the water market, and in the achievement of environmental and resource-use outcomes.

Water efficiency in urban areas

A number of measures will be taken to improve water use efficiency in urban areas including: pricing policies to stimulate the efficient use of recycled water and storm water, the introduction of minimum water efficiency standards for household appliances and mandatory product labelling, an assessment of the scope to extend low-level water restrictions, the provision of comprehensive water-use information on household water accounts, and measures to stimulate water sensitive urban design.

The conservation of water in urban areas has improved in recent years, but more can be achieved. The above measures are designed to encourage greater re-use and recycling of wastewater where cost effective and to reduce household water use.

Community partnerships and adjustment

The NWI Agreement provides for open and timely consultation with all stakeholders in relation to addressing overallocated systems, the periodic review of water plans and other significant decisions that may affect the security of water access entitlements. Similarly, the Agreement provides for accurate and timely provision of information about the implementation of water plans and other relevant issues. All governments agree to address significant adjustment issues affecting water access entitlement holders arising from reductions in water availability as a result of implementing the NWI Agreement.

COAG recognises the importance of involving all stakeholders in the development and implementation of water plans, providing understandable and up-to-date information on water, and addressing significant adjustment issues arising from reductions in water availability as a result of the implementation of the NWI Agreement.