



THE CABINET OFFICE

NEW SOUTH WALES

Mr Herb Plunkett
Assistant Commissioner
Impact of Competition Policy Reforms Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Mr Plunkett

I refer to the Productivity Commission's Draft Report '*Impact of Competition Policy Reforms on Rural and Regional Australia*', and the Commission's request for comments.

The attached comments are intended in general to correct errors of fact that are contained in the Draft Report. Page numbers and references refer to the Commission's web site version.

I trust that this information will be of assistance to you.

Yours sincerely

Roger B Wilkins
Director-General

26 Jul 1999 (stamped)

IMPACT OF COMPETITION POLICY REFORMS ON RURAL AND REGIONAL AUSTRALIA: NSW COMMENTS ON THE DRAFT REPORT

- Environment protection (pp. 65-66) “ 60 percent of the country had been assessed as having wilderness value” - this is a misinterpretation of the National Reserves System (NRS) which seeks to sample biodiversity over and above wilderness values. Whilst there is some overlap between biodiversity and wilderness values, it is unlikely that the NRS program would seriously consider making 60% of Australia as formal protected areas - national parks etc. A much smaller area would be for reserves and the remainder managed sustainably to maintain their biodiversity values.
- Snowy River environmental flows (p. 66) The figures here appear to be incorrect. The text needs to be corrected (paragraph 2) replacing the reference to 10 percent with “ restoring a 15 percent environmental flow in the Snowy River” and replacing the 12 percent figure in the following sentence with “ to irrigators by almost 4.5 percent”. These figures reflect the more recent work from the *Snowy Water Inquiry Final Report*.
- The Draft Report’s listing of the key water reforms (p. 129) does not accurately outline environmental reform aspects. As presented, the listing reflects an overemphasis on economic considerations. One of the key water reforms concerns the formal determination of water allocations or entitlements, including allocations for the environment as a legitimate user of water. This reform should not come under the subheading of ‘Water Trading’. The subheadings used i.e. “Pricing Reform”, “Investment Reform”, “Water Trading” and “Institutional Reform” should be replaced by the more commonly used “Cost Reform and Pricing”, “Institutional Reform”, “Allocation and Trading”, “Environment and Water Quality” and “ Public Consultation and Education”.
- The subheadings used in Table 5.3 on p. 132 are inaccurate (note comment above) and do not cover the important environmental aspects of the water reforms. The National Competition Council (NCC) assessment of jurisdictions under NCP rates NSW very highly in the progress of implementing COAG’s water reform principles. The Table appears to contradict the NCC’s findings. For example, the NCC has concluded that NSW has made substantial progress regarding removal of cross- subsidies and transparency of subsidies. The Draft Report has not taken into account the large body of work done in NSW in relation to performance comparisons in the NMU sector. As an example, IPART’s determination on rural bulk water pricing clearly separates the estimated efficient costs of providing bulk water services as well as the revenues generated from prices. The balance between efficient costs and revenues is provided as a transparent subsidy. Accordingly, the 3 crosses against NSW indicating “little or no progress” should be, at the very least, turned into boxes indicating “implementing”.

- Accounting for transmission losses (p.134). The transmission losses quoted in the Draft Report are too high. Normal environmental flows in rivers, combined with commitments for water authorities to meet the needs of high security water users (stock and domestic, towns etc), suggest that transmission losses from higher flows required to meet the needs of downstream irrigators would be small. As a consequence possible inefficient downstream trading arising from transmission losses may not be of great significance.
- Investment appraisal – new rural water infrastructure (pp. 135-6). The Draft Report calls for clear identification of the nature and magnitude of social (including environmental) benefits arising from new irrigation infrastructure. The environment, in the main, is not a beneficiary of river regulation as implied by the Draft Report. Recommendation 5.1 should also be revised to include consideration of the environmental and economic costs of infrastructure developments.
- Water trading (p.136). Of assistance to the Commission may be a recent report on water trading in NSW undertaken by Marsden Jacob Associates titled “Water Trading Development and Monitoring”. The report may be useful to the Inquiry in that it considered implementation issues and the economic and social effects of water trading in NSW.
- Employment impacts (p. 144). The discussion needs to be broadened to include both the contribution and reduction to employment that may be associated with water reforms. For example, contributions to employment may arise from water trading by enabling the development of high value horticultural industries in some areas. Some reference to longer term effects would also be a useful addition to the section.
- The Draft Report (p. 150 and elsewhere throughout the document) appears to overemphasise the fact that water prices have to increase. It does not acknowledge that firstly, water prices are coming from a very low base, and secondly, that water charges are generally acknowledged as only a very small component of on-farm costs.
- Table 7.1 – *Statutory marketing authorities in Australia* (p.175), should be amended as it includes three Boards that have ceased to exist, as a result of their enabling legislation being repealed. They are the Dried Fruits Board; the Sydney Market Authority; and the Tobacco Leaf Marketing Board.
- Specific adjustment assistance (p.339). There should be reference to NSW’s \$33.6 million structural adjustment program related to water reforms, in particular through the NSW Water Efficiency Program. This Program may also be a useful example in relation Box 14.3.

- The following corrections should be made to Table C.3 – *Reviews of NSW Legislation* (p.400).

Name of legislation	Date of review Completed	Review	Status
Meat Industry Act 1978	1995-96	Yes	decision made
Poultry Processing Act 1969	1996-97	Yes	decision made
Murray Valley Wine Grapes Industry Development Committee and Murray Valley Wine Grapes Negotiating Committee [Marketing of Primary Products Act 1983]	1997-98	Yes	decision made

Additional points:

- Recommendation 4.2 (p. 87). NSW supports the development of national rather than State-based principles. The latter would not be conducive to consistent application of the public interest test.
- Recommendation 5.2 (p. 138) is unnecessary as the extension of the rural water reform timetable for implementing water property rights and water allocation requirements has already been agreed by the Council of Australian Governments.
- The Draft Report has focused exclusively on Statutory Marketing Authorities within the agriculture/primary industries portfolios in relation to the NCP legislation reviews. Reviews into environmental protection legislation; research and development legislation; and animal and plant health/protection or welfare legislation and their impact(s) have not been considered.

20 July 1999