



protect, conserve, sustain



Executive Director
National Competition Council
GPO Box 250B
Melbourne Vic 3001

4th April 2004

Re: Submission to the 2003 National Competition Policy Assessment for Water Reform

Dear Executive Director,

The Queensland Conservation Council (QCC) is the peak environmental organisation in Queensland. In partnership with its members, QCC works to Protect, Conserve and Sustain Queensland's natural environment. Established in 1969, QCC provides leadership on a wide range of environmental and conservation issues, at all levels of government and throughout the community. QCC's Rivers Alive! Project aims to promote ecologically sustainable river management, protect natural and wild rivers and to highlight the environmental impacts of instream and off-stream structures and diversions. QCC supports the recognition and expression of native title rights of indigenous Australians in natural resource management and planning.

QCC is pleased to have the opportunity to provide input to the 2003 National Competition Policy Assessment for Water Reform. We hope that the information contained in this submission is of assistance.

QCC looks forward to continuing to work cooperatively with both the National Competition Council and the Queensland Government to promote sustainable water management policies and practices.

Please do not hesitate to contact me at QCC should you require any further information or clarification regarding this submission.

Yours Sincerely,

Kerryn O'Connor
Rivers Project Officer



Queensland
Conservation
Council

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**Rivers
Alive!**

SUBMISSION - 2003 ASSESSMENT OF NATIONAL COMPETITION POLICY FOR WATER REFORM

A Submission from the Queensland Conservation Council

April 2003

Contents:

- Government investments in new rural schemes where relevant:
 - a. Burnett River Dam – Economic Viability
 - b. Burnett River Dam - Ecological Sustainability
- Outstanding environmental reforms on stressed rivers for New South Wales, Victoria and Queensland:
 - Provisions for the environment:
 - a. Condamine-Balonne Water Resource Plan
 - b. Burnett Basin Resource Operations Plan

Introduction

The Queensland Conservation Council (QCC) remains extremely concerned about the Queensland Government's performance in implementing its National Competition Policy (NCP) water reform obligations. Details of our concerns are outlined throughout this submission.

Two issues of particular concern to us are:

1. The Queensland Government's unwavering commitment to the Burnett River Dam (formerly known as 'Paradise Dam') despite strong evidence suggesting that this dam is neither ecologically sustainable nor economically viable.
2. No resolution of allocation issues within the Condamine-Balonne Basin. Despite the significance of the Scientific Review¹ that was commissioned by Queensland into the allocations within the Condamine-Balonne, the Queensland Government has made no public timeframe commitment on finalising the Water Resource Plan for that Basin.

Our submission concentrates on two main reform commitment areas specified under the *2003 National Competition Policy assessment Framework for Water Reform*:

1. Government investments in new rural schemes; and
2. Outstanding environmental reforms on stressed rivers for Queensland - Provisions for the environment.

We have directly addressed these reform commitments for the following regions in Queensland: the Burnett and Condamine-Balonne Basins.

QCC recognises the enormous contribution that the National Competition Council (NCC) has made in progressing the water reform process in Queensland. We believe there is a strong case for continuing scrutiny in this regard. The integrity of Queensland's commitments to water reform is by no means secure. In our view, decisions such as those discussed in this submission underline this point. We therefore encourage the NCC to make further inquiries on the issues raised. We are able to meet with the NCC to discuss this submission should it be required.

¹ Independent Scientific Review Panel - Prof Peter Cullen, Dr Richard Marchant and Dr Russell Mein, January 2003. *Review of Science Underpinning the Assessment of the Ecological Condition of the Lower Balonne System*. Report to the Queensland Government

Government investments in new rural schemes where relevant – the Burnett River Dam

1. Economic Viability

Under the NCP, Queensland has obligations for all new water infrastructure projects to be both environmentally sustainable and economically viable. Specifically, *investments in new rural water schemes or extensions to existing schemes should only be undertaken after appraisal indicates that it is economically viable and ecologically sustainable* (Water Resource Policy, clause 3d(iii)).

QCC contends that a large number of questions remain in regards to the Queensland Government's claim that the Burnett River Dam is economically viable.

Despite a range of documented community concerns, the Government remains committed to the development of the dam. In the last State Budget the Government allocated \$210 million for the dam with an initial \$35 million budgeted for expenditure during the 2002-2003 financial year². The Government has announced that dam construction will commence in November 2003³. The Dam's proponent, Burnett Water Pty Ltd, has also publicly detailed the Government's commitment to the project⁴.

The Queensland Conservation Council has been so dissatisfied with the Government's performance in regards to the Burnett River Dam proposal that we have recently commissioned a consultancy to determine if, in relation to the dam, Queensland is complying with its National Competition Policy obligations and with Queensland's *Treasury's Guidelines for the Development of New Water Infrastructure*. The study will determine if the Burnett River Dam is in fact economically viable by assessing the appropriateness and robustness of the benefit cost analysis used by the Network Economics Consulting Group (NECG) in their report *Indicative economic impacts of additional water storage infrastructure in the Burnett Region*, 8 October 2001, prepared for Burnett Water Pty Ltd. This is the key economic report that underpins the Queensland Government's commitment to the project.

Our consultancy report will be finalised by the 2nd May 2003 and we will be forwarding a copy of the report upon its completion to the NCC for inclusion with our submission⁵. A copy of the Terms of Reference for the consultancy is attached with this submission (Attachment 1).

² Queensland Government, State Budget 2002-03 Budget Statement Budget Papers 2 & 4

³ Hon. T. A. BARTON, Ministerial Statement - Burnett River/Paradise Dam, 11th March 2003; Burnett Water Pty Ltd, Media Release - Burnett Water Board Joined by Two State Government Ministers in Bundaberg, 19 February 2003

⁴ Burnett Water Pty Ltd March 2003 *Burnett Water News*

⁵ *pers. comm.* Ross Campbell 28/3/03. NCC approval to QCC to submit the consultancy report upon its completion.

One of the issues that QCC has been constantly confronted with and concerned about during the development of the Burnett River Dam project is the Government's refusal on numerous occasions to release significant reports regarding the viability and sustainability of the dam. QCC has undertaken a number of Freedom of Information (FOI) requests and reviews of FOI decisions to try and gain access to these reports. In every instance, we have been denied access to the sought documents. These documents include:

- *Queensland Treasury Comments on economic viability of water allocation scenarios for the Burnett Basin*
- *Market Analysis – Report on Willingness to Pay Survey* – a draft report dated October 2002 from Price Waterhouse Coopers
- *Burnett Water Projects Pricing Proposals* – a draft report dated November 2002 from Price Waterhouse Coopers
- *Investment Scenarios of the Burnett Basin Water Projects – Final Report* – a report dated February 2002 from Price Waterhouse Coopers
- *Water Pricing Issues for the Burnett Basin* – a report dated August 2002 from Price Waterhouse Coopers
- *Agricultural Production from the Burnett Region: Commodity Demand Analysis* – report dated June 2002 from ACIL Consulting.

In the case of the document *Queensland Treasury Comments on economic viability of water allocation scenarios for the Burnett Basin* (Attachment 2), we have managed to obtain a copy through other means. We believe that this document would have formed a part of Queensland Treasury's comments on the draft Water Resource Plan for the Burnett Basin. It states that *there can be no reasonable expectation of any economic benefit from expansion of water allocation beyond ... 73,000 ML a year* The final Burnett Basin Water Resource Plan allocated an additional 170,000 ML. Government responded to a media report (Attachment 3) on Treasury's findings saying *The reports that were referred to in the press, if I recall correctly, are very old and are no longer relevant in terms of time.*⁶ However, the Government has provided no evidence to counter the information contained in the Treasury analysis. The Government's response is discussed in detail further in this submission.

QCC is aware of another report which has not been publicly released but which we believe is relevant to the question of the actual need for the dam as well as its viability. We understand that the Environmental Protection Agency commissioned a least cost planning study from the Institute for Sustainable Futures which considered a range of options to provide water but at the minimum economic, environmental and social cost. We also understand that this study identified a supply option that meets all the requirements of the Dam option but with improved economic, social and environmental benefits. From our investigations, we believe that this report is not being supplied to the NCC for consideration in their assessment of the Burnett River Dam.

⁶ Qld HANSARD - Questions Without Notice 22 Aug 2002 Statement by Queensland Premier

Another issue that must be considered in relation the question of the dam's viability is the current state and future of the sugar industry in Queensland. The Burnett River Dam was approved and economically assessed with the intention that the majority of the water made available from the dam be for increased sugar production within the Bundaberg region. This is despite the sugar industry in Queensland being *largely unprofitable*⁷, and with strong uncertainty surrounding the future of the industry⁸.

The economics of the Burnett River Dam and other associated infrastructure were assessed by NECG for the supplementary Environmental Impact Statement (September 2001). NECG assumed that almost half the extra water, or 80 000 ML, would be commanded by the sugar industry. They calculated a gross margin for the extra cane of \$156 per ML of water, translating into an economic output of almost \$40 million.

However, this scenario is based on false assumptions – for the following reasons:

- (1) Cane production in the Burnett region is likely to undergo contraction rather than expansion

According to the Hildebrand report⁹ on the future of the sugar industry, current low world sugar prices are likely to continue into the future. Farms in Queensland's southern region (which includes the Burnett) are likely to face even more severe hardship than other regions because their costs of production are the highest in the state. The current world sugar price translates to a cane price of about \$24 per tonne and has ranged to less than \$20 per tonne in recent years. However, according to the Hildebrand report, the estimated costs of cane production in the Burnett are more than \$35 per tonne of cane.

To add to the poor prospects for cane growers in this region, the proposed Bundaberg 2000 pulp mill development is unlikely to proceed. Much of the predicted economic benefit of the dam and the driver for expansion of cane production relied on this pulp mill.

- (2) Cane farmers will not be able to afford to pay a reasonable price for water – returns on extra water would be very low if not negative

As already discussed, Queensland Treasury criticised an earlier economic analysis of the Burnett for assuming an inflated price for cane (based on a 10-year average rather than realistic predictions of world sugar prices), and for not factoring in a price for water to cover the costs of the infrastructure. We maintain the same criticism of subsequent economic analyses. Early economic analyses

7 Hildebrand, Clive. 2002 *Independent Assessment of the Sugar Industry*. A Report to the Hon. Warren Truss, Agriculture Fisheries and Forestry.

8 Sugar Research and Development Corporation website – Australia's Sugar Industry, Overview, <http://www.srdc.gov.au>

9 Hildebrand, Clive. 2002 *Independent Assessment of the Sugar Industry*. A Report to the Hon. Warren Truss, Agriculture Fisheries and Forestry.

suggested that the opportunity cost for supplying the Burnett infrastructure would be \$100-150 per ML water. This almost completely wipes out even the inflated \$156/ML water gross margin estimates for cane. With very low or no margins at all, cane farmers simply will not be able to afford to pay a reasonable price for the new water. And Queenslanders should not be asked to subsidise dams and water to maintain or expand production of an unprofitable crop.

The Office of Economic and Statistical Research in Treasury strongly criticised economic assessments undertaken for the Burnett Basin water allocation process. They concluded that *on the evidence available, there can be no reasonable expectation of any economic benefit from expansion of water allocation beyond the 73,000 ML a year envisaged in the low volume scenarios*. In other words, Treasury advised government that the Burnett River Dam would not be economically viable.

In simple terms, what Treasury argued in 2000 was that:

- (a) in the Burnett region, there are high-value users of water (e.g. fruit and vegetable growers) and low-value users of water (e.g. cane growers);
- (b) it is doubtful that many of the low-value users will be commercially viable if they have to pay the costs of supplying the dam and other infrastructure;
- (c) if water is allocated competitively, then it will go mostly to high-value users;
- (d) the predicted demand by high-value users will be met without Burnett River Dam;
- (e) therefore, the evidence “does not demonstrate economic benefits” from a Burnett River Dam level of extraction.

Treasury noted that NCP water agreements are *intended to ensure that water, as a scarce resource, is allocated to its most valuable use and subject to full cost recovery*.

Despite government assurances that the Treasury advice is now out-of-date, the situation has not substantially changed since the advice was provided. The most recent published economic analysis, the NECG report still assumes that sugar will use most of the new water with some shift over 15 years to higher value uses, such as horticulture. According to the NECG analysis, the predicted expansion in non-sugar cane crops is “considerable” at 10% per year for 15 years. Yet, even with these very optimistic predictions of expansion, the demand for water for high-value agriculture is predicted to be only about 80,000 ML a year after 15 years.¹⁰ The major driver for the huge 300,000 ML Burnett River Dam, therefore, is still the low-value or non-viable use of water for sugar cane. Therefore, Treasury’s criticism of the project still stands.

¹⁰ Note that the predicted demand for various commodities has not been comprehensively assessed, despite it underpinning the predicted economic benefits of the Burnett River Dam and associated weirs. Treasury criticized early economic assessments for not assessing demand, supply or prices for agricultural commodities. Yet, NECG in the latest economic analysis said it was beyond the scope of their project to undertake detailed commodity market research on growth opportunities.

The current irrigation scheme in Bundaberg is not even recovering the costs of operation, let alone construction costs. The Queensland government provided a rural water subsidy for the Bundaberg scheme in 2001-02 of more than \$2.8 million¹¹. That is, taxpayers funded operation costs for this scheme at more than \$2,500 per customer or \$28 per megalitre of water delivered. QCC argues that further dams and weirs in the Burnett system will be just as non-viable as the existing scheme.

The Burnett River Dam is to yield about 130,000 megalitres a year. If spread over the approximately 1000 current licence holders in the Bundaberg scheme, the estimated dam pre-construction and construction costs alone would cost each licence holder about \$200,000 and provide only enough water to irrigate about 18 ha cane per licence holder. Note that the pre-construction and construction costs of more than \$200 million do not include other direct costs of the dam, e.g. new roads and bridges and operation, let alone indirect costs such as reduced environmental values, which will be reflected economically in declining fisheries and increasing salinity.

2. Burnett River Dam - Ecological Sustainability

Previous submissions to NCC assessments have highlighted our concerns regarding the expected ecological impacts from the allocations granted for the Burnett River Dam. Our concerns still stand (Attachment 4). Please refer to all previous correspondence from QCC for a detailed discussion of our concerns regarding the allocation issues underpinning the dam's development.

Additionally, the draft Resource Operation Plan (ROP) for the Burnett Basin did not include design, operation or management specifications for the Burnett River Dam. Rather the draft ROP proposed that future amendments to the ROP would occur to accommodate the proposed infrastructure without any public consultation. This would occur by using a provision in the *Water Act 2000* which allows for *minor* amendments to occur without going through a statutory consultation process. The Government is therefore suggesting that the infrastructure specifications of this dam (including monitoring requirements) are minor.

QCC believes that the development of this dam warrants the highest level of public scrutiny, particularly given the:

- high level of public opposition to it;
- significant environmental impacts expected from it;
- previous fast-tracking of processes employed by the Queensland Government to facilitate it; and
- significant scale of it.

¹¹ The Bundaberg scheme delivers water from storages on the Kolan and Burnett Rivers, including the major storage Fred Haigh Dam.

Using the simplified process further entrenches public belief that the development of this project is occurring in a non-accountable, non-transparent way. The draft ROP states that:

Amendments to the ROP other than those detailed in Sections 8.1 and 8.2 can be made only after completion of a full public consultation process (p43).

Why was this rule not applied consistently? Why is the proposed infrastructure considered as an exception to this rule? It is inconceivable that details of the infrastructure specifications for this significant project will not be open to public scrutiny. This makes it impossible to assess the Burnett ROP against principle 4¹² to ensure the ecological objectives set in the modified WRP will be met.

RECOMMENDATION

QCC Recommends that the NCC undertake a detailed investigation into compliance of the Burnett River Dam project with NCP water reform obligations. Investigation to take the form of a 2003 supplementary assessment and to include a NCC commissioned consultancy into the economic viability of the project.

¹² ARMCANZ National Principles for the Provision of Water for Ecosystems

Outstanding environmental reforms on stressed rivers for New South Wales, Victoria and Queensland

1. Provisions for the environment - outstanding commitments in relation to the Condamine-Balonne Water Resource Plan

The Queensland Conservation Council believes that the Queensland Government should be penalised for not having finalised the Water Resource Plan (WRP) for the Condamine-Balonne Basin. Since the Scientific Review¹³ was finalised, there has been no announcement from the Queensland Government committing to the WRP's finalisation.

QCC understands that the community reference panel that was formed to oversee the Review's development is now being asked to work through the implementation options of the Review's recommendations. Whilst we recognise the important role that community plays in these issues, we believe that it is well beyond the time that the Government showed leadership and made a final decision on allocations in the Condamine-Balonne.

The Scientific Review confirmed that the Condamine-Balonne is in trouble if current allocations are realised and that water has to be returned for environmental purposes if the ecological assets identified in the Review are to be successfully maintained into the future.

Once again in relation to the Condamine-Balonne Basin, Queensland has obviously not met its NCP obligations in regards to:

- Principle 5 – where environmental water requirements cannot be met due to existing uses, action (including reallocation) should be taken to meet environmental needs.
- Principle 8 – environmental water provisions should be responsive to monitoring and improvements in understanding of environmental water requirements.

2. Provisions for the environment - outstanding commitments in relation to the Burnett Basin Resource Operations Plan (ROP)

Please refer to the discussion above regarding the Ecological Sustainability of the Burnett River Dam.

13 Independent Scientific Review Panel - Prof Peter Cullen, Dr Richard Marchant and Dr Russell Mein, January 2003. *Review of Science Underpinning the Assessment of the Ecological Condition of the Lower Balonne System*. Report to the Queensland Government