PRODUCTIVITY COMMISSION STUDY

RURAL WATER USE AND THE ENVIRONMENT: THE ROLE OF MARKET MECHANISMS

1 GENERAL COMMENTS

1.1 Report Scope

The required scope of the study, as outlined in paragraph 61(iii) of the National Water Initiative and the Terms of Reference to the study, issued under the *Productivity Commission Act 1998* by the Federal Treasurer, the Hon Peter Costello MP, is as follows:

- the subject matter is market instruments such as tradeable credits;
- the criterion against which the subject matter is assessed is its ability to provide practical incentives towards two purposes:
    - for investment in water-use efficiency and farm-management strategies; and
    - for dealing with environmental externalities.

Parts of the draft report do not adequately address this scope. Specifically, the report's definition of "market mechanisms" is very broad, which means that much that is discussed is of little direct relevance to the project.

The draft report restates the accepted view that expanded trade in water entitlements will incentivise water-use efficiency and ensure prudent farm management, which is a duplication of the work of the consultants PricewaterhouseCoopers in the *NWI Water Trading Study*, which fulfils the requirements of NWI paragraphs 61(i),(ii) and 63(iii). The Productivity Commission specifically suggests the creation of tradeable river capacity rights as a means of addressing externalities in relation to altered river flows. This is also duplicative of the PricewaterhouseCoopers report.

The fundamental focus of the NWI element in relation to Water Markets and Trading is to devise ways in which the economic and environmental impacts of rural water use in Australia can be managed without the need for constant Government intervention. Disappointingly, the Productivity Commission draft report is duplicative of previous work and does not currently advance our understanding of potential innovative instruments.

1.2 Groundwater and surface water in the Murray-Darling Basin

The NSW Government does not agree with the conclusion that excluding groundwater extractions from the Murray-Darling Basin Cap significantly reduces its effectiveness in managing the health of the Murray-Darling river system. NSW believes that the MDBC Cap is not an appropriate mechanism to manage the health of the Murray-Darling Basin. The cap was introduced as a first step measure to control growth in the extraction of water from the Rivers. The Cap itself therefore has no specific environmental objectives other than curbing growth. In recognition of the cap being just one step towards environmental outcomes, the MDBC subsequently

agreed to the Living Murray Initiative which, like the NSW approach via its Water Sharing Plans, targets specific river health objectives using environmental management and water sharing provisions.

NSW recognises the interconnection between groundwater and stream flows in some river systems. In many areas of the Murray Darling Basin, the only water available for drought contingencies is from groundwater sources. These sources become even more important during times of climate change. This is an important factor to be considered.

NSW is progressing this issue through the MDBC Water Policy Co-ordination Working Group. NSW's approach in the Murray Darling Basin is to:

- have a high level objective of integrated surface – groundwater management;
- identify where, when and size of the impacts caused by any growth in groundwater, so that a proper cost benefits analysis can be performed;
- allow a limited growth in groundwater pumping providing that the impact surface water flows is minor; and
- identify priority groundwater systems and undertake scientific work to quantify the exchange of water at groundwater source scale (there are several studies already underway, for example through the CRC eWater, BBRS, Cotton CRC).

NSW believes that it is vital to understand the magnitude of the consequences before action is taken that will constrain access to a drought reserve.

1.3 Exit Fees in Irrigation Corporations

The recommendation for the removal of exit fees does not recognise that the NWI agreement contemplates, in paragraph 62, the application of exit fees, provided that these do not become an institutional barrier to trade. The report's recommendation inappropriately seeks to pre-empt resolution of the exit fees issue, which is currently the subject of inter-jurisdictional consideration through the COAG Water Trading Group. Jurisdictions have agreed to make a reference to the ACCC to continue the work of the Exit Fees Working Group and developed a consistent inter-jurisdictional framework around the use and nature of exit fees. The NSW Irrigation Corporations support the proposal to ask the ACCC to undertake this task subject to their being consulted via the NSW Irrigators Council to provide input on the terms of reference. The Irrigation Corporations have indicated that the exit fees currently determined based on the MDBC principles will remain in place until such time that the ACCC provides guidance on an alternative/revised set of principles for the determination of exit fees. The ACCC's guidance on this issue is expected by the end of October 2006.

It also needs to be recognised that, since Irrigation Corporations in NSW are private entities, the ability of Government to regulate their activities is limited.

1.4 Relationship between markets and water planning

The report does not acknowledge the importance of planning mechanisms in establishing water shares between users and between users and the environment. There is no question that market mechanisms can supplement planning processes to enhance environmental outcomes, and NSW is actively pursuing this approach

through a variety of methods, including NSW RiverBank. However, the report should acknowledge that in all jurisdictions the majority of water for the environment has been secured, or is in the process of being secured, through planning mechanisms.

The role of planning mechanisms in establishing a baseline from which future adjustments to water extractions (and therefore future increase in environmental water) can be made is critical and cannot be replaced by market mechanisms. The implementation of water planning mechanisms is a fundamental requirement of the NWI. NSW has already established statutory Water Sharing Plans for 80% of water use across the states, and is in the process of completing plans for the remainder. Some jurisdictions have yet to initialise these planning processes.

1.5 Geographical focus

The focus of the document is clearly on the south-eastern valleys (Murray, Murrumbidgee and Victoria systems, and to a large extent ignores the northern NSW and Queensland valleys, and Western Australian systems. While this is somewhat understandable given the current focus of water trade negotiations, the document should either be more explicit as to this focus, or expand the discussion and examples to include other areas.

2 SPECIFIC COMMENTS

2.1 Overview section

Report:
"Return flows need to be accounted for in entitlement specifications and/or resource management policies." (p. xxiii)

NSW response:
If return flows are to be accounted as proposed, then some consideration needs to be given to accounting for the quality of the water as well as the quantity of water involved. For example, it would be unacceptable if the quality of the water was poor enough to cause environmental damage or damage to crops even if the volume of water was sufficient to be of value for environmental flows or irrigation. Due consideration should be given to potential for dilution, how dilution potential might vary over time, and risks of exceeding damage thresholds.

In addition, while the report calls for the consideration of the impact of altered return flows on both the environment and downstream (including groundwater users), the NSW Government, in response to COAG and NWI requirements, has already established entitlement shares to licence holders based on pre-existing entitlements, irrespective of return flows. To adjust these now to reflect a net entitlement approach would be a compensable departure from existing water planning.

Report:
"[E]xit fees can lock water into low productivity enterprises and regions. Where substantial social costs result from the movement of water out of an irrigation district, governments have generic social policies to assist with adjustment issues. On occasions, specific and targeted adjustment assistance may be justified." (p. xxvii)

NSW response:
This effectively transfers the onus for stranded assets onto government instead of users that have agreed (via the NSW Irrigation Corporations' Annual General Meeting process) to pay exit fees if they wish to trade water out of an Irrigation Corporation's area of operation.

Report:
Table 2, which implies that buying water on the temporary market is preferable to permanent purchase of water for returning water to the environment on the basis of criteria such as cost, feasibility, flexibility, and likelihood of achieving desired goals. (p. xxxiii)

NSW response:
Temporary water is subject to climatic variability, large market price fluctuations (depending on the competing demands at the time of purchase) and requires ongoing trading funding to enable purchase but may be very cost effective in wet years to top off high flow events. Permanently traded water can be purchased in a single transaction and is not subject to significant market price variations, although it does require a large up front capital investment. Overall, further detailed studies are required to examine the cost benefit of various scenarios.

It must also be remembered that the purchase of temporary water will not satisfy the current long-term cap equivalent requirements of The Living Murray. Therefore, such purchases would only be applicable for other, less constrictive initiatives.

Most water recovery programs in Australia (including The Living Murray and NSW RiverBank) focus primarily on the acquisition of permanent water entitlements, rather than the purchase of water allocations from year to year. The report notes that The Living Murray initiative could be implemented more effectively if existing water sourcing arrangements, including the purchase of permanent water entitlements, are supplemented with additional market mechanisms (such as trading allocations, leases and options contracts).

Careful consideration needs to be given to any public investment in short-term products such as allocations, as these would need ongoing funding to realise ongoing environmental benefits. Similarly, the long-term environmental benefits of investing public funds in low-security products (such as leases and entitlement to very high flows) are uncertain, as these products are vulnerable to erosion from climate variability and climate change.

Report:
"A number of factors have the potential to significantly affect the quality and availability of water from rivers in the Murray-Darling Basin in the longer term. If not addressed, they will substantially reduce stream flow in the Murray-Darling Basin, thereby counteracting efforts to source water for the river systems." (p. xxxiii)

NSW response:
In all NSW groundwater systems, extraction limits are constrained to sustainable levels, and where systems are closely connected, there is generally limited further growth in groundwater use that could impact significantly on surface flows.

NSW considers that the strategic importance of groundwater sources in drought times requires a strong justification of the costs and benefits of constraining further extraction.

Report:
"Recent dry conditions have reduced and delayed salinity impacts, including those from irrigation activities." (p. xxxv)

NSW response:
The benefits of improved landscape and saline water management should also be recognised, particularly via Catchment Management Authority activities in NSW.

2.2 Chapter 3: Reducing constraints on water trade

NSW comment:
NSW notes that this section of the report is outside the scope for the study contemplated in the NWI.

Report:
Reference to constraints in trading seasonal allocations, and other trading rules relating to the Murrumbidgee. (pp. 57, 59 & 60)

NSW response:
Trading restrictions in the Murrumbidgee were introduced in order to limit the impact of late season trading on general security water availability. Water that would normally not be used by high security water users would provide the reserve for the following season's high security allocation and any left over "spill" into the general security allocation. Since late season trade would diminish this provision more water would have to be removed from the general security pool. This has consequential impacts on the general security reliability. NSW will review this trading restriction at the five year review of its water sharing plans.

Report:
Rule identified by the National Water Commission which could pose a barrier to the expansion of water markets in some systems: the prohibition of trade (in seasonal allocations and water entitlements) between regulated and unregulated rivers. (p. 57)

NSW response:
Due to the intermittent nature of Australian flows, water allocations on an unregulated river are only available for the taking when the river is high enough to provide for extractions. On the other hand, the existence of the large storage on a regulated river allows for the fluctuations in supply to be levelled out. For example: a 100 Ml share on an unregulated river might only be available for the taking in 50% of years, whereas the same share might be available in 75% of years from the regulated stream. Were the licence to be moved from the first to the second a considerable growth in

extraction would occur, breaking both the plan and MDBC cap limits. In the other direction, the movement of 100 Ml share from a large regulated river to a small intermittent unregulated river could result in extreme load on that small river. NSW believes that there is sufficient volume of water within management units to provide for improvement in regional economics without creating the inherent difficulties caused by this type of trade. NSW will consider expansion then into this type of trade in the future, should there be a demonstrated need.

Report:
Rule identified by the National Water Commission which could pose a barrier to the expansion of water markets in some systems: in the Murray and Lower Darling river valleys in 2004-05, converted high security licences could not be traded (as seasonal allocations or water entitlements) for five years from the date of conversion. (p. 57)

NSW response:
This has been replaced with the criterion that any licence can be converted up to the limit of water contained in the water account at the time of conversion.

Report:
Statement by Murray Irrigation: "Our customers are particularly frustrated by what appear to be artificial limits placed on annual water trade by other state jurisdictions, NSW Trusts, other NSW Irrigation Corporations and even NSW State-endorsed Water Sharing Plans in the Murrumbidgee Valley." (p. 57)

NSW response:
NSW water trusts have no declared individual shares in the Trust water. Therefore individuals have no rights to sell or buy trust water. NSW has legislated to allow the conversion of the trust into share components provided a majority of trustees agree. Once this happens they will operate the same way as irrigation corporations. Until that occurs they operate as a single entity in the same way as a public trust. They are extremely small in number and will not add to any significant extent to the outcomes being sought by water trade.

Report:
Statement by Murray Irrigation: These [artificial limits] often appear as convoluted barriers intending [to] protect continuation of socialised under use, unfair cap management, lower local market prices, protection of over use and other local quirks. For example, for trade in the Murrumbidgee Valley, separate applications are required for trading of water available before February 28 and water available after February 28. (p. 57).

NSW response:
This is a valid requirement since the Murrumbidgee suffers the problems of seasonal availability. The NWI allows restrictions where there are physical constraints. This constraint appears because the Murrumbidgee often is restricted in its capacity to deliver the full allocation before February. Trade needs to reflect the time of delivery in order not to further exacerbate the delivery problems.

Report:
"While some [rules imposed for environmental or hydrological considerations] may be the most effective means of addressing hydrological conditions or environmental concerns relating to water trade, in other cases these concerns may be more effectively and transparently addressed through other policy approaches." (p. 59)

NSW response:
Despite the NWI clearly stating that physical and environmental constraints are acceptable barriers, NSW agrees with the PC statement that there are alternatives such as channel capacity sharing. However, in the absence of any agreed sharing rules, the asymmetry in trading actually assists in reducing the environmental damage being caused at the chokes.

Report:
"There are, however, rules in New South Wales that only permit the conversion of a high security licence to a general security licence (in regulated rivers) if a corresponding or larger conversion has occurred in the opposite direction." (p. 71)

NSW response:
This rule is required to avoid over-allocation, an important deliverable elsewhere in the NWI commitments.

Report:
Section regarding constraints specific to trading groundwater. (pp. 77 – 78)

NSW response:
NSW has enabled trade between the two sources in highly connected systems. In others such as the Hunter, because most groundwater comes from the sand bed immediately below the river, only surface water licences are allowed but they may be attached to groundwater extraction points.

The PC statements do not recognise the physical and temporal constraints within the connectivity zones. For example, a trade from a groundwater licence, (where water is generally always available) into a river (where it is rarely available) would simply throw the impacts onto the other surface water licence holders. There needs to be a greater understanding of the nature of a 'water source'. The PC statements appear to reflect an assumption that all water is the same and that, ultimately, it is all connected. NSW believes that the PC should take into account temporal effects, rates of connectivity and the dynamic nature of flows into and from rivers for the purposes of this report.

2.2 Chapter 6: Market mechanisms for altered river flows

Report:
"The availability of water sourced through infrastructure investment depends on where investment opportunities can be identified. As a result, water sourced through infrastructure investment may not have supply characteristics, such as reliability or potential for carryover, that match environmental need. For example, the Australian Conservation Foundation observed:

> ‘We are concerned that some water recovery processes in Australia are proceeding without any understanding or consideration of what the ecological needs of the asset in question are and they are failing therefore to recover water with the right sort of characteristics, in terms of level of security, capacity for carry-over in dams etc. This is happening because the water recovery process is based on where [physical] efficiency measures can be easily identified rather than identifying the required flow characteristics and then developing a portfolio of water products that match those characteristics.’” (p. 121)

NSW response:
NSW supports this approach. It was followed in the NSW water planning process to the extent that the needs of the environment were first identified and the plan rules specifically designed to meet the environmental needs. Each project needs to be assessed for its cost effectiveness, water savings targets and its ability to meet the specific environmental needs.

Report:
“Creating tradeable rights to river capacity may complement existing non-market management options for managing river flow objectives that require less flow at certain times.” (p. 144)

NSW response:
NSW agrees with the delivery capacity concepts. However, from experience, the initialisation of shares in anything other than a green field situation can cause major disruption to productivity. Experience also tells us that channel capacity shares can indeed incur high transaction costs and as such should not be entered into until all community sharing or rostering options have first been evaluated and compared.

2.3 Chapter 7: Market mechanisms to manage salinity

Report:
“Cap and trade in salt provide a flexible approach to manage catchment- and basin-wide incidence of salt at least cost.” (p.151)

NSW response:
The usefulness of cap and trade in salt at catchment or basin level is questionable as the number of catchments and basins is small, so the scope for a market is extremely limited.

Report:
“Cap and trade in groundwater recharge at the farm level may prove to be more workable.” (p. 151)

NSW response:
Cap and trade in groundwater recharge at a farm level is likely to be even harder to implement than salinity management at this level, if only because changes in recharge are harder to measure and predict in space and time. If an apportionment approach is adopted, then cap and trade in salinity, and probably groundwater recharge, become practicable. A further reason for not preferring cap and trade for groundwater

recharge is that not all recharge necessarily leads to salinity, and this would have to be accommodated in any trading system.

Report:
"Offset schemes [are] likely to be feasible and effective if designed to suit local conditions." (p. 151)

NSW response:
Offsets do not lead to a reduction in salinity (or anything else). What they do is compensate for adverse impacts somewhere else. Certainly they may deliver a reduction in one place, but that is at the expense of an increase somewhere else so the net result is zero (within accuracy and time lag constraints).

The distinction between "cap and trade" schemes and "offset" schemes is consequently not clear in this report. Also it is not clear that "cap and trade" schemes that are intended to achieve a net reduction in salinity can operate successfully without incentive payments. These would presumably have to be delivered via some other market-based mechanisms, such as auctions. Unfortunately the report does not discuss this point.

Report:
Discussion on irrigation salinity and dryland salinity. (pp. 152 & 153).

NSW response:
The report confuses irrigation salinity and dryland salinity. The report discusses the "groundwater rising" model of dryland salinity. This model does not recognise the complexity of differences in topography across Australia.

Report:
"Salinity is difficult to observe and monitor, but this is becoming less so as technologies used to monitor salinity at the farm and catchment level become increasingly sophisticated. Examples of technologies currently being used include airborne geophysical survey techniques and hand-held electromagnetic induction tools." (p. 155)

NSW response:
The monitoring techniques mentioned can determine where salt is stored but they cannot determine the probabilities of it being mobilised. If the salt is not going to be mobilised it does not matter whether it is stored in the landscape or not. This is the major drawback of the airborne geophysics projects of BRS/CRCLEME, together with its extensive, costly and potentially duplicative on-ground support requirements.

Report:
The definition of the Murray-Darling Basin Ministerial Council salinity target offered in box 7.2. (p. 157)

NSW response:
It is unfortunate that the report quotes the abbreviated form of definition of the MDBMC basin salinity target. The correct definition, from clause 7(1) of Schedule C (2002) to the Murray-darling Basin Agreement is as follows:

> *The Basin Salinity Target is to maintain the average daily salinity at Morgan at a simulated level of less than 800 EC for at least 95% of the time, during the Benchmark Period.* (The Benchmark Period is from 1 May 1975 to 30 April 2000 – clause 2(1), Schedule C.)

It is clear from subsequent commentary through the report that the Productivity Commission, CSIRO and the MDBC office do not fully understand the target or its underlying hydrologic concepts.

It is also important to note that this target is purely an icon. It has no biophysical basis, although by chance it closely approximates a WHO guideline value for taste in drinking water. This is not a standard, but merely a guide, and it has no human health implications whatsoever. This is all contrary to repeated comments subsequently in the report (e.g. p. 165, 3rd dot point; p. 166, final paragraph).

Report:
"Salt interception works can immediately reduce instream salinity. With the costs of existing and potential interception schemes rising, and opportunities for low cost schemes limited, other approaches to address salinity will be required." (p. 160)

NSW response:
NSW supports this finding.

Report:
"Salinity zoning schemes provide incentives to affect landholder's water purchasing decisions. Incentives may be needed to encourage the removal of salt." (p. 161)

NSW response:
This finding needs clarifying, since it does not address the issue of where the salt is removed to. The major drawback of salt interception schemes is that moving salt from one place to another does not solve the problem of salinity, it merely postpones it.

Report:
Discussion of the Coleambally Net Recharge Scheme in box 7.3. (p. 162)

NSW response:
The efficacy of the Coleambally Net Recharge Scheme, as distinct from other programs to improve water use efficiency, is yet to be demonstrated.

Report:
"Under the Basin Salinity Management Strategy, jurisdictions can design salinity management strategies that incorporate market mechanisms." (p. 163)

NSW response:
The Basin Salinity Management Strategy is not the driver or the authority for jurisdictions to implement market-based mechanisms. The Strategy merely reflects existing jurisdictional programs.

Report:
Figure 7.2. (p. 164)

NSW response:
The MDBC's figure 7.2 has been reproduced despite objections from jurisdictions. It is a poor choice of example for illustrating the need for targeting because it is at the wrong level. It shows sub-catchments to be homogeneous, which is far from the case. The appropriate level for targeting is at about the paddock scale and, ultimately, site scale.

Report:
Suggestions of market mechanisms. (pp. 163 & 165)

NSW response:
The commentary does not give adequate recognition to the market mechanisms already being used, such as the incentive programs being run by Catchment Management Authorities in NSW and previous trials such as the Environmental Services Scheme.

Report:
"Facilitating the rapid removal of salt from basins may contravene existing instream water quality standards – the Morgan target is based on the World Health Organisation's recommended water drinking quality standards. Some flexibility of the target may be needed to remove salt from the basin in winter during high flow events." (p. 165)

NSW response:
This is incorrect. It is agreed that it may be necessary to exceed a river salinity of 800EC at certain times, such as in winter, to enable salt to be removed from the basin, but it does not necessarily follow that the target will have to be changed. What is more pertinent is that the target needs to be reviewed to make it relevant to environmental, economic and social assets and values in the river, and it may well be that seasonally varying thresholds are appropriate.

Report:
Discussion of flexibility in setting salt targets in box 7.4. (p. 166)

NSW response:
To implement CSIRO's proposal does not necessarily entail a change to the target. The physical characteristics of the river system and the climate may constrain the extent to which the proposed objective can be achieved. It is acknowledged that end-of-valley targets are something of a blunt instrument but they are not being used in isolation and the extent to which the remarks of Heaney et al are valid depends on the factors which were considered when the targets were determined.

Report:
"Flushing salt out of a catchment or basin may be an efficient approach to managing salinity. Seasonal flexibility would be needed in the Morgan salinity target to facilitate flushing salt from the Murray-Darling Basin." (p. 167)

NSW response:
This is not strictly correct. It has yet to be demonstrated that such seasonal flexibility is necessary to facilitate flushing, though this is worth considering.

Report:
"Measures of salinity include:…groundwater recharge – a proxy for farm contributions to salinity, through the mechanism by which they add to rising saline water tables." (p. 167)

NSW response:
Recharge is a poor proxy for salinity as it is hard to measure (deep drainage is easier to measure but is not necessarily a good indicator of recharge) and increased recharge is not necessarily a cause of salinity, especially in non-saline geologies.

Report:
"Measures of salinity include:…salt load – the mass of salt moving into the landscape." (p. 167)

NSW response:
It is not clear what is meant by the term "into the landscape."

Report:
Discussion on estimating groundwater recharge in box 7.5. (p. 168)

NSW response:
There are some tools already available for estimating groundwater recharge. Examples include the Land Use Options Simulator and MFAT. However, there is room for improvement and there is a lack of aquatic ecological response models in decision support tools available at present. SIMRAT is intended as an interim tool for the Mallee, especially in South Australia, pending implementation of more rigorous and robust MODFLOW models.

Report:
Section discussing cap and trade of salt emissions. (pp. 171 & 172)

NSW response:
The section discussing "cap and trade" reads as though it relates to an offsets scheme, particularly in its discussion of credits and debits. Unless a net credit balance is achieved and maintained (and preferably progressively increased) then there can be no net reduction in salinity/recharge. How this net credit balance is to be obtained is a matter of conjecture, but it is unlikely without incentive payments, and the point of trade in this context is not clear.

On the other hand, the concept of "cap and trade" is appropriate in the context of the Hunter scheme, discussed on p. 179, but that scheme is not about achieving a net reduction in salinity or salt load. Application of a similar approach in the Murray has already been advocated and is expected to be given further consideration.

From an analytical point of view, predicting outcomes for credits and debits can be much more problematic than evaluating and ranking bids for incentive funds because

with the former, absolute numbers are required whereas with the latter only relativities are required, and absolute numbers are much more sensitive to limitations of analytical accuracy than are relativities. This is addressed to some extent at the top of p. 172. Monitoring requirements are much the same in both cases.

Report:
The assessment of cap and trade of salt at the catchment level in table 7.2. (p. 172)

NSW response:
The feasibility of the system should display the same caveat as the "Likelihood of achieving desired goals" section, namely that the scale of implementation needs to be one where measured salinity outcomes are highly correlated to the actions of participants. In relation to the "Costs" section, the targets can be used to provide the cap. It is not clear how the claimed benefit of "optimum level of abatement" under the "Flexibility" section can be achieved. Also, the issue of how to handle uncertainty and accommodate changes in market parameters (for example in the cap, irrespective of the form it takes) remains.

Report:
Discussion of a zoned salt levy on water trades funding salt interception. (pp. 176 & 177)

NSW response:
In this section, the critical issue is accommodating uncertainty and changes in trading scheme parameters as a result of changes in data, science and technology. The NWI has attempted to cover this in respect of water but this does not extend to salt or salinity, where uncertainties are greater and accountability arrangements, at least in the Murray-Darling Basin, are based on absolute numbers rather than the equivalent of a share of the available resource. This has caused difficulties for Victoria, with upward re-assessment of salinity costs. The comments about "established sources being 'grandfathered' in" (Table 7.5) apply to salinity management across the board (enshrined in the principle of "no blame" in the NSW Salinity Strategy and the Basin Salinity Management Strategy). NSW supports market signals about minimising overall impact, but recognises that the science to apply salinity zoning is evolving, so a precautionary approach is warranted.

Report:
Discussion of price-based mechanisms: subsidising land management change. (pp. 177 & 178)

NSW response:
The description here is just for another form of offset scheme. There have been many pilots of tender based schemes for prescribed land management actions apart from the Victorian Bush Tender scheme, not the least of which was the NSW Environmental Services Scheme and subsequent Market Based Instruments pilot projects including some cited as examples in this report. These schemes could be characterised as delivering subsidies to landholders, as stated in the report, and all incentive schemes can be characterised that way if desired, but this approach has a narrow economic focus which assumes that environmental services have no value and are not worth paying for. This contradicts the rationale for market based instruments.

That said, preliminary finding 7.12 (p. 178) is supported.

Report:
“Dilution flows can assist the flushing of salt from a river system, and can be procured in the same way as environmental flows.” (p. 180)

NSW response:
NSW supports this finding.