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## D Government commissioned projects

**A broad indicator of the quality and impact of the Commission's work is provided by the nature and breadth of the public inquiries and research studies which it is requested by governments to undertake. The acceptance rate of the Commission's findings and recommendations provides a further broad indicator of quality and impact.**

**This appendix updates information provided in previous annual reports on public inquiries and other projects specifically commissioned by the Government. It includes summaries of terms of reference for new inquiries and projects, and the principal findings and recommendations from reports which have been released, together with government responses to those reports.**

The Productivity Commission is required to report annually on the matters referred to it. This appendix provides a summary of projects which the Government commissioned during the year and government responses to reports completed in 2013-14 and previous years. It also reports on commissioned projects received since 30 June 2014.

This appendix is structured as follows:

- terms of reference for new government-commissioned inquiries and studies
- reports released and, where available, government responses to them
- government responses to reports from previous years.

Table D.1 summarises activity since the Commission's 2012-13 annual report and indicates where relevant information can be found.

**Table D.1 Stage of completion of commissioned projects and government responses to Commission reports**

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>Major findings/ recommendations</i>	<i>Government response</i>
<b>Inquiries</b>					
27-09-12	Mineral and Energy Resource Exploration	AR 12-13	Report completed 27 September 2013	page 90	page 91
25-10-12	National Access Regime	AR 12-13	Report completed 25 October 2013	page 92	na
21-06-13	Access to Civil Justice	AR 12-13	Report completed 5 September 2014	na	na
25-06-13	Import of Processed Tomato Products	AR 12-13	Report completed 12 December 2013	page 94	na
25-06-13	Import of Processed Fruit Products	AR 12-13	Report completed 12 December 2013	page 93	na
30-10-13	Australia's Automotive Manufacturing Industry	page 94	Report completed 31 March 2014	page 95	page 97
13-11-13	Public Infrastructure	page 83	Report completed 27 May 2014	page 83	na
22-11-13	Childcare and Early Childhood Learning	page 85	In progress	na	na
29-11-13	Tasmanian Shipping and Freight	page 86	Report completed 24 June 2014	page 87	na
28-04-14	Natural Disaster Funding	page 88	In progress	na	na
<b>Other commissioned projects</b>					
14-03-12	Strengthening Australia New Zealand Economic Relations	AR 11-12	Report completed 30 November 2012	AR 12-13	page 101
7-12-12	Major Project Development Assessment Processes	AR 12-13	Report completed 29 November 2013	page 97	na
7-12-12	Regulation Benchmarking: Regulator Engagement with Small Business	AR 12-13	Report completed 24 September 2013	page 98	na
21-05-13	Geographic Labour Mobility	AR 12-13	Report completed 22 April 2014	page 99	na
7-04-14	Costs of Doing Business	page 90	In progress	na	na

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## Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 2012-13, which are in progress or for which the report has not yet been released. Full terms of reference are available on the Commission's website and in the relevant reports.

### Public Infrastructure

Inquiry Report No. 71, signed 27 May 2013, report released 14 July 2014.

On 13 November 2013, the Australia Government asked the Commission to undertake a six month inquiry into infrastructure costs and financing.

In undertaking its inquiry, the Commission was asked to analyse and report on the following specific areas:

- How infrastructure is currently funded and financed in Australia, including by the Commonwealth, the States and the private sector;
- The rationale, role and objectives of alternative funding and financing mechanisms;
- Examine the cost structure of major infrastructure projects in Australia, including where infrastructure project costs have increased considerably, compared with other countries;
- Provide advice on ways to improve decision-making and implementation processes to facilitate a reduction in the cost of public infrastructure projects; and
- Comment on other relevant policy measures, including any non-legislative approaches, which would help ensure effective delivery of infrastructure services over both the short and long term.

The Commission was also asked to consider the financial risks to the Commonwealth, as well as their possible impact on the Budget and fiscal consolidation goals, of alternative funding and financing mechanisms.

### Key points

The Commission's key points were:

- There is an urgent need to comprehensively overhaul processes for assessing and developing public infrastructure projects.
  - There are numerous examples of poor value for money arising from inadequate project selection, potentially costing Australia billions of dollars.

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- Additional spending under the status quo will simply increase the cost to users, taxpayers, the community generally, and lead to more wasteful infrastructure.
  - Reliance on the notion of an infrastructure deficit, too, could encourage poor investment choices.
  - It is essential to reform governance and institutional arrangements for public infrastructure to promote better decision making in project selection, funding, financing and the delivery of services from new and existing infrastructure.
  - Well-designed user charges should be used to the fullest extent that can be economically justified. However, governments will have to continue to fully or partly fund some infrastructure projects and address equity issues.
  - Significant institutional and longer-term road pricing arrangements will create more direct links to road users, taking advantage of advances in vehicle technology.
  - Private sector involvement in infrastructure provision and/or financing delivers efficiency gains only if well designed and well implemented.
    - Private financing is not a 'magic pudding' — ultimately users and/or taxpayers must foot the bill.
    - Government guarantees and tax concessions are not costless and often involve poorly understood risks.
  - Governments will have some capacity to fund more projects than under current fiscal and debt management practices, provided the reform package in this report is implemented to ensure the selection of projects with strong net benefits.
  - Data problems limit analysis and benchmarking. A coordinated and coherent data collection process will address this and improve future project selection decisions.
  - Nevertheless, there is evidence of recent significant increases in the costs of constructing major public infrastructure in Australia. Elevated labour costs due to the mining construction boom has been one factor, but no single input has played a decisive role in cost increases.
  - Until recently, labour productivity growth in the construction sector generally has been sluggish. There is no conclusive evidence that Australian levels of productivity in construction are significantly different from other developed countries.
  - The industrial relations environment in the construction industry remains problematic, mainly in general rather than civil construction, with the problems much greater for some sites, unions and states. Governments can use their procurement policies to drive reform, and penalties for unlawful conduct should rise.
  - Despite significant concentration in the market for large public infrastructure projects, the market appears to be workably competitive today, though a few simple measures would make it more so and would reduce the cost pressures facing procurers.
  - There is significant scope to improve public sector procurement practices and lower bid costs for tenderers, with potentially large benefits for project costs and timing.

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## Childcare and Early Childhood Learning

On 22 November 2013 the Commission was asked by the Australian Government to undertake an inquiry into child care and early childhood learning.

In undertaking the inquiry, the Commission was asked to use evidence from Australia and overseas to report on and make recommendations about the following:

- The contribution that access to affordable, high quality child care can make to:
  - increased participation in the workforce, particularly for women
  - optimising children’s learning and development.
- The current and future need for child care in Australia, including consideration of the following:
  - hours parents work or study, or wish to work or study
  - the particular needs of rural, regional and remote parents, as well as shift workers
  - accessibility of affordable care
  - types of child care available including but not limited to: long day care, family day care, in home care including nannies and au pairs, mobile care, occasional care, and outside school hours care
  - the role and potential for employer provided child care
  - usual hours of operation of each type of care
  - the out of pocket cost of child care to families
  - rebates and subsidies available for each type of care
  - the capacity of the existing child care system to ensure children are transitioning from child care to school with a satisfactory level of school preparedness
  - opportunities to improve connections and transitions across early childhood services (including between child care and preschool/kindergarten services)
  - the needs of vulnerable or at risk children
  - interactions with relevant Australian Government policies and programmes.
- Whether there are any specific models of care that should be considered for trial or implementation in Australia, with consideration given to international models, such as the home based care model in New Zealand and models that specifically target vulnerable or at risk children and their families.
- Options for enhancing the choices available to Australian families as to how they receive child care support, so that this can occur in the manner most suitable to their individual family circumstances. Mechanisms to be considered include subsidies, rebates and tax deductions, to improve the accessibility, flexibility and affordability of child care for families facing diverse individual circumstances.

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- The benefits and other impacts of regulatory changes in child care over the past decade, including the implementation of the National Quality Framework (NQF) in States and Territories, with specific consideration given to compliance costs, taking into account the Government's planned work with States and Territories to streamline the NQF.

The Commission was also asked to consider options within current funding parameters in making any recommendations for future Australian Government policy settings. A final report was to be provided by 31 October 2014.

## **Tasmanian Shipping and Freight**

Inquiry Report No. 69, signed 7 March 2014, report released 24 June 2014.

On 29 November 2013 the Government asked the Commission to conduct an inquiry into the current arrangements for supporting freight and passenger services between the mainland and Tasmania.

As part of its inquiry, the Commission was asked to:

- Examine shipping costs, competition and shipping industry competitive structures across Bass Strait.
- Identify the factors inhibiting the provision of international shipping services to Tasmania.
- Examine the competitiveness of Tasmania's freight industry, economic infrastructure and possible reforms that would assist in enhancing effective competition, investment and productivity growth.
- Assess the merits and weaknesses of the current arrangements for supporting freight and passenger services between the mainland and Tasmania and provide recommendations on an appropriate future approach and/or arrangements.
- In making assessments in relation to matters in the preceding paragraph, the inquiry should:
  - report on the freight and passenger tasks and their costs between Tasmania, Flinders and King Islands and the mainland of Australia; and between Tasmania and international ports;
  - quantify any freight cost disadvantages for goods eligible under the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Scheme, identify their primary causes and assess the impact of that disadvantage on Tasmanian business;
  - quantify any cost disadvantages for passengers travelling to Tasmania who are currently eligible for support through the Bass Strait Passenger Vehicle Equalisation Scheme;

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- assess the effectiveness of the current schemes as a mechanism for addressing cost disadvantages, including identification of the costs and benefits, the impact on stakeholders, and any unintended consequences or distortionary effects of the current arrangements; and
  - identify any alternative mechanisms that could more effectively address cost disadvantages, including assessing the full economic costs and benefits of any alternative mechanism.

The Commission was asked to undertake an appropriate public consultation process including holding hearings, inviting public submissions and releasing a draft report to the public. A final report was to be provided to Government by 7 March 2014.

## Key points

The key points from the report were as follows:

- Tasmania, like mainland Australia, is an island economy. It is serviced by high quality but relatively high cost containerised domestic shipping services. The viability of direct international shipping services is affected by the cost of coastal shipping. Given its reliance on sea transport, Tasmania is particularly affected by inefficiencies embedded in coastal shipping regulation. This regulation should be reviewed and reformed as a matter of priority.
- Tasmania uniquely receives (Federally) subsidised freight services via longstanding arrangements in recognition of the relative cost ‘disadvantage’ of Bass Strait transit. The Tasmanian Freight Equalisation Scheme (TFES), Tasmanian Wheat Freight Scheme (TWFS), and Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES) were designed to partially offset these costs. The term equalisation misleadingly implies ‘full’ compensation for the cost disadvantage but that is not inherent in the design and operation of the schemes. Further, securing ‘true’ equalisation is inevitably a policy chimera.
- The Australian Government has outlaid more than \$2 billion since the inception of the schemes, and without change a further \$2 billion can be expected over the next 15 years. In 2011/12 total outlays for the schemes were \$128 million.
- There is no coherent economic rationale for the TFES and it falls well short of what is needed to improve the lagging competitiveness of the Tasmanian economy — which the Commission considers should be the policy imperative. It has a high fiscal cost, eligibility is arbitrary; and the direct recipients are concentrated notwithstanding the unclear incidence of the subsidy. Further, the TFES is inherently complex and leads to unintended consequences.
- There is no clearly articulated objective for the BSPVES. At least some of the subsidy is being captured by the Tasmanian Government-owned and sole provider of Bass Strait passenger and vehicle shipping services — TT Line.

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- The Australian Government has stated its current intention to retain the TFES and the BSPVES. The recommendations related to the schemes in this report are made on that basis.
  - A flat rate of subsidy per container (adjusted for King Island and the Furneaux Group of islands) would offer significant advantages over the current parameter based regime — increasing incentives to minimise transport costs, improving transparency and simplifying administration.
  - The Tasmanian Government has initiated a process to secure the return of a commercially viable direct international container service, albeit involving some transitional assistance. This raises an intractable sequencing obstacle for considering the relative merit of moving now to extend the scope of the TFES to all eligible northbound commodities transhipped through the Port of Melbourne.
  - Several efficiency issues relating to Tasmania’s shipping and freight are the responsibility of the Tasmanian Government. These include: rationalising infrastructure assets such as ports and rail; private operation and ownership of freight infrastructure assets where this would improve their efficiency; and developing a sustainable integrated freight strategy.
  - Tasmania faces broader economic and social challenges and the Australian Government should put less emphasis on freight subsidy schemes in favour of reforms that have national and Tasmanian benefits (such as coastal shipping reform) and those that directly enhance the competitiveness and productivity of the Tasmanian economy.

## **Natural Disaster Funding**

The Australian Government asked the Commission on 28 April 2014 to undertake an inquiry into the efficacy of current national natural disaster funding arrangements. At the request of the Government, the scope of the inquiry focussed on naturally occurring rapid onset events that cause a serious disruption to a community or region, such as flood, bushfire, earthquake, storm, cyclone, storm surge, tornado, landslide or tsunami. This is consistent with the definition included in the Natural Disaster Relief and Recovery Arrangements (NDRRA) Determination.

In conducting its inquiry, the Commission was asked to analyse the full scope (incorporating the quantum, coherence, effectiveness and sustainability) of current Commonwealth, state and territory expenditure on natural disaster mitigation, resilience and recovery, and develop findings on the following:

- The sustainability and effectiveness of current arrangements for funding natural disaster mitigation, resilience and recovery initiatives, including – where directly relevant to an improved funding model – the management of disaster relief and recovery;



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- Risk management measures available to and being taken by asset owners – including the purchase of insurance by individuals, business and state, territory and local governments, as well as self-insurance options;
  - The interaction between Commonwealth natural disaster funding arrangements and relevant Commonwealth/state financial arrangements;
  - Options to achieve an effective and sustainable balance of natural disaster recovery and mitigation expenditure to build the resilience of communities, including through improved risk assessments. The options should assess the relationship between improved mitigation and the cost of general insurance. In doing this, the Commission should consider:
    - How business, the community, Commonwealth, state, territory and local governments can most effectively fund natural disaster recovery and mitigation initiatives;
    - How to ensure the right incentives are in place to support cost-effective decision making within and across all levels of government, business, non-government organisations and private individuals;
    - Mechanisms and models to prioritise mitigation opportunities and evaluate the costs and benefits of a range of mitigation options;
    - Options for urban planning, land use policy and infrastructure investment that support cost-effective risk management and understanding of the changes to the risk profile;
    - Options to fund identified natural disaster recovery and mitigation needs, including thresholds for triggering Commonwealth assistance to the states and territories;
  - Projected medium and long term impacts of identified options on the Australian economy and costs for governments as compared to impacts of the current funding arrangements; and
  - Options for transitioning to and implementing any proposed reforms to national natural disaster funding arrangements.

In undertaking the inquiry, the Commission was asked to take into account the roles and responsibilities of Commonwealth, state, territory and local governments, communities, insurers, business (including private providers of essential infrastructure), non-government organisations and private individuals. The Commission was to consider funding for disaster response only where directly relevant to mitigation, relief and recovery and existing Commonwealth/state joint funding arrangements.

Since much disaster spending is directed towards infrastructure, the Commission was also asked to take into account evolving infrastructure and asset management policy and practice at the national, state and local levels.

The Commission was asked to provide a Draft Report by September 2014 and a Final Report by the end of December 2014.

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## Costs of Doing Business

On 7 April 2014 the Australian Government asked the Commission to conduct a study of the cost structures of the dairy product manufacturing industry and the retail trade industry.

In undertaking the study, the Commission was specifically asked to:

- Undertake a case study of the costs (such as costs relating to capital, labour, intermediate inputs including energy, taxation, superannuation and/or regulatory compliance) facing businesses operating in Australia in the dairy product manufacturing industry and in the retail trade industry.
- Where relevant, identify areas of cost advantage and disadvantage for these businesses compared to international competitors.

The Government asked that the Commission provide an interim report within two months of receipt of the reference, within a final report within six months of receipt.

## Reports released by the Government

This section summarises the main findings and recommendations of inquiry and research reports which have been released by the Government in the period to 9 October 2014. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

### Mineral and Energy Resource Exploration

Inquiry Report No. 65, signed 27 September 2013, report released 5 March 2014.

The key points from the report were as follows:

- Mineral and energy resource exploration in Australia is a small part of the economy, equivalent to 0.5 per cent of GDP in 2011-12. The sector's significance is in discovering commercially valuable resources that sustain the operations of mineral and energy extraction industries — which represented 9 per cent of GDP in 2011-12.
- The number, size and quality of resource discoveries in Australia is declining over the longer term, and the exploration sector is experiencing rising costs and lower productivity.
- Governments regulate resource exploration for three broad reasons:
  - the mineral and energy resources are owned by the Crown
  - exploration may impact on existing and future land uses such as agriculture, or damage sites of environmental and heritage significance

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- exploration may have effects beyond the area being explored, such as on the regional environment and nearby communities.
  - Many stakeholders are dissatisfied with the current regulatory arrangements:
    - some explorers claim that governments are discouraging exploration by increasing compliance costs, extending approval times and increasing regulatory uncertainty
    - some community groups claim that regulations are insufficient to protect heritage, environmental and community values and agricultural uses of the land, and that regulators are not being sufficiently diligent in protecting those values and land uses.
  - Regulatory processes that impose unnecessary burdens on resource explorers or inhibit exploration can be reformed by:
    - ensuring stronger and simpler coordination, transparency and accountability of exploration licence approval processes
    - making land access decisions that take into account the benefits of exploration to the wider community, and that are appropriate to the level of risk posed by exploration as informed by sound evidence
    - improving access to the existing knowledge of Indigenous heritage and accrediting state and territory government processes which meet Australian Government standards of Indigenous heritage protection
    - addressing state, territory and Commonwealth environmental approvals processes that are duplicative and are not commensurate with the risk and significance of the environmental impacts of exploration.
  - Explorers highly regard the accessibility and provision of pre-competitive data by Australia's geological survey organisations. However, the effectiveness of state and territory geological survey organisations is hampered because significant shares of their budgets are from short-term funding initiatives.

## Government decision

On 28 May 2014, the Australian Government released an interim response to the Commission's report (Australian Government 2014a). The response stated:

Of the 22 recommendations, the Commonwealth has implemented six through previous processes; agreed five; provisionally agreed four; and noted seven. This forms the Commonwealth's interim response. The interim response is being tabled in order to commence negotiations with the states and Northern Territory; a final response will be tabled within 24 months. (Australian Government 2014a, p. 2)

The recommendations agreed to by the Commonwealth included endorsement of the National Offshore Petroleum Safety and Environmental Management Authority's (NOPSEMA's) process to assess environmental approvals; strengthened bilateral arrangements with the States and Territories for assessments; undertaking and publishing a

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review of the benefits and costs of the ‘water trigger’ amendment to the *Environment Protection and Biodiversity Conservation Act 1999* (Cth); and setting regulatory requirements relating to exploration that are proportionate to impacts and risks.

## **National Access Regime**

Inquiry Report No. 66, signed 25 October 2013, report released 11 February 2014.

The key points from the report were as follows:

- The National Access Regime should be retained.
  - Access regulation can address an enduring lack of effective competition, due to natural monopoly, in markets for infrastructure services where access is required for third parties to compete effectively in dependent markets. This is the only economic problem access regulation should address.
  - The scope of the Regime should be confined to ensure its use is limited to the exceptional cases where the benefits arising from increased competition in dependent markets are likely to outweigh the costs of regulated third party access to infrastructure services. Proposed changes to the declaration criteria seek to achieve this outcome.
  - Robust institutional arrangements, including an avenue to limited merits review, should ensure that access regulation is judiciously applied.
- When considering whether to regulate access to infrastructure services in the future, governments should seek to demonstrate that there is a lack of effective competition in the market for the service that is best addressed by access regulation. An assessment of the net benefits should determine whether access regulation is most appropriately applied at the facility or industry level.
  - Facility based arrangements impose net costs if they are incorrectly applied, and provide incentives for lobbying. Such arrangements should be limited to where there is a clear net benefit from tailoring access regimes for a specific facility.
  - Further industry specific regimes should apply only where there is sufficient similarity between infrastructure services within the industry and where the industry has features that justify different regulatory treatment from that offered by the generic National Access Regime.
  - Caution should be exercised before mandatory undertakings are implemented in the future. Where mandatory undertakings are used, they should be subject to upfront and ongoing assessment to ensure they are used to target the economic problem. Safeguards for the provider and other existing users of the service should be consistent with those for declared services.
- There is an economic rationale for the Australian Competition and Consumer Commission's (ACCC's) power to direct infrastructure extensions in an access

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determination but, due to the practical difficulties of directing extensions, it is likely that the benefits of using the power would rarely outweigh the costs.

- Part IIIA should be amended to confirm that the ACCC's legislative power to direct extensions also encompasses capacity expansions. This will ensure that the safeguards set out in the legislation will also apply to directed expansions.
- Following a public consultation process, the ACCC should develop guidelines outlining how it would exercise its legislative power to direct extensions such that it would be expected to generate net benefits to the community. The preparation of the guidelines should include an analysis of the workability and adequacy of the provision to direct extensions and its safeguards.
- The safeguards should not be construed such that a service provider could be required to pay the upfront costs of the directed extension or capacity expansion.

### **Safeguards Inquiries into the Import of Processed Tomato and Processed Fruit Products**

Inquiry Reports No. 67 and 68, signed 12 December 2013, report released 20 December 2013.

On imports of processed fruit products, the main findings were:

- Safeguard measures are not warranted for processed citrus products because there is no domestic industry producing like or directly competitive products.
- Safeguard measures are not warranted for processed 'other' fruit products. The domestically produced products that are like or directly competitive with the imported products are an insignificant part of the domestic industry's business. Therefore, there is little potential for imports of processed other fruit to be a contributor to any injury suffered by the domestic industry.
- The requirement for an increase in imports over the investigation period under Article 2.1 of the Agreement on Safeguards has:
  - been satisfied for processed mixtures on the basis of both an absolute and a relative increase in imports
  - been satisfied for processed peaches and pears, but only on the basis of an increase in imports relative to domestic production
  - not been satisfied for processed apricots either on the basis of an absolute or a relative increase in imports.
- The evidence does not support the conclusion that the injury to the domestic industry has been caused by an increase in imports of processed pears, peaches and fruit mixtures. The injury has resulted from a combination of the following factors:
  - long term reductions in the domestic demand for processed fruit products

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- reduced export volumes
  - rising unit costs of domestic production, driven substantially by declining economies of scale due to lower domestic demand and reduced export volumes
  - domestic retailers promoting private label brand products to compete with the sole domestic producer and with each other, as well as to improve reliability of supply.

On imports of processed tomato products, the main findings were:

- There has not been a sufficient increase in import volumes of the products under reference to satisfy the requirement under Article 2.1 of the Agreement on Safeguards. However, there is evidence that imports have increased relative to domestic production, sufficient to meet the WTO standard. This change was largely driven by changes in domestic production.
- Increased imports of the processed tomato products under reference have not caused serious injury to the domestic industry producing like or directly competitive products. Instead, the injury has resulted from a combination of factors, including:
  - sustained competitive pressure from imports
  - supermarket private label strategies, facilitated by the appreciation of the Australian dollar
  - extreme weather events.
- Therefore, safeguard action under the WTO Agreement on Safeguards is not warranted.

## **Australia's Automotive Manufacturing Industry**

Inquiry Report No. 70, signed 31 March 2014, report released 26 August 2014.

On 30 October 2013, the Treasurer, the Hon. Joe Hockey MP, and the Minister for Industry, the Hon. Ian McFarlane MP, asked the Commission to undertake an inquiry into public support for Australia's automotive manufacturing industry.

As part of its inquiry, the Commission was required to:

- Examine national and international market and regulatory factors affecting:
  - the Australian automotive manufacturing industry's current structure, productivity, investment, profitability, international competitiveness, exports, workforce structure and practices, skills levels and long-term sustainability;
  - Australia's attractiveness as an investment location for all phases of automotive manufacturing activity, from research and development through to production of components and vehicles;
  - domestic and international demand for Australian design and engineering services, vehicles and automotive products; and

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- consumer preferences, including consumer demand for new products and technologies.
  - In examining these factors, take into account the following matters:
    - international automotive industry assistance arrangements, including reporting on and quantifying tariff, non-tariff barriers and budgetary assistance provided by major and emerging automotive-producing countries and the barriers and opportunities for Australian manufacturers and suppliers;
    - the impact of current workplace arrangements in the industry, domestic industry assistance, government vehicle purchasing policies, the Government’s broader deregulation agenda and the taxation environment (noting fair work laws and taxation reform are subject to separate comprehensive review processes); and
    - the spill-over benefits of the automotive sector, such as technology diffusion.
  - Taking into account all of the above, identify and evaluate possible alternative public support mechanisms that:
    - improve the long-term profitability, sustainability and productivity of the industry;
    - facilitate research into, and the development of, innovative alternative vehicle and component technologies by the industry;
    - contribute to national productivity growth;
    - promote mutual obligation, accountability and transparency; and
    - are consistent with Australia’s international trade obligations.

including:

- retargeting of assistance, including within the Automotive Transformation Scheme; and
- introducing more internationally-competitive workplace, regulatory and taxation policies; and
- identifying any significant transition issues or adjustment costs that may arise from alternative support mechanisms or policy changes and how they might be best managed.

Assess the significance of the capabilities within the industry, its direct employment and economic benefits, its secondary impacts on other sectors of the economy, and quantify the costs and benefits, including at the economy-wide and regional level, of existing and alternative assistance mechanisms.

The Commission was asked to provide a preliminary findings report by 20 December 2013 and a final report by 31 March 2014.

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## Key points

The Commission's key points were:

- Australia's automotive manufacturing industry is undergoing significant change.
  - Motor vehicle producers in Australia have not been able to survive in the highly competitive global and domestic automotive markets — Ford, Holden and Toyota have announced they will cease local manufacturing before the end of 2017.
  - Component manufacturers face ongoing adjustment pressure and rationalisation.
  - It is estimated that up to 40 000 people may lose their jobs as a result of the closure of the motor vehicle manufacturing plants and the rationalisation of firms in the supply chain. It is likely that job losses will be staggered over several years.
  - Decades of transitional assistance to automotive manufacturing firms (\$30 billion between 1997 and 2012) has forestalled, but not prevented, the significant structural adjustment now facing the industry.
- The policy rationales for industry-specific assistance to automotive manufacturing firms are weak and the economywide costs of such assistance outweigh the benefits.
  - The Automotive Transformation Scheme should be closed after Ford, Holden and Toyota have ceased manufacturing motor vehicles in Australia.
  - Component manufacturing firms are currently set to receive over \$300 million in industry-specific assistance between 2014 and 2017. There are both efficiency and industry equity arguments against extending assistance beyond that already committed, or introducing new assistance programs that would advantage component manufacturers ahead of other firms that face adjustment pressures.
- The labour market in Australia is dynamic — many employees lose their jobs in any one year and many people who are jobless are hired. In the year ending February 2013, about 355 000 people were involuntarily retrenched across Australia.
- Retrenched employees face costs associated with job search and training, and some will have lower paid or less secure jobs once re-employed. Loss of employment is particularly challenging for older people, or those with poor English proficiency or lower skill levels.
  - While retrenched manufacturing employees may take longer on average to find re-employment than employees retrenched from other industries, within a year about two-thirds are likely to be re-employed on a full, part-time or casual basis.
  - Adjustment pressures are likely to be concentrated within particular regions, such as North Adelaide, parts of Melbourne and Geelong. Some affected regions already have relatively high rates of unemployment and social disadvantage.
- Governments should ensure the appropriate resourcing of the delivery of generally available welfare, training and employment services for all clients in regions placed under pressure by automotive manufacturing retrenchments.



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- Providing adjustment assistance to retrenched automotive manufacturing employees at a level that exceeds the assistance generally available to other jobseekers raises efficiency and equity issues.
    - Governments should consider ways to better target assistance to retrenched employees who are likely to encounter the greatest difficulties finding re-employment.
  - Regional adjustment funds, infrastructure and defence spending and industry support programs are costly and ineffective ways to facilitate workforce adjustment.

### Government decision

The Australian Government released a response to the Commission's report on 26 August 2014. The response provided support or in-principle support for most of the recommendations. This included support for recommendations to repeal the Automotive Transformation Scheme; to not extend the Green Car Innovation Fund; to accelerate harmonising Australian Design Rules with United Nations Regulations; and to abolish Australian Government fleet procurement policies that favour the purchase of locally-made vehicles.

## Major Project Development Assessment Processes

Research Report completed 29 November 2013, report released 10 December 2013.

The key points from the report were as follows:

- While Australia already has in place the building blocks of a sound development assessment and approval (DAA) regulatory system, there is substantial scope to comprehensively overhaul the framework in Australia for major projects.
- The DAA processes of Australian jurisdictions and select countries were benchmarked for this study. A number of leading practices were identified which should be implemented by all Australian jurisdictions.
- DAA areas that require attention include:
  - unnecessary complexity and duplicative processes
  - lengthy approval timeframes
  - lack of regulatory certainty and transparency in decision making
  - conflicting policy objectives
  - inadequate consultation and enforcement
  - regulatory outcomes falling short of their objectives.
- Specific reforms proposed include:

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- a five-point plan to move towards a 'one project, one assessment, one decision' framework for environmental approvals, that includes strengthening bilateral assessment and approval agreements between the Commonwealth and the States and Territories
  - limiting the use of 'stop-the-clock' provisions
  - States and Territories improving coordination between their regulatory agencies
  - institutional separation of environmental policy development from regulatory and enforcement functions
  - enshrining the principle that Ministerial approval — unless a deemed approval — should not be reviewable by review bodies other than on judicial review grounds
  - establishing statutory timelines, together with appropriate safeguards, for key decision points in the DAA process
  - expanding the use of Strategic Assessments and Plans where practical to do so
  - requiring that approval authorities publish reasons for their approval decisions and conditions
  - improving third party opportunity for compliance actions.
- Any regulatory system is only as good as its weakest link. Partial reform efforts are unlikely to achieve meaningful improvements.

## **Regulation Benchmarking: Regulator Engagement with Small Business**

Research Report completed 24 September 2013, report released 9 October 2013.

The key points from the report were:

- Small businesses feel the burden of regulation more strongly than other businesses. Almost universally, their lack of staff, time and resources present challenges in understanding and fulfilling compliance obligations.
- How small businesses 'experience' regulation has as much to do with the engagement approaches of regulators as it does with the regulations. Regulators are generally committed to effective engagement and to minimising unnecessary burdens, but many do not have robust frameworks to ensure high level ideals consistently translate to good practices on the ground.
- Regulator culture is crucial. Those regulators with effective engagement practices have adjusted their culture by focusing on senior management priorities, training and skills of enforcement staff, performance monitoring, stakeholder feedback, and rewarding behaviour consistent with desired practices.
- Regulators' communications can be more responsive to small business needs and capacities. In particular:

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- tailoring information requirements around data already collected by businesses
  - greater use of industry associations to disseminate information
  - ensuring regulatory information can be readily found on websites
  - enabling timely access to regulatory staff, would improve small business experiences with regulators.
  - There is scope for increased targeting of those businesses and activities which present a higher risk to communities, and for adoption of lesser compliance cost approaches for lower risk businesses, such as less frequent inspections or less onerous reporting requirements.
    - When done well, such targeting is likely to achieve outcomes at a lower cost than an engagement approach based on strict application of a small business definition.
  - Governments can improve engagement outcomes by ensuring the frameworks within which regulators operate do not inhibit adoption of leading practices. This includes ensuring regulators have access to an appropriate range of compliance and enforcement tools, and resourcing to effectively achieve the policy objectives behind their regulatory responsibilities.
    - Where regulators are inadequately resourced, either some risks to communities go unmitigated or the costs of mitigation are pushed onto those regulated (including small businesses). Governments should provide regulators with explicit guidance on regulatory priorities, given limited resources.
  - Regulator discretion in compliance monitoring and enforcement must be accompanied by appropriate guidance and transparency and accountability measures as well as a separation of education and enforcement roles, where feasible. Governments should ensure low cost mediation services for the resolution of disputes, particularly with local governments.
  - More widespread use could be made of formal cooperation arrangements between regulators, including lead agency models to facilitate joint compliance checks and proactive sharing of compliance information.
  - Continuous improvement in regulator performance requires ongoing monitoring of the effectiveness of delivery approaches and costs imposed on business. Governments should require regulators to report against engagement principles and encourage regulator forums which exchange views on good practice and build professional capacity.

## **Geographic Labour Mobility**

Research Report completed 22 April 2014, report released 6 May 2014.

The key points from the report were as follows:

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- Geographic labour mobility is an important element of a well-functioning labour market. By improving matches between employers and workers, geographic labour mobility can contribute to economic efficiency and community wellbeing.
  - Advances in transport and communication technologies have broadened the scope of geographic labour mobility. This mobility can take the form of residential moves, long-distance commuting and telecommuting.
  - Geographic labour mobility has been an important mechanism for adjusting to the demographic, structural and technological forces shaping the Australian economy. It has accommodated differences in the pace of economic activity across Australia and enabled wealth to be more widely distributed across the country.
  - Labour appears to be responding to market signals and moving to areas with better employment and income prospects. These movements, together with the increase in long-distance commuting and temporary immigration, have assisted in meeting labour demand in many parts of the country.
  - Gravity (a region's size), distance and economic opportunities are the main determinants of geographic labour mobility at an aggregate level.
  - At the individual level, personal and locational factors interact to influence whether and where people move. Life events and family circumstances appear to be the most important factors in such decisions, but factors related to housing, employment, local infrastructure and a person's level of education also play a prominent role.
  - Areas of high unemployment and disadvantage vary in their mobility — some have high rates of mobility, while others have low rates of mobility.
  - While geographic labour mobility is assisting labour market adjustment, high unemployment is persisting in some regions, and there is room for improvement.
  - There are no simple levers to affect geographic labour mobility. Many policies aiming to influence where people live and work in regional and remote areas have had limited effectiveness. Policies will be more effective if they are highly targeted.
  - In addition to geographic labour mobility, a flexible, accessible and quality education and training system is important for meeting Australia's continually changing workforce and employment needs.
  - The negative consequences of some poorly designed policies, such as taxation, housing and occupational licensing, include reduced geographic labour mobility. Reform in these areas would lessen impediments to geographic labour mobility, and also have broader benefits.
    - The community has been poorly served by the lack of progress in occupational licencing and action should be expedited.
  - Improved access to administrative data would assist better understanding of geographic labour mobility in Australia.

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## **Government responses to reports from previous years**

### **Strengthening Australia New Zealand Economic Relations**

Research Report conducted jointly with the New Zealand Productivity Commission. Report completed 30 November 2012, report released 13 December 2012.

On 9 May 2014 the Australian and New Zealand Governments released a joint response to the Report (Australian Government and New Zealand Government 2014). Of the 32 recommendations made in the report, the Government response listed 25 recommendations that received joint support, support in-part or that were being addressed under existing government arrangements. Seven recommendations were deemed as requiring further consideration.

A recommendation on the mutual recognition of imputation credits will be considered as part of the White Paper on taxation, as already announced. Also the Commission's report recommended 5 yearly reviews of the Australia-New Zealand Closer Economic Relations Trade Agreement (CER) to take stock of what has been achieved and learnt and to ensure that the agenda remains relevant and forward looking. The governments' response states that they will, ahead of the 2015 Leaders' meeting, consider how to progress the five-yearly reviews of CER, including identifying opportunities for further collaboration between the productivity commissions.