
C Government commissioned projects

The nature and breadth of the public inquiries and research studies which the Commission is requested by governments to undertake, and the acceptance rate of the Commission's findings and recommendations, provide some broad indicators of the quality and impact of the Commission's work.

This appendix updates information provided in the previous annual reports of the Commission on public inquiries and other projects specifically commissioned by the Government. It includes 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 details of projects which the Government commissioned during the year and government responses to reports completed in 2005-06 and previous years. It also reports on commissioned projects received since 30 June 2006.

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; and
- government responses to reports from previous years.

Table C.1 summarises activity since the Commission's 2004-05 annual report and indicates where relevant information can be found.

Changes to the procedures for safeguard inquiries by the Productivity Commission are included at attachment C1.

Table C.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>
Inquiries					
23-4-04	Review of National Competition Policy Reforms	AR 03-04	Report No. 33 signed 28-2-05	AR 04-05	page 170
13-6-03	Review of the Gas Access Regime	AR 02-03	Report No. 31 signed 11-6-04	AR 03-04	page 167
23-6-04	Review of Part X of the <i>Trade Practices Act 1974</i> : International Cargo Liner Shipping	AR 03-04	Report No. 32 signed 23-2-05	page 168	page 169
31-8-04	The Private Cost Effectiveness of Improving Energy Efficiency	AR 03-04	Report No. 36 signed 31-8-05	page 156	page 157
6-4-05	Conservation of Australia's Historic Heritage Places	AR 04-05	Report No. 37 signed 6-4-06	page 164	na
20-10-05	Waste Management	page 148	In progress	na	na
23-2-06	Road and Rail Freight Infrastructure Pricing	page 150	In progress	na	na
21-3-06	Tasmanian Freight Subsidy Arrangements	page 152	In progress	na	na
6-4-06	Price Regulation of Airport Services	page 152	In progress	na	na

Other commissioned projects

29-6-04	Australian and New Zealand Competition and Consumer Protection Regimes	AR 03-04	Report completed 16-12-04	AR 04-05	page 167
15-3-05	Australia's Health Workforce	AR 04-05	Report completed 22-12-05	page 158	page 160
16-3-05	Review of the Australian Consumer Product Safety System	AR 04-05	Report completed 16-1-06	page 161	page 162
25-7-05	Economic Impacts of Migration and Population Growth	AR 04-05	Report completed 24-4-06	page 163	na
2-2-06	Standard Setting and Laboratory Accreditation	page 149	In progress	na	na
10-3-06	Science and Innovation	page 151	In progress	na	
11-8-06	Performance Benchmarking of Australian Business Regulation	page 154	In progress	na	na

na not applicable. Note: References are to previous annual reports (AR), inquiry and other commissioned studies of the Productivity Commission.

Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 2004-05 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 relevant reports.

Waste management

On 20 October 2005 the Treasurer referred waste generation and resource efficiency in Australia to the Commission for inquiry and report within 12 months.

The objective of the inquiry was to identify policies that will enable Australia to address market failures and externalities associated with the generation and disposal of waste, including opportunities for resource use efficiency and recovery throughout the product life-cycle (from raw material extraction and processing, to product design, manufacture, use and end of life management). The inquiry covered resources associated with solid waste, including: municipal waste — for example, household collections, electrical and consumer items — commercial and industrial waste, and construction and demolition wastes. Wastes that exhibit hazardous characteristics and pose an immediate and unacceptable risk of harm to human beings or the environment were not included.

The Commission was to examine ways in which, and make recommendations on how, resource efficiencies can be optimised to improve economic, environmental and social outcomes. This included an assessment of opportunities throughout the product life cycle to prevent and/or minimise waste generation by promoting resource recovery and resource efficiency.

The Commission was to examine and report on current and potential resource efficiency in Australia, having particular regard to:

- the economic, environmental and social benefits and costs of optimal approaches for resource recovery and efficiency and waste management, taking into account different waste streams and waste related activities;
- institutional, regulatory and other factors which impede optimal resource efficiency and recovery, and optimal approaches to waste management, including barriers to the development of markets for recovered resources;
- the adequacy of current data on material flows, and relevant economic activity, and how data might be more efficiently collected and used to progress optimal approaches for waste management and resource efficiency and recovery;

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- the impact of international trade and trade agreements on the level and disposal of waste in Australia; and
 - strategies that could be adopted by government and industry to encourage optimal resource efficiency and recovery.

The Commission was also requested to report on: the effectiveness of performance indicators to measure efficiency of resource recovery practices; the effect of government and commercial procurement practices on optimal resource recovery; and the impacts of government support to production and recovery industries.

Standard setting and laboratory accreditation

On 2 February 2006 the Treasurer requested that the Commission undertake, in the context of Australia's need for an effective and internationally recognised and harmonised standards and conformance infrastructure, a research study reviewing the Australian Government's relationship with Standards Australia Limited and the National Association of Testing Authorities, Australia.

The Commission is to examine and make recommendations on:

- the efficiency and effectiveness of standards setting and laboratory accreditation services in Australia;
- the appropriate role for the Australian Government in relation to standard setting and laboratory accreditation;
- the appropriate terms for Memoranda of Understanding between the Australian Government and its agencies and Standards Australia Limited and the National Association of Testing Authorities, Australia; and
- the appropriate means of funding activities of Standards Australia Limited and the National Association of Testing Authorities, Australia, which are deemed to be in the national interest.

In preparing the report, the Commission is to have regard to:

- the history of the relationship between the Australian Government and bodies that prepare standards and accredit laboratories;
- the cost impact on and benefits to business and the wider community of standards, including in regulation; and
- models in operation overseas.

The Commission has been asked to report within nine months.

Road and rail freight infrastructure pricing

On 23 February 2006 the Treasurer referred the economic costs of freight infrastructure and efficient approaches to transport pricing to the Commission for inquiry and report by December 2006.

The purpose of the review is to assist COAG to implement efficient pricing of road and rail freight infrastructure through consistent and competitively neutral pricing regimes, in a manner that optimises efficiency and productivity in the freight transport task and maximises net benefits to the community.

The Commission is to:

- estimate the full financial costs of providing and maintaining freight transport infrastructure on major road and rail networks;
- assess the full economic and social costs of providing and maintaining road and rail freight infrastructure, if it judges this to be feasible;
- investigate options for transport pricing reform, including moving to mass, distance and location charging of freight transport. In considering distance based charging regimes the Commission is to:
 - consider principles and practical options for the structure of the different pricing regimes;
 - estimate the impact of charging regime options, including on transport operators and users and specific locations;
 - consider options for implementing any new pricing regime, including the practical costs and benefits of alternative technology options; and
 - provide advice on options for the design of and timeframes for implementing mass distance location based charging regimes, taking into account adjustment issues. The Commission is not address fiscal implications which will be assessed by governments following the review's completion; and
- identify any other competition, regulatory and access constraints on the economically efficient pricing and operation of road and rail freight transport and related infrastructure networks and assets, including access to and competition between intermodal facilities, and make recommendations on the options for removing these impediments and increasing efficiency.

Science and innovation

On 10 March 2006 the Parliamentary Secretary to the Treasurer requested that the Commission undertake a research study on public support for science and innovation in Australia and to report within 12 months. The study complements the ongoing and planned reviews of the Backing Australia's Ability programs.

The Commission is to:

- report on:
 - the economic impact of public support for science and innovation in Australia and, in particular, its impact on Australia's recent productivity performance; and
 - whether there are adequate arrangements to benchmark outcomes from publicly supported science and innovation and to report on those outcomes as measured by the benchmarks;covering all key elements of the innovation system, including research and development, taking into account interaction with private support for science and innovation, and paying regard to Australia's industrial structure;
- identify impediments to the effective functioning of Australia's innovation system including knowledge transfer, technology acquisition and transfer, skills development, commercialisation, collaboration between research organisations and industry, and the creation and use of intellectual property, and identify any scope for improvements;
- evaluate the decision-making principles and program design elements that:
 - influence the effectiveness and efficiency of Australia's innovation system;
 - guide the allocation of funding between and within the different components of Australia's innovation system;
 - and identify any scope for improvements and, to the extent possible, comment on any implications from changing the level and balance of current support; and
- report on the broader social and environmental impacts of public support for science and innovation in Australia.

Although the Commission has not requested to review individual programmes, it can, where necessary, undertake case studies of particular types of public support for science and innovation. It is also to draw on relevant international experience.

Tasmanian freight subsidy arrangements

On 21 March 2006 the Parliamentary Secretary to the Treasurer referred the current arrangements for subsidising containerised and bulk shipping between the mainland and Tasmania to the Commission for inquiry and report within nine months. The Government wished to undertake an independent review of the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Subsidy Scheme to consider the extent of the continuing benefits as well as costs of these schemes.

The Commission has been asked to report on the merits and weaknesses of the current arrangements for subsidising containerised and bulk shipping between the mainland and Tasmania and provide recommendations on an appropriate future approach and/or arrangements.

In making its assessments, the Commission is to:

- report on the characteristics of the freight task for containerised and bulk goods between Tasmania and the mainland of Australia, including a comparison with the freight task between regional centres and metropolitan centres on the mainland and related costs;
- quantify any comparative freight cost disadvantage for goods eligible under the Tasmanian Freight Equalisation Scheme and the Tasmanian Wheat Freight Subsidy Scheme, identify its primary causes and assess the impact of that freight cost disadvantage on Tasmanian business in terms of the cost of business inputs and access to markets on the mainland;
- assess the effectiveness of the current scheme arrangements as a mechanism for addressing any freight cost disadvantage, 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 any freight cost disadvantage, including assessing the full economic costs and benefits of any alternative mechanisms.

Price regulation of airport services

On 6 April 2006 the Treasurer referred current price regulation arrangements for airport services to the Commission for inquiry and report within nine months.

In 2002 the Government introduced a light-handed approach to price regulation of airport services with market power in line with recommendations made by the Commission in its 2002 report, *Price Regulation of Airport Services*. The purpose

of this inquiry is to examine the effectiveness of the current regulatory regime for airport pricing and to advise on any changes to the regime.

The Commission is to report on whether airport operators have acted in a manner consistent with the Government's Review Principles and on effectiveness of the current form of prices regulation of airports having regard to the objectives that the regulatory regime should:

- promote the economically efficient operation of airports;
- minimise compliance costs on airport operators and the Government; and
- facilitate commercially negotiated outcomes in airport operations, benchmarking comparisons between airports and competition in the provision of services within airports (especially protecting against discrimination in relation to small users and new entrants).

In undertaking its assessment, the Commission is to have regard to the Government's Review Principles which are that:

- At airports without significant capacity constraints, efficient prices broadly should generate expected revenue that is not significantly above the long-run costs of efficiently providing aeronautical services (on a 'dual-till' basis). Prices should allow a return on (appropriately defined and valued) assets (including land) commensurate with the regulatory and commercial risks involved.
- Price discrimination and multi-part pricing that promotes efficient use of the airport is permitted. This may mean that some users pay a price above the long-run average costs of providing aeronautical services, whereas more price-sensitive users pay a price closer to marginal cost.
- At airports with significant capacity constraints, efficient peak/off-peak prices may generate revenues that exceed the production costs incurred by the airport. Such demand management pricing practices should be directed toward efficient use of airport infrastructure and, when not broadly revenue neutral, any additional funding that is generated should be applied to the creation of additional capacity or undertaking necessary infrastructure improvements.
- Quality of service outcomes should be consistent with users' reasonable expectations, and consultation mechanisms should be established with stakeholders to facilitate the two way provision of information on airport operations and requirements.
- It is expected that airlines and airports will primarily operate under commercial agreements and in a commercial manner, and that airport operators and users will negotiate arrangements for access to airport services.

The Commission is to review aeronautical asset revaluation practices and dispute resolution mechanisms at each of the price monitored airports and advise on improvements that would be consistent with the Government's Review Principles.

In making its recommendations on future price regulation arrangements for airport services, the Commission is to:

- have regard to its findings on the behaviour of airport operators and airlines and the effectiveness of the existing prices and quality of service monitoring of airports;
- identify relevant alternatives to the current arrangements and the extent to which these alternatives would better achieve the Government's objectives in privatising the airports and moving to a light-handed pricing regulatory regime; and
- analyse and, as far as practical, quantify the benefits, costs (including compliance costs) and economic and distributional impacts of the current arrangements and identified alternatives.

To the extent applicable the Commission is to have regard to:

- the Australian Competition Tribunal's decision of 9 December 2005 to declare the airside services at Sydney Airport and subsequent consideration of this matter by the Federal Court; and
- the outcomes of the COAG's 2005 review of national competition policy.

Performance benchmarking of Australian business regulation

On 11 August 2006 the Treasurer requested that the Commission undertake a study on performance indicators and reporting frameworks across all levels of government to assist the COAG to implement its in-principle decision to adopt a common framework for benchmarking, measuring and reporting on the regulatory burden on business.

Stage 1: Develop a range of feasible quantitative and qualitative performance indicators and reporting framework options

In undertaking this study, the Commission is to:

- develop a range of feasible quantitative and qualitative performance indicators and reporting framework options for an ongoing assessment and comparison of regulatory regimes across all levels of government.

In developing options, the Commission is to:

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- consider international approaches taken to measuring and comparing regulatory regimes across jurisdictions; and
 - report on any caveats that should apply to the use and interpretation of performance indicators and reporting frameworks, including the indicative benefits of the jurisdictions’ regulatory regimes;
 - provide information on the availability of data and approximate costs of data collection, collation, indicator estimation and assessment; and
 - present these options for the consideration of COAG. Stage 2 would commence, if considered feasible, following COAG considering a preferred set of indicators.

The Stage 1 report is to be completed within six months of commencing the study.

Stage 2: Application of the preferred indicators, review of their operation and assessment of the results

It is expected that if Stage 2 proceeds, the Commission will:

- use the preferred set of indicators to compare jurisdictions’ performance;
- comment on areas where indicators need to be refined and recommend methods for doing this; and
- provide a final report within 12 months and which incorporates the comments of the jurisdictions on their own performance. Prior to finalisation of the final report, the Commission is to provide a copy to all jurisdictions for comment on performance comparability and relevant issues. Responses to this request are to be included in the final report.

In undertaking both stages of the study, the Commission is to:

- have appropriate regard to the objectives of Commonwealth, State and Territory and local government regulatory systems to identify similarities and differences in outcomes sought; and
- consult with business, the community and relevant government departments and regulatory agencies to determine the appropriate indicators.

A review of the merits of the comparative assessments and of the performance indicators and reporting framework, including, where appropriate, suggestions for refinement and improvement, may be proposed for consideration by COAG following three years of assessments.

Commission 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 18 October 2006. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

The private cost effectiveness of improving energy efficiency

Inquiry Report No. 36 signed 31 August 2005, report released 21 October 2005.

The Commission's main findings and recommendations were that:

- Firms and households generally do not deliberately waste energy. But energy has been cheap and is only a small percentage of total outlays for most Australian firms and households. Energy efficiency has not been a high priority for them.
- Compared to other OECD countries, Australia has a relatively high level of energy consumption per unit of output. However, such comparisons can be misleading because of significant differences between countries in climate, energy prices and the size of energy-intensive industries. Australia must achieve the right level of energy efficiency for its own circumstances.
- Many governments see energy efficiency improvements as a low-cost means of reducing emissions of greenhouse gases. However, the scope for achieving environmental gains through increasing the uptake of only those energy efficiency improvements that are privately cost effective appears to be modest at current and expected energy prices.
- The most important barriers to the adoption of privately cost-effective energy efficiency improvements appear to be:
 - a failure in the provision of information; and
 - the different incentives facing those who take decisions about installing energy-efficient products and those who might benefit from using them.
- Some government intervention to address these problems is appropriate. The Commission favours light-handed regulatory responses and information provision, rather than more prescriptive and intrusive approaches:
 - mandatory labelling can be an appropriate way of providing information, but other mandatory measures — such as minimum performance standards — may not be privately cost effective; and

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- a sufficient case has not been made for the imposition of a national energy efficiency target and tradeable obligations.
 - The Ministerial Council on Energy has improved the coordination of energy efficiency programs. Elements of the National Framework for Energy Efficiency Stage One could result in further improvement, particularly if there is:
 - greater clarity as to the objectives of government intervention;
 - more emphasis on priority setting; and
 - rigorous evaluation of past policies and programs including in particular the energy efficiency regulations in the Building Code of Australia.
 - The various educative, suasive and regulatory approaches to encourage or mandate greater energy efficiency continue to conflict with the signals given to energy users by Australia's relatively low energy prices.
 - Some energy efficiency measures may not be privately cost effective, and yet may generate net public benefits because of their environmental outcomes. Those measures may prove to be sound public policy, but they should be considered against other means of achieving those environmental objectives.

Government response

On 28 February 2006 the Australian Government announced agreement with all the Commission's recommendations and that it would work with the States, through the Ministerial Council on Energy, to consider the Commission's findings and analysis (Campbell and Macfarlane 2006).

In brief, the Government:

- agreed that private cost effectiveness would not be a rationale for requiring firms to implement any recommendations arising from the Energy Efficiency Opportunities Assessments;
- agreed that future regulation impact assessments of appliance and equipment regulatory measures would include comprehensive analysis:
 - the Government would ask the Equipment Energy Efficiency program, through the Ministerial Council on Energy, to consider and report on the issues raised by the Commission in its ongoing consideration of process improvements; and
 - the general issues raised by the Commission, regarding the need for more comprehensive analysis in regulation impact assessments of appliance minimum performance standards would be addressed in the Government's response to the report of the Taskforce on Reducing the Regulatory Burden on Business;

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- agreed in principle, following the development of an appropriate methodology and when a sufficient number of building case studies and data are available for evaluation, to commission an independent ex-post evaluation of building energy efficiency standards to determine their effectiveness in reducing actual (not simulated) energy consumption and whether the financial benefits to individual producers and consumers have outweighed the associated costs;
 - supported the investigation of the feasibility of introducing congestion pricing where it is likely to improve the economic efficiency of road use and noted initiatives agreed by COAG on 10 February 2006;
 - agreed that the Australian, State and Territory governments and the Australian Building Codes Board should examine ways to prevent local governments from creating variations in minimum energy efficiency standards for buildings;
 - agreed, in principle, that Stage One proposals of the National Framework for Energy Efficiency that expand the scope of existing programs (to new jurisdictions or products) should only proceed after the net social benefits of those programs has been established and a convincing case can be made for their expansion;
 - agreed that the case for a national energy efficiency target has not been made;
 - noted the Commission's recommendation that any mandated roll out of 'smart' metering devices should be subject to a comprehensive benefit-cost analysis and that it had requested the Ministerial Council on Energy to agree on common technical standards for smart meters and implement the roll-out from 2007 in accordance with an implementation plan that has regard to costs and benefits and takes account of different market circumstances in each State and Territory.

Australia's health workforce

Research Report completed 22 December 2005, report released 19 January 2006.

The Commission's main findings and recommendations were that:

- Australia is experiencing workforce shortages across a number of health professions despite a significant and growing reliance on overseas trained health workers. The shortages are even more acute in rural and remote areas and in certain special needs sectors.
- With developing technology, growing community expectations and population ageing, the demand for health workforce services will increase while the labour market will tighten. New models of care will also be required.

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- Expenditure on health care is already 9.7 per cent of GDP and is increasing. Even so, there will be a need to train more health workers. There will also be benefits in improving the retention and re-entry to the workforce of qualified health workers.
 - It is critical to increase the efficiency and effectiveness of the available health workforce, and to improve its distribution.
 - The Commission's objectives were, therefore, to develop a more sustainable and responsive health workforce, while maintaining a commitment to high quality and safe health outcomes. It proposed a set of national workforce structures designed to:
 - support local innovations, and objectively evaluate, facilitate and drive those of national significance through an advisory health workforce improvement agency;
 - promote more responsive health education and training arrangements through: the creation of an independent advisory council; and a high-level taskforce to achieve greater transparency (and appropriate contestability) of funding for clinical training;
 - integrate the current profession-based accreditation of health education and training through an over-arching national accreditation board that could, initially at least, delegate functions to appropriate existing entities, based on their capacity to contribute to the objectives of the new accreditation regime;
 - provide for national registration standards for health professions and for the creation of a national registration board with supporting professional panels; and
 - improve funding-related incentives for workforce change through: the transparent assessment by an independent committee of proposals to extend Medical Benefits Schedule coverage beyond the medical profession; the introduction of (discounted) Medical Benefits Schedule rebates for a wider range of delegated services; and addressing distortions in rebate relativities.
 - Those living in outer metropolitan, rural and remote areas and in Indigenous communities, and others with special needs, would benefit from these system-wide initiatives.
 - Integration of these groups into mainstream health workforce frameworks will further improve outcomes, but targeted initiatives will also be required.
 - There is a need for better evaluation of various approaches to service delivery in these areas and across the health system more generally.

Government response

In its communiqué of 10 February 2006, COAG stated its support for the key directions outlined by the Commission and asked Senior Officials to undertake further work on the recommendations and related issues and report in mid-2006.

The COAG communiqué of 14 July 2006 announced substantial agreement with the measures proposed by the Commission and provided a detailed response to the Commission's recommendations (in attachment A). In summary, COAG responded as follows:

- COAG agreed with the Commission's recommendations for enhancing the National Health Workforce Strategic Framework and requested that the Treasurer have the Commission review the effectiveness of reforms and progress against the Strategic Framework by July 2011.
- In response to the Commission's recommendation that an advisory health workforce improvement agency be established to evaluate and, where appropriate, facilitate major health workforce innovation possibilities on a national, systemic and timetabled basis, COAG agreed to establish a taskforce on the national health workforce to undertake studies and advise the Australian Health Ministers' Conference on workforce innovation and reform.
- COAG agreed with the Commission's recommendation that the Australian Government develop an agreement with the States and Territories for the allocation of places for university-based education and training of health professionals within each jurisdiction. The taskforce on the national health workforce would provide advice on opportunities to improve education and training approaches and related issues. COAG also agreed to request that health ministers consider further the Commission's proposal that a taskforce be established to inform understanding of the operation of the clinical training regime and make recommendations to facilitate more transparent, coordinated and contestable clinical training arrangements.
- Consistent with the Commission's recommendations, COAG agreed to establish by 1 July 2008 a single national accreditation scheme for health professional education and training. COAG also agreed that the national scheme assume responsibility for accreditation functions for overseas trained health professionals currently carried out by existing profession-based entities.
- COAG agreed that health professional registration be on the basis of uniform national standards for the profession and, consistent with the Commission's recommendations, agreed that a national registration scheme for health professionals be established by July 2008, commencing with the nine

professions currently registered in all jurisdictions but possibly extending to other professional groups (for example, Aboriginal Health Workers) over time.

- The Australian Government agreed with the Commission recommendation to extend the range of services for which a rebate is payable when provision is delegated by a practitioner to another suitably qualified health professional. From 1 May 2007, the Government will introduce a new Medicare item for practice nurses, nurse practitioners and registered aboriginal health workers providing ongoing support for patients with a chronic disease for, and on behalf of, general practitioners. However, the Government did not accept the Commission's recommendations for a single independent standing review committee to advise publicly on coverage and rebates under the Medical Benefits Schedule and to review, as a priority, the bias in Medical Benefits Schedule rebates towards procedural medicine that can distort provider behaviour, career choices and location decisions.
- COAG also endorsed Commission recommendations to achieve better focused and more streamlined projections of future workforce requirements; more effective approaches to improving outcomes in rural and remote areas, with the Australian Health Ministers' Conference asked report to COAG by mid-2007 on ways to improve rural and remote health service delivery; and to assist groups with special needs including Indigenous Australians, people with mental health illnesses, people with disabilities and those requiring aged care.

Review of the Australian consumer product safety system

Research Report completed 16 January 2006, report released 7 February 2006.

The Commission's main findings and recommendations were that:

- The current regulatory system plays a necessary and important role in identifying and removing unsafe products through recalls, bans and standards. Overall, the regulatory system in combination with other mechanisms — the market, the product liability regime, media scrutiny and consumer advocacy — deliver a reasonable level of product safety, as expected by Australian consumers.
- Nevertheless, there is considerable scope to make the regulation of consumer product safety more efficient, effective and responsive.
- A strong case exists for national uniformity in the regulation of consumer product safety. Current differences create inefficiencies in a resource constrained environment, including duplication of effort and inconsistent approaches to similar risks and hazards. The preferred model is to have one national law, the

Trade Practices Act, and a single regulator, the Australian Competition and Consumer Commission.

- If this is not achievable, jurisdictions should harmonise core legislative provisions, including a changed requirement that permanent bans and mandatory standards should only be adopted on a national basis.
- There is also merit in the following legal reforms:
 - including ‘reasonably foreseeable use’ in the definition of ‘unsafe’;
 - ensuring that services related to the supply, installation and maintenance of consumer products are covered by all jurisdictions; and
 - requiring suppliers to report products which are associated with serious injury or death.
- The Commission also proposed a number of administrative reforms, including:
 - consistently making hazard identification and risk management more central to policy making, standard setting and enforcement;
 - improving the focus and timelines for the development of mandatory standards;
 - providing better regulatory information to consumers and businesses through a ‘one-stop shop’ internet portal; and
 - establishing a national clearinghouse for gathering information and analysis from existing sources to provide an improved hazard identification system.
- Efforts to improve the safety of consumer products would also benefit from:
 - conducting a comprehensive baseline study of consumer product-related accidents; and
 - reviewing product recall guidelines.

Government response

The COAG communiqué of 14 July 2006 noted the Commission’s findings and COAG requested the Ministerial Council on Consumer Affairs to develop options for a national system for product safety regulation, without increasing the regulatory burden, and to report back with a recommended approach by the end of 2006.

Economic impacts of migration and population growth

Research Report completed 24 April 2006, report released 17 May 2006.

The Commission's principal findings were that:

- Migration has been an important influence on Australian society and the economy affecting the size, composition and geographic location of the population and workforce.
- Recent changes to Australia's migration program include a greater emphasis on skills, increased numbers of temporary immigrants, and more diversification in the country of origin.
- The number of Australians leaving this country, permanently and long term, has risen markedly in recent years. But the number has been considerably smaller than those coming to Australia.
- Economic effects of migration arise from demographic and labour market differences between migrants and the Australian-born population, and from migration-induced changes to population growth.
- However, the Commission considered it unlikely that migration will have a substantial impact on income per capita and productivity because:
 - the annual flow of migrants is small relative to the stock of workers and population and
 - migrants are not very different in relevant respects from the Australian-born population and, over time, the differences become smaller.
- Some effects of migration are more amenable to measurement and estimation than others. Effects that cannot be reliably measured or estimated might still be significant.
 - Positive effects from additional skilled migrants arise from higher participation rates, slightly higher hours worked per worker and the up-skilling of the workforce.
 - Some of the economy-wide consequences lower per capita income, such as capital dilution and a decline in the terms of trade.
 - The overall economic effect of migration appears to be positive but small, consistent with previous Australian and overseas studies.
- In terms of the selection criteria of the Migration Program:
 - the greater emphasis on skills has been associated with better labour market outcomes for immigrants
 - English language proficiency stands out as a key factor determining the ease of settlement and labour market success of immigrants.

Conservation of historic heritage places

Inquiry Report No. 37 signed 6 April 2006, released 21 July 2006.

The Commission's main findings and recommendations were that:

- Historic heritage places provide important cultural benefits to the wider community, in addition to the use and enjoyment they provide to their owners and users.
 - To enhance the provision of these benefits, governments at all levels own and manage heritage sites. They also identify, list and provide strong regulatory protection for non-government (privately-owned) heritage places.
- Governments are the custodians of the vast majority of the most significant or 'iconic' heritage places. They also own a very large number of less significant places.
 - Information about the nature and condition of these, and the cost of their conservation, is inadequate. Arrangements for their conservation are often deficient.
 - There is significant scope for governments to improve how they identify and fund the conservation of government-owned places.
- For privately-owned places, the existing arrangements are often ineffective, inefficient and unfair. The system is not well structured to ensure that interventions only occur where there is likely to be a net community benefit.
 - Relying primarily on regulation to protect listed heritage places has resulted in insufficient account being taken of the costs of conserving heritage places when selecting places for listing and insufficient incentives for their active conservation.
 - While the regulations impose few, if any, added costs for many owners, for others, there are significant costs that would not otherwise be incurred, especially for the conservation of redundant structures and where there would otherwise be valuable development options.
 - The most appropriate time to consider the added costs of conservation and to assess net community benefit would be after the assessment of heritage significance and before regulatory control is applied.
- The Commission considered that negotiated conservation agreements should be used for obtaining extra private conservation where the existing systems would impose unreasonable costs on private owners. This should be achieved by providing owners with an additional right to appeal statutory listing which occurs during their period of ownership on the grounds of unreasonable costs.

Rural water use and the environment: the role of market mechanisms

Research Report completed 11 August 2006, released 25 August 2006.

On 13 December 2005 the Treasurer requested that the Commission undertake a research study to assist jurisdictions in implementing their commitments under the Intergovernmental Agreement on a National Water Initiative (NWI). The NWI sets out objectives, outcomes and actions for the ongoing process of national water reform, and timelines to achieve this reform. This terms of reference relates to the study described in clause 61 (iii) of the NWI.

In undertaking the study the Commission was to:

- assess and report on the feasibility of establishing workable market mechanisms:
 - to provide practical incentives for investment in rural water-use efficiency and water related farm management strategies; and
 - for dealing with rural water-management related environmental externalities;
- take into account relevant practical experiences in other areas, such as with establishing tradeable salinity and pollution credits;
- recognise that the purpose of the study is to support the parties in achieving the water markets and trading outcomes and actions under the NWI; and
- consult with signatories to the NWI (including through the inter-jurisdictional water trading group) and the National Water Commission.

The Commission was to report initially within six months. However, the reporting date was subsequently extended by the Government to 11 August 2006.

The Commission's main findings and recommendations were that:

- Markets are already making a significant contribution to increasing rural water-use efficiency. But further reform is needed to ensure that water continually moves to its highest value uses (including environmental uses).
- Market mechanisms to address environmental externalities need to be targeted to location and scale — no 'one size' fits all. Poorly designed programs can impose high costs that may outweigh potential gains.
- Appropriate arrangements for environmental managers should be established as soon as is practical based on a comprehensive review of different institutional structures. They need clearly defined objectives, good coordination processes and adequate resources. They need to enter markets to source water and to

access the full range of water and water-related products on the same terms and conditions as other market participants.

- ‘Saving’ water via major infrastructure works is often costly compared with other options and may reduce water available for other uses.
- Subsidies that seek to improve the uptake of particular technologies or practices solely to increase the productivity of water use are likely to be inefficient.
- The Living Murray Initiative could be implemented more effectively if current efforts to source water ‘permanently’ are supplemented with additional water products (such as seasonal allocations, leases and options contracts). Appropriate institutional arrangements should be put in place to establish an agency specifically charged with purchasing a portfolio of water products to suit the needs of environmental management in the River Murray.
- Using administrative arrangements to allocate water for environmental purposes conceals the opportunity cost of meeting environmental targets. Market mechanisms are usually a more efficient means of re-allocating resources.
- Climate change, farm dams, vegetation and land-use changes, groundwater extraction, and changes to irrigation water management, have the potential to reduce stream flows substantially. In the Murray–Darling Basin, such reductions undermine efforts to achieve environmental goals and can affect the reliability of existing entitlements. Priority should be given to refining and clarifying existing property rights, undertaking further research on water systems and improving water accounting.
- There are opportunities to improve entitlement regimes through unbundling of water entitlements and water-use approvals, and facilitating efficient intertemporal water-use decisions. Separating delivery entitlements from water entitlements may also be beneficial where there is congestion in water delivery.
- A number of impediments to water trade reduce economic efficiency and should be removed. In particular, governments should:
 - enable other participants to trade in water markets
 - open up interdistrict water entitlement trade, and remove exit fees.

Government responses to reports from previous years

Review of the gas access regime

Inquiry Report No. 31 signed 11 June 2004, released 10 August 2004.

On 9 May 2006 the Ministerial Council on Energy announced its support for the key recommendations made by the Commission (MCE 2006). Legislative amendments to the Gas Access Regime are to include the introduction of an overarching objects clause to clarify the objectives of the Regime, alignment with the National Access Regime and the introduction of a light-handed regulatory option. An option of a full regulatory exemption from regulation for 15 years, in the form of a binding no coverage ruling for proposed pipelines that do not meet the coverage criteria, will also be introduced to provide an incentive for greenfields pipelines. The Commission's 2004 report preceded or was concurrent with broader reforms in the energy sector. Although endorsing the broad themes in the Commission's report, the Ministerial Council adopted some variants of specific Commission recommendations, in part, to achieve a national approach to energy access across electricity and gas transmission and distribution. The Ministerial Council did not respond to the Commission's recommendations specifically about modifying regulations governing the application of price regulation, instead referring them to an expert panel (which reported in April 2006). The Ministerial Council has announced that its response to the expert panel's recommendations will be addressed through the explanatory material accompanying the release of the exposure draft of the National Electricity Law and National Gas Law, expected later this year.

Australian and New Zealand competition and consumer protection regimes

Research Report completed 16 December 2004, released 13 January 2005.

In their joint statement of 17 February 2005, the Australian Treasurer and the New Zealand Minister for Finance broadly endorsed the work program that the Commission had recommended to more closely integrate the competition and consumer protection regimes of the two countries (Costello and Cullen 2005).

The Memorandum of Understanding Between the Government of New Zealand and the Government of Australia on Coordination of Business Law signed in February 2006 explicitly referred to the Commission's report. The accompanying review prepared by officials noted that, consistent with the Commission's recommendations:

officers and regulators continue to work towards further integration of the two regimes; a single track procedure for those businesses requiring competition authority approval in both jurisdictions was being progressed; and the Australian Treasury and the New Zealand Ministries of Economic Development and Consumer Affairs have agreed to regular meetings to keep abreast of consumer and competition policy initiatives in each country. Progress in implementing Commission recommendations to improve the information-sharing powers of the respective regulators (the ACCC and the NZ Commerce Commission) and examine the scope for cross-appointments and greater cooperation between the regulators was also noted.

Review of Part X of the *Trade Practices Act 1974*: international liner cargo shipping

Inquiry Report No. 32 signed 23 February 2005, released 5 October 2005.

Part X of the Trade Practices Act gives immunity to ocean carriers which provide liner cargo shipping services to Australian shippers (exporters and importers) to form agreements for the joint supply and pricing of such shipping services. Designated shipper bodies are also given immunity to consult and negotiate collectively with carriers.

The Commission's main findings and recommendations were that:

- The immunities provided under United States and European Union regulations have recently been narrowed in scope as part of a move to more pro-competition arrangements.
- The wide variety of agreements registered under Part X have varying potential to provide a net public benefit for Australia, depending on the nature of the agreement and their impact on competition in the trade routes on which they operate.
 - Agreements on operational matters, such as joint scheduling and use of shipping assets, can, in principle, offer significant cost savings and pose little anticompetitive risk.
 - Agreements which fix prices and control the supply of shipping to a trade route pose the greatest anticompetitive risks.
- Evaluation and selective registration of agreements is therefore necessary if Australia is to be confident that only those that provide a net public benefit are allowed to operate.

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- The Commission considered that the most effective way to introduce selective approval of carrier agreements would be to repeal Part X and, as occurs for other industries, rely on authorisation under Part VII of the Trade Practices Act. Under Part VII, agreements would be assessed individually on the basis of their net public benefit by the Australian Competition and Consumer Commission.
 - Authorisation under Part VII was the Commission's preferred option. With a four-year transitional arrangement, repeal of Part X should not disrupt the provision of liner cargo shipping services to or from Australia. It is clear from overseas experience that the industry is capable of adapting effectively to new rules.
 - If Part X was not repealed, the current arrangements could be improved by either:
 - (i) selectively registering only agreements that do not contain provisions to discuss or set prices and/or limit capacity offered on a trade route, and by revoking registration for those that do; or
 - (ii) excluding from registration, and by revoking the registration of, 'discussion agreements', together with providing for the protection of confidential individual service contracts between carriers and shippers.
 - If no selectivity were introduced for the registration of agreements under Part X, some improvement to current arrangements could be made by providing for the protection of confidential individual service contracts between carriers and shippers.

Government response

On 4 August 2006 the Government announced that it had decided to retain Part X but to amend it in a manner consistent with recommendations in the Commission's report (Costello and Truss 2006). In particular, the Government supported Commission recommendations to:

- clarify the principal objectives of Part X;
- remove discussion agreements from its scope;
- protect from disclosure confidential individual service contracts between carriers and shippers; and
- include a net public benefit requirement in the review of registered agreements, introduce penalties for breaches of the procedural provisions of Part X and limit the use of undertakings.

The Commission's preferred policy option — to repeal Part X and subject the liner cargo shipping industry to the general provisions of the Trade Practices Act, albeit with transitional arrangements — was not supported by the Government. Nor did the Government agree to remove the scope for Ministerial discretion in cancelling the registration of an agreement under Part X.

Review of national competition policy reforms

Inquiry Report No. 33 signed 28 February 2005, released 14 April 2005.

When releasing the report, the Government indicated that the response to the Commission's recommendations would be made through COAG's own subsequent review of national competition policy.

In June 2005 COAG agreed to Senior Officials reviewing the effectiveness of the existing national competition arrangements and considering a possible new national reform agenda. The review was to draw from, but not be limited by, the Commission's report. The influence of the Commission's report can be seen in the way the papers prepared for COAG drew on Commission analysis of the benefits of, and lessons learned from, national competition policy and the key elements needed in a future reform program (NCP Review Working Group 2006 and the National Reform Initiative Working Group 2005).

The COAG communiqué of February 2006 drew on the Commission's analysis of the benefits of past national competition policy reforms and important elements of COAG's new National reform Agenda reflect the Commission's recommendations and approach. See also chapter 1 of this annual report.

Attachment C1

Amended procedures for safeguard inquiries by the Productivity Commission

On 25 June 1998 the Australian Government gazetted general procedures for inquiries by the Productivity Commission into whether safeguard action is warranted under the Agreement establishing the World Trade Organization. The gazetted notice was reproduced in the Commission's annual report for 1997-98 (attachment C1, pp. 121-4).

On 5 October 2005 the Australian Government gazetted amendments to these general procedures in order to comply with the provisions of the Australia-United States Free Trade Agreement, the Singapore-Australia Free Trade Agreement and the Thailand-Australia Free Trade Agreement. The Gazette Notice of 5 October 2005 is attached.

As a consequence of the amendments, the 'Conditions' section of the safeguard inquiry procedures now states:

- 4 The Commission is to report on whether the product under reference is being imported into Australia in such increased quantities, absolute or relative to domestic production, and under such conditions as to cause or threaten to cause serious injury to the domestic industry that produces like or directly competitive products.
- 5 Safeguard measures have to be applied to a product being imported irrespective of its source, except:
 - (a) product determined to be of New Zealand origin pursuant to the Australia New Zealand Closer Economic Relations Trade Agreement, which shall be excluded; and
 - (b) product originating in a developing country Member of the WTO shall be exempted from such measures as long as its share of imports of the product concerned does not exceed 3%, provided that developing country Members of the WTO with less than 3% import share collectively account for not more than 9% of total imports of the product; and
 - (c) product determined to be of Singapore origin pursuant to the Singapore Australia Free Trade Agreement, which shall be excluded; and
 - (d) product determined to be of United States origin pursuant to the Australia United States Free Trade Agreement, which may be excluded

if those imports are not a substantial cause of serious injury, or threat thereof; and

- (e) product determined to be of Thai origin pursuant to the Thailand Australia Free Trade Agreement, which may be excluded if those imports are not a cause of serious injury or threat thereof or of serious damage or actual threat thereof.



Amendment of general procedures for inquiries by the Productivity Commission into whether safeguard action is warranted under the Agreement establishing the World Trade Organization

In order to comply with the requirements of the Singapore Australia Free Trade Agreement, the Australia United States Free Trade Agreement and the Thailand Australia Free Trade Agreement, this notice amends the General procedures for inquiries by the Productivity Commission into whether safeguard action is warranted under the Agreement establishing the World Trade Organization Instrument.

Note The general procedures were published in *Commonwealth Gazette* No S 297 of 25 June 1998, and notified to the World Trade Organization. The general procedures relate to inquiries into safeguard action by the Productivity Commission in respect of a reference under Parts 2 and 3 of the *Productivity Commission Act 1998*.

Amendments

(section 3)

[1] Paragraph 5 (a)

omit

which shall be excluded from the inquiry; and

insert

which shall be excluded; and

[2] Paragraph 5 (b)

omit

imports of the product.

insert

imports of the product; and

[3] After paragraph 5 (b)

insert

- (c) product determined to be of Singapore origin pursuant to the Singapore Australia Free Trade Agreement, which shall be excluded; and
- (d) product determined to be of United States origin pursuant to the Australia United States Free Trade Agreement, which may be excluded if those imports are not a substantial cause of serious injury, or **threat thereof**; and
- (e) product determined to be of Thai origin pursuant to the Thailand Australia Free Trade Agreement, which may be excluded if those imports are not a cause of serious injury or **threat thereof or of serious damage or actual threat thereof**.