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## Annual report series

The Commission is also releasing the following companion publications as part of the annual report series.

### *Regulation and its review 1997-98*

This report assesses compliance with the Government's requirements for regulation impact analysis and reports on the activities of the Office of Regulation Review.

### *Trade and assistance review 1997-98*

This report contains the Commission's latest estimates of industry assistance and reviews recent developments and emerging issues in trade and assistance across all sectors of the economy.

### *Microeconomic reform scoreboard 1997-98*

This report reviews and lists the microeconomic reforms undertaken by Commonwealth, State and Territory governments during 1997-98.

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## Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
APEC	Asia Pacific Economic Cooperation (Forum)
ANU	Australian National University
APS	Australian Public Service
COAG	Council of Australian Governments
EPAC	Economic Planning Advisory Commission
GDP	Gross domestic product
IC	Industry Commission
MFP	Multifactor productivity
NCC	National Competition Council
OECD	Organisation for Economic Co-operation and Development
ORR	Office of Regulation Review
PC	Productivity Commission
PMV	Passenger motor vehicle
R&D	Research and development
RIS	Regulation impact statement
TCF	Textiles, clothing and footwear
WTO	World Trade Organization

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# 1 Microeconomic reform and adjustment to change

**Over the last decade, successive governments in Australia have actively pursued microeconomic reforms to raise productivity and community living standards. There have been improvements in many areas where performance had previously been poor. While reforms have benefited the community at large, they have also added to adjustment pressures for some individuals, groups and regions. Concerns and confusion about reform and its effects — and about the effects of change more generally — are threatening to halt socially beneficial reforms. This underlines the importance of having policy choices informed by the best available information on the benefits and costs of reforms, including the adjustment and distributional consequences, as well as attention to implementation issues.**

## **Debate about change and reform**

The Productivity Commission has been launched at a time of vigorous debate about the most appropriate policy directions for Australia. The issues in contention cut across all major areas of policy. They include our openness and attitude to foreign investment and immigration, the forms and level of taxation, the implementation of competition policy, the protection of industry, the privatisation of major utilities, labour market regulation, indigenous land rights and environmental issues, and the role of government generally in the economic and social life of the community.

Much of this debate reflects disquiet in sections of the Australian community about the effects of change and a heightened sense of uncertainty about the future. Some people feel they are working longer and harder without seeming to get ahead. While the rate of unemployment varies considerably around Australia, in some parts of the country it looks intractable. Many in rural and regional areas feel that the viability of their towns is threatened by the closure of bank branches and other service providers.

Sections of the community are questioning whether the program of microeconomic reform undertaken in Australia over the last decade has achieved its supposed gains.

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Some say the gains are inherently small or do not justify the adjustment costs involved and express concern that those adversely affected have not been compensated adequately. There is scepticism about whether ordinary Australians are sharing equally with the ‘big end of town’ and dissatisfaction with how adjustment to change has been managed.

Against this background, it is understandable that those government policy changes which have exposed people and their workplaces or regions to greater competition have become targets for resistance and hostility. Yet competition policy and other microeconomic reforms are often being blamed for changes over which governments have little control. For example, the drift from small country towns to the cities and larger regional centres has been driven by various influences — including increased agricultural productivity and the additional amenity that city life can provide — and long predates the relatively recent period of microeconomic reform. Indeed, between 1911 and 1976 the proportion of Australians living in rural areas declined steadily from 43 per cent to 14 per cent, whereas there has been little change since then (ABS 1998a, p. 140).

### **Reform is only one source of change**

Microeconomic reform is only one among many sources of economic and social change affecting the community. The changes occurring in the Australian economy about which some people complain — as well as the favourable effects of change about which much less is heard — are driven by a range of forces, both domestic and international. Key factors include the introduction of new technology, global shifts in the competitiveness of industries, the discovery of new mineral wealth, variability in weather patterns and fluctuations in the business cycle. Many of the changes are ‘people driven’, as reflected in shifts in spending patterns due to demographic trends (including the ageing of the population), higher educational attainments and job aspirations, and changing community values and attitudes (such as towards working mothers and extended shopping hours).

Long-term developments in the world economy — particularly the sustained growth in trade, the increased international mobility of capital and the growing skills base and rising incomes in developing countries — are creating both opportunities and challenges for Australians. Over the decade to 1996, world trade in goods grew twice as fast as real world output. Many Australian industries and their workers have come under competitive pressure to lift their performance as Australian consumers and businesses have taken advantage of imports, partly in response to lower trade barriers. Imports have risen as a share of national spending from 17 per cent to a little under 21 per cent in the decade to 1997. At the same time, lower

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domestic tariffs, the growth of world trade, reductions in international trade barriers and rising standards of living in other countries have offered new possibilities for Australian exporters. Indeed, exports have risen in line with imports: the export share of Australia's GDP has increased from 17 per cent to a little over 21 per cent in the last decade. Growth in manufactured exports, tourism and the export of educational services has been even stronger.

The introduction of new technology typically sees new markets expanding and old ones coming under pressure and sometimes declining. The dramatic 25 per cent average annual fall in the cost of computing power over the last 30 years has been a boon to consumers and business users. This has created new industries and new jobs, faster and cheaper communications and access to information (such as through the Internet), and enhanced the quality of life (from medical diagnosis and treatment of illness through to the convenience of EFTPOS transactions). But with progress has come the displacement of some traditional work opportunities (such as in large typing pools and routine clerical functions) and a requirement for people to upgrade their skills to take advantage of new technologies.

### **Would stopping reform avoid adjustment pressures?**

It is unrealistic to believe that, by stopping or reversing reform, the diverse pressures for change in people's lives will evaporate. Indeed, the pressures will build and be more disruptive if our economy is not flexible enough to adapt as changes occur at home and abroad. This is a compelling reason for Australia to press on with policies directed at enhancing the flexibility of the economy and people's ability to grasp new opportunities as they arise. Improvements in the operation of the labour market and training systems, for example, can assist when technological progress and other beneficial changes inevitably require people to change jobs and acquire new skills. Reducing the extent and duration of unemployment is a key to sharing the benefits of economic growth.

Of course, governments can attempt to shield selected industries or groups in the community from adjustment pressures. But this only shifts the burden of adjustment to other Australians. For example:

- Tariffs to protect import-competing industries translate to increased taxes on Australian consumers, user industries and exporters — many in the rural and mining sectors are themselves struggling against depressed world prices.
- Bounties and subsidies intended to make recipient industries more competitive in domestic and world markets have to be paid for by Australian taxpayers, including other businesses.

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- Acceptance of overmanning in public utilities may ease the adjustment burden on some workers but entails a continuing burden on taxpayers, less competitive cost structures for business users and higher prices for consumers, including low income families.

There can be no overall security in resisting the changes needed to make the Australian economy more productive. Instead, there would be costs to Australian living standards in drawing back from the opportunities and challenges presented by a dynamic global economy. For instance:

- Foreign capital and the technology that comes with it will not be forthcoming unless Australia is a productive and profitable place in which to invest. Given Australia's low saving rate, foreign capital is indispensable to finance the investment in industry and the economic and social infrastructure necessary for growth, employment and higher living standards.
- Reversing competition reforms would, among other adverse consequences, stymie the development in Australia of a single national market and see a return to high-cost, fragmented and less competitive production evident when State purchasing preferences and other forms of parochialism prevailed. An integrated Australian economy creates a stronger base from which Australian firms can compete in the global marketplace.

The reforms needed for our economy to rise to the challenges and opportunities of global change will inevitably involve losses for some groups in the short term. The challenge for society is to handle this process such that socially beneficial reforms can still proceed. This requires policy choices to be informed by the best available information and analysis of the costs as well as the benefits of specific reform proposals, not just for particular groups, but across the wider community and economy. It also requires care in implementing reform and for potentially significant adjustment consequences to be addressed at the outset. Adjustment costs can be sensitive to how reform is implemented.

That raises questions about how well the adjustment process has been handled in the past and what might be done to improve it in the future. This is a key issue for all governments and an area where the Productivity Commission is expected to make a contribution.

There is also a continuing need to promote community understanding of the objectives of microeconomic reform and the benefits realised and in prospect. The sense of fatigue and even hostility towards reform that has developed in some sections of the community has been compounded by misunderstandings and, at times, misrepresentation of the role of microeconomic reform.

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## **Why has Australia undertaken reform?**

Considerable confusion is evident in the public debate about microeconomic reform. One source of confusion is that not everything done in the name of microeconomic reform is genuine reform. Even use of the term can provoke a negative reaction from some people. This inhibits an understanding of what is involved. We need to sort through what it is and what it is not.

### **Reform is a means to higher living standards**

The origins of microeconomic reform lay in the gradual realisation that, over the years, some key government policies and practices were preventing Australia from reaching its economic potential. Inappropriate regulation and red tape — which inhibited healthy competition while raising the costs of doing business — and mandated government monopolies which denied freedom of choice of supplier, were among the policies which had weakened incentives for people in all walks of life to be innovative, self-reliant and to use the resources available to them to the best effect.

Microeconomic reform seeks to change the incentives facing people to encourage them to be more productive. Requiring government businesses to adopt a more commercial focus, winding back unnecessarily prescriptive regulation of business and labour markets, reducing import protection and opening previously closed markets (such as airlines and telecommunications) to new operators, for example, provide incentives for private and public firms to be more cost conscious, to price their goods and services competitively, and to be innovative and seek new markets. This can have social and economic pay-offs. Policies which make consumers conscious of the true costs, for instance, are an essential guide to socially beneficial investments and provide price signals that prevent wasteful consumption of energy, water and other scarce natural and environmental resources.

Microeconomic reform also seeks to provide people with opportunities for greater choice. Greater competition allows people to walk away from inadequate services and obtain something better. For example, until the financial reforms of the 1980s, interest rate controls on housing and small business lending meant that finance was often available at less than true market rates, but it was rationed. Among home-seekers, the poor, women and minority groups were particularly disadvantaged in being forced to borrow from higher cost finance companies and other sources.

In seeking to enhance choice and improve incentives for people to do better in all the activities and institutions that make up Australian society, the ultimate objective of microeconomic reform is to improve living standards. Higher productivity and

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growth are essential to support higher wages and improve job prospects. They are also the only sustainable basis for community expenditures on health and education and the maintenance of fair and effective social support mechanisms, including for those most vulnerable to change.

### **Reform aims to harness market forces properly**

Microeconomic reform is not, as is often implied, doctrinaire adherence to unbridled market forces. Competition, deregulation and privatisation can be legitimate and powerful tools for achieving society's economic and social objectives, but they should not be used indiscriminately. They are not objectives in themselves, but possible means to desirable ends. Nor are they the be all and end all of reform. An important focus of reform efforts has been to ensure that governments intervene where markets fail and they can improve on market outcomes.

Indeed, there is reason to be careful about how market incentives are introduced into some activities. In areas such as health, education and housing, the aim is to ensure access to services of acceptable minimum standards as well as the efficient and effective provision of those services. Similarly, while some market-based mechanisms — such as tradeable pollution and water rights — are increasingly recognised as playing a complementary role with other policies in achieving better environmental outcomes, a number of conditions need to be satisfied for their effective application (Wall et al 1997).

Privatisation of public utilities can spur better performance by removing political and bureaucratic interference in day-to-day operations and imposing the extra disciplines of the share market. But case-by-case assessment of all the potential benefits and costs is needed to determine whether it would be in the public interest. There could, for example, be substantial costs in regulating the exercise of market power where a natural monopoly provider has been privatised.

Far from allowing unconstrained market forces, competition policy in part seeks to control the excesses and concentration of market power that endanger smaller yet efficient producers to the ultimate detriment of consumers. The Trade Practices Act requires, for example, that mergers which substantially lessen competition be opposed, unless there is a demonstrated public benefit. Small businesses are also protected by the Act from the anticompetitive behaviour of other large businesses. One notable case involved action and fines of more than \$20 million against companies which operated a ready mix concrete cartel in southern Queensland to fix prices to the detriment of public works projects and other businesses, both large and small (ACCC 1996, p. 11–12).



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A major thrust of recent microeconomic reform efforts has been to establish ground rules to enable competitors to have access to the services of certain essential facilities that cannot be duplicated economically. These provisions have been a factor in allowing new competitors to run trains between Melbourne and Perth in competition to National Rail, with a consequent reduction in freight rates of up to 40 per cent (NCC 1997, p. 16). The ACCC has new responsibilities for determining the terms and conditions for access in the telecommunications industry. Its recent decision no longer to require data service providers to route their traffic through Telstra's capital city switches will mean reduced costs and an expanded range and quality of digital data services, particularly in regional areas. High quality data products are one of the fastest growing areas of the telecommunications market — valued at more than \$500 million annually — and are crucial to business customers such as retailers, financial institutions and to government agencies (ACCC 1998).

Reform is as much about developing and implementing appropriate regulation as it is about deregulation. In this way, governments are striving to ensure that social and economic objectives which would not be met through market forces alone are achieved in the most efficient manner. For instance:

- An important aspect of reform is the use of public benefit tests in developing regulatory proposals and in assessing whether existing anticompetitive regulation should be maintained.
- Although there has been substantial deregulation in Australia's financial sector, following the Wallis inquiry the Government moved to establish an improved regime for financial system regulation, including a single prudential supervisory authority for all deposit taking institutions, life and general insurance companies and superannuation funds.
- Efforts are being made to ensure that regulatory objectives for firms can be met with reduced compliance costs. One example is the simplified immigration rules and streamlined procedures covering temporary entrants which enable businesses to bring into Australia quickly the skilled overseas people they need (Ruddock 1996). Another example is one-stop shops for business licences. In Queensland, Smart Licence is expected to save small businesses \$37 million annually by extending licence terms, reducing the nominal number of licences by nearly 50 per cent and by combining the most common licences into the one application (DTSBI 1998, p. 4).

The role of regulatory and institutional arrangements — which establish a foundation of law and property rights that enable markets to work effectively — is often overlooked. Such rules underpin the division of labour, the exchange of goods and services and technological developments that have been the keys to economic

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progress. In a study of the role of government in a changing world, the World Bank (1997, p. 41) stressed:

Markets rest on a foundation of institutions. Like the air we breathe, some of the public goods these institutions provide are so basic to daily economic life as to go unnoticed. Only when these goods are absent, as in many developing countries today, do we see their importance for development. Without the rudiments of social order, underpinned by institutions, markets cannot function.

### **Good reform is not driven by budgetary imperatives**

Microeconomic reform is sometimes wrongly identified with cutbacks in public expenditure. Microeconomic reform seeks to improve efficiency and this may lead to reduced expenditure, but the reverse need not hold. Budgetary considerations alone are unlikely to provide a basis for sound structural reforms. One example was the 3 per cent duty imposed as a revenue measure on business inputs previously imported duty free under the tariff concession system. It is also important, for example, that research and development policy, while potentially involving substantial budgetary outlays, is designed to address effectively the sources of market failure which can inhibit technological innovation and economic growth. In 'big ticket' areas of government expenditure such as health and education, incentives for responsive and efficient delivery of services, not just budgetary outlays, are critical to good social and economic outcomes.

### **Reform can help governments achieve social objectives**

By generating higher levels of national income, reforms directed at improving the productivity of the economy provide the wherewithal to fund social services and government expenditures including education, health and other services.

Microeconomic reform is also intended to help governments meet social objectives better. It is concerned primarily with how to allocate rather than how much to allocate. For example, to avoid unduly constraining the commercial activities of their business enterprises, some governments have moved to fund community service obligations from the budget rather than through cross-subsidies embedded in the pricing structures of government business enterprises. Rail authorities received \$1.2 billion in 1996-97 in payment for explicit community service obligations (PC 1998f). Cross-subsidies can mask inefficiencies and are a hidden tax on some users. The shift to on-budget financing is allowing decisions about community service obligations to be made openly rather than by default. Such transparency is often resisted by the beneficiaries of previously hidden cross-subsidies who fear that exposure will see their assistance cut. But explicit budget financing allows the

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justification for such subsidies and level of support to be assessed more readily against other social expenditures.

The substantial and growing resource costs of providing healthcare and community services are concentrating government and community attention on the means to promote better and more efficient service delivery. Where properly implemented, the move to separate the roles of purchaser from provider, and parallel initiatives such as competitive tendering, have required governments to be more precise about the types of services to be delivered, fostered improvements in the quality and timeliness of services and led to a greater focus on the needs of the client (SCGSP 1998b).

## **The gains from reform**

Significant milestones in microeconomic reform now date back many years. Key initiatives included the removal of import licensing in 1960, the 25 per cent tariff cut in 1973 and the floating of the Australian dollar and financial market liberalisation in the early 1980s. However, the reform effort on which much discussion is currently focused only gathered momentum in terms of coverage and intensity in the mid to late 1980s (IC 1998a).

While much has been achieved, the reform process is far from comprehensive or complete and a number of agreed reforms are yet to be fully implemented (PC 1996).

Nevertheless, we have come a sufficient way to ask whether we are starting to see reform outcomes that accord with expectations. Are improvements in Australia's productivity performance becoming evident? Have government business enterprises and private firms lifted their performance? Are the benefits of lower prices and greater choice flowing to other sectors of the economy and to consumers? What lessons can be drawn from the reform experience to date?

A range of indicators point to substantial benefits from reform, but accurate measurement of the benefits is not possible. Many factors, including technology and macroeconomic conditions, affect performance but the complex interactions between them and reform makes it difficult to disentangle their separate impacts. Any evaluation of the gains also needs to take account of what is happening to the quality of goods and services, indirect effects throughout the economy as well as direct effects, and the fact that benefits accrue through time and can have ongoing or 'dynamic' effects on behaviour which enhance productivity. This suggests that a range of indicators need to be examined to build a picture of the benefits of reform.

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## National productivity has improved

Microeconomic reform is about making Australia a more productive place. At the aggregate level, Australia's productivity performance — the main source of higher living standards — has shown an encouraging upturn in the 1990s (figure 1.1). The latest available data show the rate of multifactor productivity growth in the market sector running at around 2 per cent or more a year, compared with an historical average of 1.5 per cent a year. Labour productivity has shown a similar improvement and has been increasing recently at around 3 per cent a year.

This upturn has followed the concerted microeconomic reform effort of the mid to late 1980s. Sectors subject to intensive reform, such as Transport and communications and Electricity, gas and water, have been major contributors to improved national productivity performance (IC 1997d).

National productivity indicators are showing stronger and more sustained growth than could be expected on the basis of past recoveries from recession. The fact that there has been no general acceleration in OECD productivity growth in the 1990s also suggests that Australia's recent performance reflects domestic rather than international factors (Dowrick 1998, p. 131).

Figure 1.1 **Annual growth in trend labour and multifactor productivity<sup>a</sup>, 1964-65 to 1997-98**



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<sup>a</sup> Market sector; percentage changes from previous year. MFP data are available only to 1995-96.

Source: IC 1997d (derived from ABS data). Labour productivity growth derived from unpublished ABS trend data.

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There is, however, reason to be cautious in attributing all of this observed improvement to microeconomic reform (PC/ANU 1998). The questions of causation and the linkages are complex. Other factors such as low inflation and improved technology are undoubtedly contributing to higher productivity growth, although they in turn are not entirely independent of microeconomic reform. There will always be some difficulty in interpreting aggregate productivity indicators because various macroeconomic events can mask the influence of reforms. A proper assessment of the benefits of reform must also investigate outcomes at the industry or firm level.

### **Gains in a range of industries**

There is now considerable evidence across the economy of how reforms are benefiting consumers, firms, industries and other groups. For example, while the major reforms of government business enterprises have required considerable adjustment by managers and workers, in many though not all areas there have been substantial reductions in prices to consumers and user industries, improvements in productivity and increased dividends to governments (PC 1998f). Some indicators of improved performance in various sectors of the economy are in box 1.1.

It is not always easy, however, to separate the influence of microeconomic reform from other factors — such as improved production processes, skill levels and technology — which have an important bearing on industry performance. A detailed study of the whitegoods sector, though, has revealed how a positive response from business to the increased competition induced by tariff reductions (from 45 per cent in 1978 to 5 per cent in 1996) can improve performance. Over the last 20 years, production volumes grew and exports of whitegoods increased from under 3 per cent of turnover to around 8 per cent. Consumers now have a wider choice of products and models at world competitive prices. In analysing reasons for improved performance, it was noted:

It is not possible to isolate out the causative impact of MER from other drivers affecting the organisation of production in whitegoods. But there are some strong correlations that are difficult to ignore. Market price pressures from general tariff reductions and free trade with New Zealand under the CER have been associated with plant rationalisation and increased specialisation of manufacture ... When the inexorable direction of MER trade reforms became clear by the mid 1980s, to its credit, management responded. Far-reaching decisions were taken to aggressively compete for market share. Email, Hoover and later Southcorp successively sought strategic acquisitions. Considerable investment went into modernising manufacturing operations. Product designs were improved and export markets developed (Wiggins Price 1998, pp. 38–9).

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### Box 1.1 Examples of improved performance

- Changes in the electricity industry have seen widespread benefits to residential consumers and businesses (PC 1998f).
  - Real electricity prices for residential consumers in all jurisdictions were lower in 1996-97 than in 1991-92: by 30 per cent in Queensland, 18 per cent in Western Australia, 13 per cent in New South Wales and up to 10 per cent in other States and Territories.
  - Business users, who were previously forced to cross-subsidise residential consumers, received even larger price reductions except in Tasmania and Western Australia.
- Corporatisation of Australia Post and increased competition, albeit as yet limited, have seen the real price of posting a standard letter fall by 8.7 per cent over the five years to 1996-97 and the 45 cent standard letter rate is locked in until 2003. Dividend payments (excluding capital re-payments) to the Government grew from \$50 million in 1991-92 to \$220 million in 1996-97 (PC 1998f).
- Telephone calls continue to become cheaper. The average weighted real price of calls fell by 23 per cent in the five years to 1996-97, primarily due to the substantial price reductions in the competitive long-distance market (PC 1998f).
- While a survey of the Australian aluminium industry found unanimous agreement that further broad-based microeconomic reform is needed to improve the competitiveness of this major export industry, individual firms could point to benefits already experienced (IC 1998b). For example:
  - Following divestment of the Queensland Government interest in the pipeline between Wallumbilla and Gladstone, Queensland Alumina Limited reported an immediate 25 per cent reduction in their gas transportation tariff, with the prospect of further reductions as pipeline throughput increases.
  - The waterfront reforms of the early 1990s facilitated renegotiation of manning arrangements at Capral's raw materials unloading facility. Together with ongoing improvements in equipment performance, this saw ship unloading costs fall from \$2.10 per tonne to less than \$0.85 per tonne in the period from 1985.
- The performance of NSW rail freight operations has improved following commercialisation in 1988-89 and corporatisation in July 1996. Better operational efficiency has been achieved through investment in new rollingstock and systems, better fleet management, the development of strategic alliances with the private sector; workplace reforms and staff reductions, a stronger focus on service delivery and customer retention and the rationalisation of some services and facilities. FreightCorp has continued efforts to improve its efficiency in anticipation of increased competition and opportunities for growth beyond NSW. According to FreightCorp, since corporatisation labour productivity has improved by 55 per cent, locomotive productivity by 39 per cent and wagon productivity by 25 per cent and rail freight charges have fallen on average by 16 per cent in real terms.

(continued on next page)

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**Box 1.1** (continued)

- Increased competitive pressure in the meat processing industry and a more facilitative industrial relations framework are enabling firms to introduce productivity improvements in their workplaces and to benefit workers. Although there is scope for further improvement, a Commission study of five large processors found that productivity per person per shift had generally increased — in one firm by more than 35 per cent — following implementation of workplace agreements. Several firms reported a significant decline in the level of industrial disputation. Major benefits for employees in some firms have included higher earnings and more stable income, greater opportunities for training and the introduction of career paths linked to training (PC 1998e).

It is important in assessing the effects of microeconomic reform to look beyond readily measurable costs and prices. Reforms can affect choice, quality of service and amenity. The quality and service dimensions of some reforms can be difficult to assess but are nonetheless important. For example, the convenience of extended shopping hours makes life easier, particularly for working couples and single working parents, but the benefit is not well captured in traditional productivity measures. While there are clear pointers to improved quality in some areas, in others performance is mixed and the reasons for this need to be better understood and addressed. Some illustrations are in box 1.2.

### **Lasting incentives for improved performance**

One of the main thrusts of reform is greater competition and the gains from competition are dynamic as well as once off. Competition creates ongoing incentives and disciplines to do better, including through innovation and the implementation of more flexible work practices. It may thereby raise the *rate* of productivity growth. The state of knowledge is such that the potential dynamic effects are neither well understood nor adequately captured empirically (PC/ANU 1998). However, there is evidence to indicate their importance.

Greater competition can change the mindset of managers and workers in their search, and acceptance of the need, for higher productivity:

- Increased competitive pressures on the Australian black coal industry have led to the growing realisation that past management and industrial practices are no longer sustainable (PC 1998c). With weak competition in the product market until the mid-1980s and in an environment of prescriptive industrial relations and safety regulation, mine managers' efforts were directed more at complying with the regulations and maintaining supply than with pursuit of production

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efficiency. Increased competition in both the domestic and world markets has focused attention on changing work arrangements which unnecessarily restrict productivity as the major means of improving the industry's competitiveness.

- Equally, the positive attitude of stevedoring workers at the Port of Adelaide to work performance has been moulded both by new management sharing information and communicating directly with employees and by increased competition from the Port of Melbourne following the establishment of Patrick's dedicated Melbourne–Adelaide rail link in 1997. The outcome has been a substantial rise in productivity, despite scale disadvantages (PC 1998a, p. 140 and PC 1998b, p. 136).



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### Box 1.2      **Quality and service are important too**

- Reductions in industry protection over the years have benefited consumers in terms of quality and choice as well as price. For example:
  - Reported faults in the first three months of ownership for locally made cars roughly halved between 1988 and 1995.
  - With the abolition of import quotas, the number of motor vehicle models available to Australian consumers rose from 69 in 1985 to 101 in 1995 (IC 1997b).

It is hard to envisage small cars being offered at \$13 990 with air bags and three year warranties if tariffs were still at 57.5 per cent, let alone if quotas had been retained.

- Improved performance by Australia Post has been achieved with increased levels of satisfaction by business and private customers since the early 1990s (PC 1998f).
  - Accessibility to mailing services was improved with the decision in 1994 to allow customers to lodge mail up to 6 pm at all major population centres.
  - Consumers have gained from access to a wider range of services including giroPost financial services and bill paying facilities.
  - Of the estimated 2.35 million delivery points in rural and remote areas in 1996-97, 94 per cent received five deliveries every week. The remaining 6 per cent received between one and four deliveries a week.
- Monitoring of Telstra's service quality performance over the six years to 1996-97 reveals a decline in the frequency of calls not being answered due to network failures and an improvement in the percentage of operator-assisted services answered. There were improvements in the proportion of customers connected to new or in-place services within agreed times in country areas but declines for residential and business customers in the metropolitan areas (PC 1998f).
  - The Australian Communications Authority (ACA 1998) recently reported a deterioration in a number of services indicators. The ACA has been asked to review the standards governing customer service and to introduce benchmarking against performance measures.

- Privatisation, increased competition (including from Ansett's entry to some international routes) and greater opportunities to pursue commercial activities have spurred Qantas to improve its performance. Labour productivity, as measured by revenue passenger kilometres per employee, improved by up to 21 per cent in the four years to 1996-97 (PC 1998d, p. 31).

Where firms or their employees find government responsive to overtures for special assistance, they may devote considerable resources to securing it. Such activities may have a pay-off to the firm but are socially wasteful. Microeconomic reforms which reduce rewards for lobbying will encourage firms to expend managerial effort

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on increasing productivity and output rather than on influencing government. Agreement among the States to cease or limit selective assistance to industry would, for example, reduce the pay-offs to lobbying and produce a more competitive industry structure in Australia. The Industry Commission (1996d) found that State and Territory budgetary assistance to industry — estimated at \$5.7 billion in 1994-95 — often involves competitive bidding for major investments and ‘events’. This, at best, shuffles jobs between regions and, at worst, burdens tax and rate payers, and reduces the competitiveness of Australian industry and the income of Australians as a whole.

Openness to trade can stimulate technology transfer and innovation, which are drivers of productivity growth. Reductions in tariffs and other forms of protection reduce the cost of imported capital goods which embody the latest technology. It is no coincidence that the opening of the Australian economy has been associated with increasing technological innovation; but catching up will take time (IC 1995).

### **Gains can take time to accrue**

Assessment of the impact of reforms is complicated because the benefits of reform accrue over time. Apart from the dynamic effects just discussed, it can take a considerable time for firms and individuals to accept that new market incentives are likely to be sustained and to evaluate the implications for their own activities. Time is required to identify new market opportunities, plan and carry out investment and to learn new skills and business practices. Infrastructure assets have particularly long lives, so the full benefits of reforms which involve access regimes and better structured incentives to guide new investments will not be realised until the next century.

The gains can also be delayed because of contractual and other arrangements. For example, some firms in the Australian aluminium industry will not be able to take advantage of the lower electricity prices resulting from reform until existing long-term contracts expire (IC 1998b, p. 71).

### **Ensuring that reforms deliver benefits**

While evidence of substantial gains from reform is mounting, it is equally evident that not all reforms are working as anticipated. A well managed reform process should be able to identify where outcomes are falling short of expectations, to understand why and to determine how implementation could be handled better.

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- There is evidence that the quality of service has suffered when contracting and competitive tendering processes have been inadequate. A careful weighing of the full costs and benefits is required, as well as effort to improve competences in public administration including in contract design and monitoring (IC 1996a).
  - Experience shows that, in some circumstances, undertaking one reform without other supporting reforms can lead to disappointing results. Without policies to promote greater competition between stevedores, for example, it is not clear that the benefits of workplace productivity improvements will be passed on to users. A major barrier to new competitors is the exclusive, long-term leases (up to 40 years) that stevedores currently have with Australian port authorities (PC 1998b).
  - There is legitimate concern that governments are pushing the boundaries of appropriate private sector involvement in infrastructure projects. The build-own-operate-transfer (BOOT) arrangements for roads involve risks and uncertainties and, when these are not allocated properly between the public and private sector, additional costs will arise (Hepburn et al 1997).
  - The success of reforms in areas of continuing natural monopoly or significant market power depend, in part, on the design and operation of regulatory regimes. Inappropriate price controls or access arrangements may offset some of the potential gains from the reform of public utilities (Forsyth 1998, King 1998).

Monitoring of reforms and benchmarking of performance are critical to identifying where further attention is required. An ongoing research and inquiry program is also essential to identify impediments to productivity, how to address them and the scope to improve the implementation of beneficial reform.

## **Dealing with adjustment problems**

Reforms which improve the living standards of the general community inevitably involve adjustment pressures and some dislocation. It may take time for people to find alternative employment and for capital to be redeployed. During the transition, their lost productivity can detract from growth in national output.

The adjustment process may involve people retraining and/or changing jobs within a region, or moving to locations with expanding opportunities. For some, change can be accommodated relatively quickly and easily, and soon prove beneficial. For others, however, the period of adjustment may be protracted and involve personal hardship. The total number of jobs in the economy has expanded — on average by 1.6 per cent annually over the last decade — offering new opportunities for employment and re-employment. Nevertheless, both the rate and duration of

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unemployment remain stubbornly high and the probability of unemployed people moving to full-time employment has declined since 1980. The evidence that older blue collar workers and middle management have had particular difficulty in regaining equivalent full-time work suggests that adjustment has been more difficult for some than others.

## **Job mobility in Australia**

The extent of reform-induced adjustment problems needs to be assessed in the light of typical patterns of job mobility in Australia.

A sizeable number of Australians change jobs in any given year. Of the 8.4 million people working in February 1998, about 14 per cent had been in a different job and 8 per cent had been unemployed a year earlier. Thus, more than one-fifth of job holders had also been job seekers during the year. Nevertheless, a stable core within the workforce had relatively secure jobs — 41 per cent of people employed in February 1998 had been in the same job for five years or more. Job mobility is lower for workers over 35, those born in non-English speaking countries and those without post-school qualifications.

While many people changing jobs do so within their current industry and occupational groups, there is substantial movement to jobs in different industries and occupations. Of the 1.2 million people who had changed jobs and previously been employed in the year ending February 1998, 40 per cent had changed their industry and 34 per cent had changed their occupation.

People leave or lose their jobs for a host of reasons, many of which are not associated with microeconomic reform. Most commonly, people voluntarily leave their existing jobs to take up better ones, or for family reasons or to retire. Job losses due to retrenchment or business closure tend to rise sharply in times of economic downturn, but for the past 20 years have typically accounted for 15 to 20 per cent of total job separations. That proportion has shown no upward trend (PC 1998h).

The changing fortunes of regions and the geographical mobility of the workforce provide other important perspectives on the adjustment process. While some regions in Australia are contracting, others are expanding. There were 578 towns with populations in the range 1000 to 20 000 in 1986. A decade later, 31 per cent of these towns had sustained population losses (totalling 60 000) and 47 per cent had grown by 10 per cent or more (an increase of 455 000). Towns in decline were usually inland in wheat-sheep belts and dryland grazing or mining regions. Most towns experiencing substantial population growth were coastal, located near capital

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cities or associated with growth industries such as wine or tourism (ABS 1998b, p. 10).

How well regions adjust to change depends partly on how mobile the workforce is in response to growth or decline in regional employment opportunities. A recent study suggested that interstate migration has played an important role in reducing differences in labour market conditions between the States (Debelle and Vickery 1998). Most of the migration from States suffering employment shocks was seen to take place, on average, within four years and the process of adjustment was complete after seven years. Nevertheless, the study found evidence of persistent differences between State unemployment rates, employment growth rates and participation rates.

### **An important role for government**

Governments have a key role to play in facilitating adjustment so as to reduce unnecessary costs in the transition and to help people adjust to change. Community support for reform efforts is more likely to be maintained if adjustment issues are handled well.

Governments have at their disposal a range of measures to deal with adjustment problems. Experience indicates that some programs have been more successful than others. Adjustment programs need to be kept under review to ensure their suitability to particular circumstances. The design and implementation of effective programs present significant challenges not least because, in seeking to facilitate adjustment, measures can introduce new disincentives which need to be minimised.

The general social security system provides a minimum level of income support for people who would otherwise be unable to cope with adjustment, whether caused by microeconomic reform or other changes. Over the years, governments have also provided various general labour market programs (such as wage subsidies, training programs, job search assistance and counselling) and targeted programs for particular industries (such as the TCF, automotive and native forest industries) to assist displaced workers acquire new skills and otherwise improve their employability.

One of the most important contributions government can make to minimise adjustment problems is to review and change those of its own policies which unnecessarily impede the efficiency of adjustment. Some of the things which make it hard for people to adjust, either within or between regions, stem from the unintended side effects of existing government policies or practices directed at other objectives. Regional concentrations of public housing away from areas of job

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growth are one example. Stamp duty on property sales is another. Labour market regulation which provides insufficient scope for differentiated responses to the needs of particular firms and regions, and the interplay between the social security and income tax systems, exert a powerful influence on how people respond to adjustment pressures (IC 1993).

Phasing reforms is one of a range of possible implementation strategies which may go some way towards easing adjustment pressures. There are, however, difficult trade-offs involved which are best assessed on a case-by-case basis. Phasing can provide firms and their employees with valuable time to adjust but, in so doing, delays receipt of the benefits of a reform to users, consumers and taxpayers. Phased reductions in tariffs and the graduated introduction of other reforms were recommended by the Commission and its predecessors when that was judged to be to the net benefit of the community. Illustrations of how phasing can be used to ease adjustment pressures are provided in box 1.3. Financial compensation is an option when established property rights are devalued by reform.

While broad-based microeconomic reform is seen by some as contributing to reform fatigue, it can serve to reduce adjustment problems. Groups adversely affected by a particular reform are more likely to receive offsetting benefits where reforms are implemented on a broad front. For example, a study of the combined distributional effects of tariff, electricity, telecommunications and public sector reform estimated that, although tariff reform reduced manufacturing employment by 0.3 per cent, the net effect of all four reforms was to increase employment in that sector by about 1.2 per cent (IC 1996c, p. 18).

If governments are to handle adjustment problems well, they need effective processes to identify where problems are likely to arise and to provide a clearer understanding of contemporary adjustment experiences and the economy-wide consequences.

A core task in the Commission's current inquiry on safeguard action for Australia's pigmeat industries is to determine the contribution of import competition, as well as other factors, to the problems facing these industries. In a separate inquiry, the Government has asked the Commission to investigate the transitional and ongoing impacts of competition policy and related reforms on rural and regional Australia, to assess the extent to which these communities are sharing in the benefits of reform and to identify measures that could increase the flow of benefits or reduce the costs. This public inquiry will provide an opportunity for people all around Australia to put their views and to explore solutions.

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Such public consultation is an important ingredient in addressing adjustment issues within a consistent framework, both to generate ideas and information and to help community understanding of the ultimate decisions of government. This is especially important in those areas of microeconomic reform with potentially significant effects on the distribution of income as well as on national productivity. Public consultation can also help to avoid unanticipated community reactions which could impede effective policy implementation or even force policy reversals.

Further studies of adjustment experiences would help enlighten policy formulation. Borland (1998) has summarised existing Australian evidence and points to the

**Box 1.3 Phasing can help adjustment**

- The Industry Commission (1994) estimated that the removal of entry restrictions in the taxi industry would result in fares falling by up to \$2 per trip on average. But in order to secure this benefit in an orderly manner, it recommended that entry should be liberalised over a number of years by selling new licences through public tender each year, with the possibility of sales proceeds being used to compensate existing licence holders.
- When the Industry Commission (1992) investigated Australia's water industry, it found that prices for bulk irrigation water fell well short of recovering costs, thereby distorting investment and consumption decisions. While recommending that bulk water suppliers immediately increase the price of water to a commercial level, the Commission recognised that irrigators would need time to adjust and proposed an interim subsidy that would be reduced progressively over time.
- In its urban transport inquiry, the Industry Commission (1994) found that rail fares did not recover costs and needed to be restructured. Fares needed to involve greater differentials between peak and off-peak periods and to reflect distance travelled. The Commission proposed that fare increases be phased in over a number of years and be accompanied, if not preceded, by improvements in service quality.
- In its report on private health insurance, the Industry Commission (1997a) recommended modifications to community rating based on the age of entry, but specified that these arrangements apply only to new entrants, with a grace period to allow people of any age to understand the implications and enter under the old rules.
- In the textiles, clothing and footwear inquiry, the Industry Commission recommended gradual reductions in import protection to 5 per cent over an eight year period (IC 1997c). This would have involved a maximum 3 percentage point annual reduction in tariffs for clothing, and for other parts of the sector such as footwear, only a 1 or 1.5 percentage point annual reduction.

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dearth of empirical evidence which relates directly to workers displaced by microeconomic reform. The questions of how Australia is adjusting to change, the effectiveness of existing labour market programs in easing the burden on individuals and what else can be done to facilitate adjustment feature prominently on the Commission's work program.

Studies on the distributional effects of reform can be helpful in addressing claims about adverse impacts. For example, a recent study by Commission staff found that reduced trade barriers had not been a major contributor to the increasing inequality of earnings or to unemployment over the last decade and a half (Murtough et al 1998). The wage and employment effects of changes in trade barriers have been overshadowed by technological change (requiring more high skilled labour) and by other developments such as adverse shifts in international trading conditions for primary commodities.

#### *General or specific adjustment measures?*

A recurring, but difficult, issue in implementing reform is whether governments should introduce targeted support measures in addition to generally available welfare, job search and training programs. This raises complex equity, efficiency and strategic considerations for which there are no hard and fast policy prescriptions.

The advantage of relying primarily on general support programs is that they aim to address the training and income maintenance needs of the unemployed regardless of the particular combination of circumstances that may have caused their job loss. Such general support programs target those adversely affected in net terms and in genuine need. Cash transfers through the welfare and tax system, together with non-cash benefits (such as Medicare, childcare and education) appear to have substantially offset an observed trend towards increased dispersion in market-derived incomes in Australia (IC 1996b, p. 24).

The design and administration of general support measures need to be kept under review. The Industry Commission (1997c) assessed the efficacy for TCF workers of generally available measures and found them wanting, particularly with regard to eligibility criteria and funding levels. It recommended that eligibility for employment services should be separated from eligibility for social security benefits so that jobseekers who are not immediately eligible for benefits — such as newly arrived migrants, people receiving redundancy payments and those with employed spouses — could, subject to means testing, gain immediate access to general employment services. Likewise, funding for the Assistance to Depressed Regions



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Program should take into account any significant regional impact of TCF activity reductions.

There are circumstances in which targeted assistance to address particularly concentrated adjustment difficulties may be justified. One example is where an adjustment shock is large relative to the size of a regional community, placing excessive strain on the existing assistance infrastructure, including training and retraining facilities. In circumstances where there is advance knowledge of major adjustment requirements, an early action plan drawing on generally available measures can ameliorate adjustment problems (IC 1993, p. 314). Previous evaluations of labour market programs point to the greater likelihood of success if they are aimed at specific disadvantaged groups such as the long-term unemployed and women re-entering the labour force (EPAC 1996, p. 88ff and OECD 1994). However, analysis of industry-specific programs reveals disappointing results. For example, the TCF Labour Adjustment Package achieved good participation rates but lower direct employment outcomes than general training programs, including for its primary target group of overseas-born women workers (IC 1997c).

Special industry-specific adjustment assistance may also be seen as a pragmatic means of reducing resistance to reforms that are in the overall community interest. But this has to be balanced against other considerations. These include the political horse-trading engendered over amounts of assistance, the incentives created to hold out for compensation (which would actually slow adjustment) and the signal that it sends to other firms and workers to seek similarly favourable deals.

Special adjustment assistance to compensate individuals or firms for microeconomic reform might also raise equity concerns. Such assistance treats people coping with adjustment problems due to structural reforms in a more favourable manner than those coping with other types of adjustment pressures, even though their needs may be comparable. It is difficult to argue that workers who lose their jobs in the automotive industry due to tariff reductions should be compensated when compensation is not paid to retail workers who lose their jobs as a result of an unfavourable business cycle.

Moreover, the task of identifying individuals and groups adversely affected by reform can be informationally demanding and administratively complex, and runs the risk of duplicating existing general welfare measures. Not the least of the difficulties is how to take account of the fact that losers from one reform may be winners from other reforms. Such factors militate against successful compensation.

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Where governments choose to provide targeted adjustment assistance, several principles can be observed in order to achieve the greatest benefit and minimise the costs to the community:

- Measures should facilitate adjustment rather than resistance to change — protecting yesterday's jobs means lower living standards for Australians as a whole and, where the forces for change are powerful, may be futile.
- Measures should be targeted to particular areas or groups where adjustment pressures are being felt — industry-wide measures such as tariffs are typically blunt, ineffective and costly.
- Measures should be limited in time and expenditure. They should also be transparent, simple to administer, easy for participants to understand and avoid distortions which advantage some firms over others in the industry.

## Conclusion

There is a danger that community concerns about the effects of change and a desire for greater stability and security could derail many reforms which are to the overall benefit of the Australian community.

While resistance to change is understandable, the real consequence of slowing or stopping reform would be a gradual decline in the relative living standards of Australians. There would be lower growth in per capita incomes and a reduced capacity to fund social expenditures on health and education and to care for those most in need.

Ultimately, it is only by being more productive and competitive that Australians can achieve real security in their workplaces and regions. Like other countries, Australia faces continuous change and must continue to adapt if living standards are to improve. Maintaining the microeconomic reform process is of central importance if the economy is to have the flexibility and resilience to perform to its potential.

If beneficial reforms are to proceed, there must be a wider community understanding of what is at stake. That requires a capacity to bring into account publicly the costs as well as the benefits of different reform initiatives — not just for particular groups, but also across the community and the economy. This highlights the importance of processes and institutions which can generate the best possible information for governments on which to base policy choices and explain the basis for those choices to the community.

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## 2 The Productivity Commission

**The Productivity Commission has been created to enhance understanding and community awareness of how Australia's productivity and living standards can be improved. While it has new roles and functions, the Productivity Commission has evolved from a long line of agencies which have contributed to informed debate on the benefits and costs of different policies and regulatory arrangements. The new Commission provides an opportunity to bring an independent, community-wide view to bear in increasingly diverse areas of economic and social policy. Inquiries into the rural and regional impacts of competition policy and on the economic and social impacts of gambling are indicative of these new directions.**

The Productivity Commission Act received assent on 16 April 1998, establishing the Commission as the Commonwealth Government's principal review and advisory body on microeconomic reform. The three bodies which joined to form the new Commission — the Industry Commission, Bureau of Industry Economics and Economic Planning Advisory Commission — had been amalgamated on an administrative basis in 1996.

### **Role of the Productivity Commission**

The creation of the Productivity Commission is an indication of the importance attached to improving national productivity and living standards through sound policy formulation. The task of raising national productivity requires that Australia's resources and skills be used in the best possible way. Consistent with this, the Commission has a broad charter which covers all sectors of the economy, which extends to the private and public sectors, and to areas of State, Territory and local as well as Commonwealth government responsibility.

The establishment of the Productivity Commission also affirms the importance of independent advice, involving transparent consultative processes which engage industry and community groups in public policy making:

Sound policy development must be based on a full appreciation of the facts. A primary role of the Productivity Commission will be to identify impediments to improved productivity in particular sectors. It will also have due regard to the important

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relationships between improved use of resources in one sector and the rest of the economy. It is only with this sort of information and economy-wide focus that governments can make sensible and considered choices as to future policy — choices that will ensure better and more sustained growth prospects for all Australians (Miles 1996, p. 7721).

Governments of all political persuasions have long recognised that for an institution to be effective in this role, it must be impartial, free of sectional interests and independent of day-to-day political pressures. In this way they can have confidence that policy choices are informed by the best possible evidence and analysis.

Such institutional arrangements have particular value in those policy areas where there are major potential efficiency or other pay-offs to the community from change, but where existing entitlements create resistance to reform. The benefits of preferential policies or regulatory measures are typically concentrated on particular groups within society, whereas the costs are typically more diffuse. Information supplied by those granted or seeking preferential treatment is likely to be too narrowly based for good policy making. To evaluate policy options properly, governments need a fuller understanding of the benefits and adjustment costs of policy alternatives and their typically complex effects on community wellbeing.

The value to public policy making of such analysis has been demonstrated by each of the bodies amalgamated to form the Productivity Commission. For example:

- A central contribution of the Industry Commission (and its predecessors) was to demonstrate the costs that tariffs and other forms of industry assistance impose on the wider community. In recent years, its community-wide perspective has been extended to such areas as private health insurance, occupational health and safety, workers' compensation, land management, public housing and charities.
- International and domestic benchmarking of the performance of Australia's economic infrastructure by the Bureau of Industry Economics played a key role in developing public understanding of performance gaps and the potential benefits of reform.
- The Economic Planning Advisory Commission was successful in promoting public debate and understanding of medium and long-term social and economic issues, such as the implications of demographic change and the provision of child care, health services and aged care.

The new Commission builds on the strengths of the three merging bodies. It will continue to bring independence and professional rigour to analyse what policies are in the best interest of the community as a whole. Open consultative processes, ample opportunity for public participation and public scrutiny of the Commission's own work will be hallmarks of its operations.

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The Productivity Commission's role and functions have been extended beyond those of the Industry Commission and made more explicit. In addition to public inquiries, the Productivity Commission has a strong research capability and will produce a variety of outputs. The policy guidelines covering all the Productivity Commission's work have been made more comprehensive, and it has greater flexibility in its operating procedures.

## **Broadened functions**

The Productivity Commission is expected to contribute to informed debate and decision making in a range of ways (box 2.1).

The key role of public inquiries in identifying impediments to higher productivity in Australia and canvassing options for better performance is maintained in the Productivity Commission. The consultative inquiry process is a distinguishing feature of the Productivity Commission's operations. The scope of the public inquiry function was extended in June 1998 when the Government designated the Commission as its authority for investigating safeguard action against increased imports. The Commission's inquiry and public hearing processes fulfil Australia's international obligations to use open public procedures in investigating whether such action is warranted.

The legislation explicitly establishes a formal basis for the new Commission to provide research and secretariat services to government bodies. For example, as the secretariat of the Steering Committee for the Review of Commonwealth/State Service Provision, the Commission will continue to publish performance indicators which provide an insight into the effectiveness and efficiency of the delivery of 12 major government services. The services covered currently include education, health, justice and community services and account for \$47 billion in government funding (equivalent to 9 per cent of GDP). The experience of individual service providers which have undergone significant reform is also being examined. Documenting this experience is useful to managers and policy makers in all jurisdictions.

An important stream of the Productivity Commission's work involves international and domestic comparisons of performance in key infrastructure and other industries. Equally important is its work in examining workplace arrangements, management practices and labour market regulations which impede productivity and add unnecessarily to costs. The Productivity Commission's first two reports — on international benchmarking of the Australian waterfront and work arrangements in container stevedoring — illustrate how objective information and analysis can

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contribute to a more considered community debate in contentious areas where change is needed to achieve higher productivity.

The Office of Regulation Review (ORR), which is part of the Productivity Commission, is continuing its role in helping the Commonwealth Government and its departments and regulatory bodies achieve better regulatory processes and outcomes. The ORR vets and reviews regulatory processes to ensure that the full

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### Box 2.1      **Productivity Commission functions and activities**

The Productivity Commission Act specifies that the Commission's formal functions are to:

- hold inquiries and report on matters relating to industry development and productivity;
- provide secretariat and research services to government bodies such as the Council of Australian Governments;
- investigate competitive neutrality complaints;
- initiate its own research on industry development and productivity;
- promote public understanding of industry development and productivity matters; and
- undertake other functions, including providing advice to the Treasurer, on request, on industry development and productivity matters.

These functions translate into a wide range of activities:

- *Government commissioned projects*
  - major inquiries with public hearings
  - inquiries without formal hearings
  - public inquiries on safeguard action against imports
  - evaluations of departmental programs
  - advice to the Treasurer
- *Standing research and advisory responsibilities*
  - Commonwealth/State service provision for COAG
  - performance monitoring of government trading enterprises
  - international benchmarking, especially of economic infrastructure
  - case studies on workplace arrangements
  - regulation review, including advice to Cabinet, vetting and compliance monitoring
  - competitive neutrality complaints mechanism
  - annual reporting on productivity, assistance and regulation
- *Supporting research*

impacts of regulation are understood and the reasons for choosing a particular option are explained. The Regulation Impact Statement (RIS) process is designed to assist the formulation of regulation which does not impose unnecessary costs on business and the community. The ORR encourages the appropriate use of regulation through advice on best practice approaches and monitoring compliance with the Government's RIS guidelines (box 2.2).

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A new role for the Productivity Commission, related to implementation of national competition policy, is to administer the Commonwealth's competitive neutrality complaints mechanism. Competitive neutrality requires that government businesses not have advantages (or disadvantages) over their private sector rivals simply by virtue of their public ownership. The Competitive Neutrality Complaints Office operates within the Commission to receive and investigate complaints and provide advice to the Treasurer on the application of competitive neutrality arrangements. The Office had not received any formal complaints in its first two months of operation to 30 June 1998.

The Productivity Commission has been explicitly empowered to undertake its own research on matters relating to industry development and productivity. The Commission has developed and published a wide-ranging research program (box 2.3). The development of themes and projects has benefited from consultation with industry, community groups, academics and Commonwealth and State

**Box 2.2 Compliance with RIS guidelines**

The Commonwealth Government requires the preparation of a Regulation Impact Statement (RIS) — looking at the costs and benefits of the regulation and alternative ways of achieving desired objectives — when policy makers consider new and amended regulation which affects business or restricts competition. The compliance 'report card' for 1997-98, the first year in which regulation impact analysis was mandatory, reveals a varied performance:

- while only 38 per cent of initial proposals to enact primary legislation were accompanied by a RIS, 97 per cent of legislation requiring a RIS went into the Parliament with one;
- just under 50 per cent compliance for subordinate legislation and for international treaty making, reasonable performances in the first year of the new processes; and
- very low compliance levels for quasi-regulation (such as industry codes of practice).

A full compliance report on these and other areas of regulatory activity (including the Commonwealth's Legislative Review Program, Ministerial Councils and national standards setting bodies) and an assessment of prospects for improved compliance are provided in PC (1998g).



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### **Box 2.3 Supporting research**

In addition to its standing research commitments and other research requested by the Government, the Commission has a program of research on industry development and productivity to complement its other activities. The research themes for 1998-99 developed in consultation with government, industry, community groups and academics are:

- the relationship between labour market flexibility, productivity and income distribution;
- competition policy (including international trade and investment);
- the adjustment and regional consequences of economic change;
- microeconomic reform in health services and aged care; and
- microeconomic reform and the environment.

The Commission is also planning a workshop/conference in early 1999 on the policy implications of demographic change, particularly the ageing of the population.

government departments. The Commission has also taken into account the Government's desire for research on social policy issues and the factors underlying productivity growth.

The Productivity Commission is expected to be a catalyst for beneficial change. The Commission's charter requires it actively to promote public understanding of the need to improve Australia's productivity and thereby help to build support for desirable change. In essence, all of the Productivity Commission's work has a broad educative role in addition to the direct advice it provides to government. The Commission's annual reporting obligations have a particular role in increasing community understanding of issues concerning productivity and structural change.

The importance of public understanding was underlined by the Prime Minister's observation, following the 1996 Manila APEC meeting, that progress in implementing trade liberalisation depends on achieving greater awareness of the national benefits so as to counter the influence of the selective views of those industries facing adjustment. Improving public understanding of what is at stake in policy reform can take time, especially where the issues are complex and contentious. For instance, the substantial reduction in Australia's own trade barriers in recent years was preceded by a long period of public debate.

The Commission has a variety of other functions and responsibilities which it could be asked to undertake from time to time. These include evaluating government programs, providing advice on specific industry and productivity matters to the Treasurer and, subject to the Treasurer's agreement, undertaking research for non-

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government bodies.

## **More extensive policy guidelines**

The Productivity Commission's work is governed by a set of policy guidelines which reflect the economic, social and environmental goals of government (box 2.4). These new statutory guidelines are broader than those which applied to the Industry Commission.

The guidelines give prominence to the need to improve the overall performance of the economy as a means of raising living standards for all Australians. The Commission must have regard to the wider interests of the community, not just sections of it.

At the same time, the Commission is required to pay attention to the adjustment costs that are inevitably associated with structural change. It must take into account the Government's desire to avoid the personal and social hardships arising from those changes. The guidelines also require that regional and environmental concerns be given due consideration.

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**Box 2.4 General policy guidelines for the Productivity Commission**

In the performance of its functions, the Commission must have regard to the need:

- (a) to improve the overall economic performance of the economy through higher productivity in the public and private sectors in order to achieve higher living standards for all members of the Australian community; and
- (b) to reduce regulation of industry (including regulation by the States, Territories and local government) where this is consistent with the social and economic goals of the Commonwealth Government; and
- (c) to encourage the development and growth of Australian industries that are efficient in their use of resources, enterprising, innovative and internationally competitive; and
- (d) to facilitate adjustment to structural changes in the economy and the avoidance of social and economic hardships arising from those changes; and
- (e) to recognise the interests of industries, employees, consumers and the community, likely to be affected by measures proposed by the Commission; and
- (f) to increase employment, including in regional areas; and
- (g) to promote regional development; and
- (h) to recognise the progress made by Australia's trading partners in reducing both tariff and non-tariff barriers; and
- (i) to ensure that industry develops in a way that is ecologically sustainable; and
- (j) for Australia to meet its international obligations and commitments.

The guidelines provide an overall operating framework, but some elements will require care in application. For example, it is in the community's interest to pursue regional employment and development objectives in ways which do not undermine the overall performance of the economy. Where there are trade-offs to be made, the Commission can help by making these explicit, provide information on the benefits and costs involved and advise on the most direct, effective and least-cost means of meeting regional objectives.

The requirement to recognise progress by other countries in reducing their trade barriers should not be read to imply a particular policy prescription. As a small country, Australia generally does not have the bargaining power necessary to justify delaying the benefits of our own trade reforms in the hope that this would hasten reform by our trading partners (IC 1997e). Yet, as the Commission found in its international air services inquiry, where an entrenched bilateral negotiating system is in place, unilateral liberalisation may not always be in Australia's best interests.

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## Flexibility in operating methods

The Productivity Commission Act provides for flexibility and a range of working methods in the performance of the Commission's functions.

Most notable of these is the provision for public inquiries to be conducted without the necessity for formal hearings. While inquiries will always have to be notified publicly, the Treasurer will determine at the time a reference is sent to the Commission whether hearings are to be held. In inquiries without formal hearings, the Commission can choose from a variety of other consultative mechanisms most appropriate to the circumstances. In using this increased flexibility, the Commission considers that the transparency and accessibility of its inquiry processes are paramount. These features can be preserved through a variety of other means — calling for submissions, workshops, public seminars, the formation of working groups and taskforces, and issuing discussion drafts before reports are finalised. All inquiry reports must be tabled in Parliament.

The Productivity Commission Act provides for the Treasurer to seek the Commission's advice on industry development and productivity matters without holding an inquiry. While the Treasurer has discretion as to whether to publish this advice in whole or part, the Commission expects that in normal circumstances its advice would be made public, consistent with the transparency objectives in its Act.

The Commission's legislation specifies some obligations where formal mathematical economic modelling is relied upon in work referred by the Government. The Commission is required to use two models or, where a single model is relied upon, that model must be assessed independently.

Purpose-built models are costly and time consuming to develop. Often there will be no viable alternative and the Commission is therefore likely to rely on independent professional assessment. It has done so in reporting on the black coal industry, international air services, and the effects of indirect taxation on exports, and found the assessments helpful in improving the quality of its advice. However, there will also be occasions where access to multiple sources of modelling will be beneficial. For example, in its pigmeat inquiry, the Commission has engaged two consultants with different models to assist its assessment of the impact of increased imports on the domestic industry and an independent expert to assess all models presented during the course of the inquiry. Experience indicates that modelling workshops too can serve as a useful means of obtaining expert feedback and improving the robustness and relevance of any modelling work.

To assist in performing its functions effectively, the Productivity Commission can draw on different sources of expertise.

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- It has a new mix of Commissioners, meeting the statutory requirement for the appointment of Commissioners with social, environmental and industry experience.
  - The ability to appoint part-time Commissioners allows the Commission to attract people with particular skills who may not otherwise be available. The Commission has already added to its business, financial and industrial relations expertise in this way.
  - The Commission will be looking to have Associate Commissioners with specific expertise appointed to help with some of its inquiry and other tasks.
  - The Commission also will have the flexibility to contract consultants with specialist research skills to supplement its own staff resources.
  - Through its ability to sponsor workshops on public policy issues, the Commission can provide forums for the interchange of views and research findings. During the year the Commission and the Australian National University jointly organised a workshop on the links between productivity and microeconomic reform which was attended by academic, business, government, union and community representatives (PC/ANU 1998).

## **New work program and future directions**

The Government has announced an initial inquiry program for the Productivity Commission which requires investigation of a mix of economic, social, regional and environmental issues (box 2.5). For example, the Commission has been asked to conduct a wide-ranging inquiry into the gambling industries in response to community concerns about the economic and social impacts of gambling in Australia. This inquiry program provides a foretaste of the breadth of the Commission's potential contribution. The inclusion of social, regional and environmental issues in the Commission's inquiry program recognises the contribution its inquiry processes and analytical capabilities can make to informed policy formulation in areas with complex economic and social dimensions.

If Australia is to realise its potential and to deliver higher community living standards, there must be improved performance from all sectors of the economy. This will require an extensive and ongoing program of microeconomic reform at all levels of government and continuing attention to implementation and adjustment issues.

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The task of the Productivity Commission is to help to provide the ‘building blocks’ — information, analysis and public understanding — that will underpin the pursuit of higher productivity and living standards.

**Box 2.5 Productivity Commission forward inquiry program**

In May 1998 the Treasurer announced that the following inquiries would be referred to the Productivity Commission:

- economic and community impacts of the gambling industries in Australia \*
- the impact of competition policy on rural and regional Australia \*
- progress in rail reform \*
- the implementation of ecologically sustainable development by Commonwealth agencies \*
- transport services
- radiofrequency spectrum management reforms
- review of the Prices Surveillance Act
- program evaluation of the Australian Tourist Commission (Costello 1998d).

Subsequent to that announcement, the Commission was sent references on whether safeguard action against imports of pigmeat is warranted; and on nursing home subsidies. Inquiry references marked (\*) were received in August 1998.

There are several key areas where the Productivity Commission intends to focus its attention. Three groupings in particular stand out.

- An educated and skilled workforce and productive and adaptable workplaces are fundamental to Australia making the best use of its human potential and to how people adjust in a rapidly changing world. Action has been taken to improve the functioning of the labour market and the quality of our education and training systems. Further work and analysis is planned to identify future reform priorities.
- The health and community services sectors have a direct bearing on the quality of life for most Australians and will absorb increased resources as our population ages. The performance of these sectors needs to be assessed to ensure that community welfare objectives are met effectively.
- Australia is a large country with geographically dispersed population centres and it is remote from many major foreign markets. High quality, reliable and competitively priced transport, communications and energy are crucial to the growth prospects of Australian industries. Extensive reforms in these and other infrastructure areas are delivering benefits, but progress needs to be monitored and further opportunities for improved performance assessed.

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At a time when policy directions in Australia are being questioned, there is a pressing need to shore up community support for beneficial reforms by ensuring that implementation and adjustment issues are well handled. The national competition policy framework represents a major achievement in intergovernmental cooperation. But the challenging task of implementing an effective set of arrangements lies ahead, not least to provide decision makers with the information and analysis required to determine which changes are in the national interest and that narrow sectional demands do not prevail. A better understanding of adjustment processes, impediments to adjustment and options to help people cope with change are fundamental to continued beneficial change in Australia.

## **Associated reporting**

Under the transitional provisions associated with its legislation, the new Commission is required to report not only on its own operations, but also on the operations of the Industry Commission and the Economic Planning Advisory Commission in 1997-98.

In accordance with the parliamentary requirements for annual reports, staffing and management developments and issues in 1997-98 are reported in appendix A. An assessment of program activities and performance is provided in appendix B. As required under section 10(4) of the Productivity Commission Act, the appendix includes a report on the early operations of the Commonwealth Competitive Neutrality Complaints Office.

A new statutory obligation for the Productivity Commission is to report annually on the matters referred to it. This information is provided in appendix C. Appendix D reports on the output of the Commission's research program and related activities, while all publications are listed in appendix E. The audited financial statements for the Commission are contained in appendix F.

In association with this annual report, the Commission will be releasing the following publications during the next few months:

- *Regulation and its review 1997-98*;
- *Trade and assistance review 1997-98*; and
- *Microeconomic reform scoreboard 1997-98*.

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# APPENDICES





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# A Resources and management of the Commission

**This appendix provides information supporting the corporate overview in chapter 2 and additional information necessary to fulfil the parliamentary requirements for annual reports.**

The Productivity Commission was formally established on 16 April 1998 following Royal Assent to the *Productivity Commission Act 1998*. Three bodies have been merged to form the new organisation — the Industry Commission, the Bureau of Industry Economics and the Economic Planning Advisory Commission. The Productivity Commission combines many of the essential features of the three merged bodies, but its role and functions have been extended and made more explicit. These matters are discussed in chapter 2.

Ahead of its legislative formation, the Commission was established on an administrative basis during 1996. The organisational structure put in place at that time continued in 1997-98.

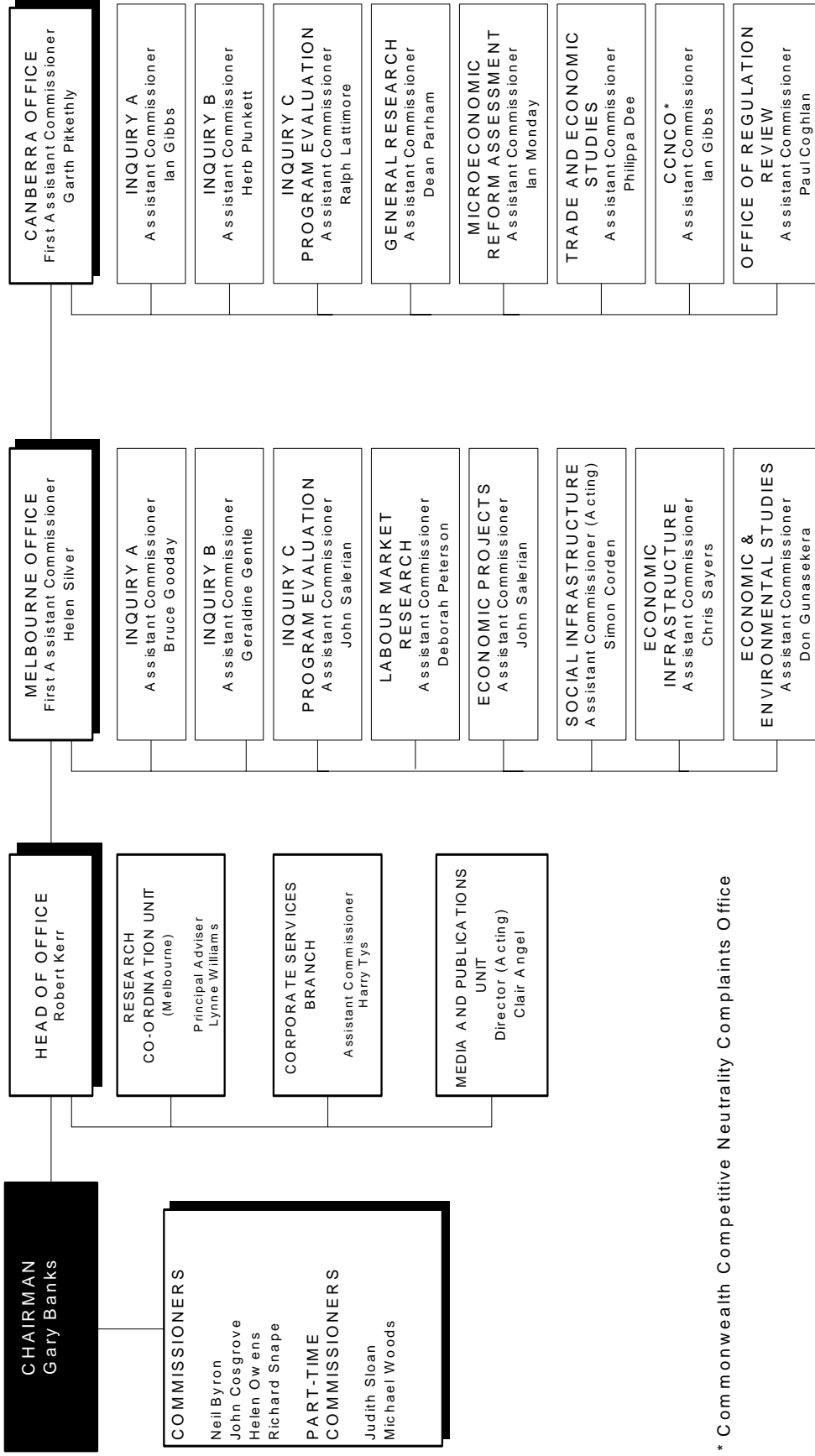
## Structure

The Productivity Commission is headed by a Chairman and can comprise between four and eleven other Commissioners who are appointed by the Governor-General for periods of up to five years. In addition, Associate Commissioners can be appointed by the Treasurer. Commissioners and Associate Commissioners can be appointed on either a full or part-time basis. Details of the Commission's structure and senior staff at 30 June 1998 are provided in figure A.1.

The Commission's legislation requires that its membership include Commissioners with particular skills and experience. Specifically, there must be at least one Commissioner with extensive skills and experience in:

- applying the principles of ecologically sustainable development and environmental conservation;
- dealing with the social effects of economic adjustment and social welfare service delivery; and
- working in Australian industry.

Figure A.1 Productivity Commission structure and senior staff, 30 June 1998



\* Commonwealth Competitive Neutrality Complaints Office

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## Commissioners

Following the formal establishment of the Productivity Commission, the Governor-General made seven appointments to the new Commission:

- Mr Gary Banks, Dr Neil Byron, Mr John Cosgrove, Mrs Helen Owens and Professor Richard Snape were appointed as full-time Commissioners; and
- Professor Judith Sloan and Mr Michael Woods were appointed as part-time Commissioners.

Pending the appointment of a Chair of the Commission, the Treasurer announced that Mr Banks would act in the position. On 20 May 1998 Mr Banks was appointed Chairman for a five-year period.

Details of the appointments and of the backgrounds of Commissioners are in table A.1 and box A.1, respectively.

There were a number of changes in the membership of the Industry Commission before its Act was repealed.

- Commissioners Rae and Owens had their terms of appointment extended by nine months from 1 December 1997 and from 8 February 1998, respectively.
- The Chairperson of the Industry Commission, Acting Commissioner of EPAC and Chairman-designate of the Productivity Commission, Mr Bill Scales AO, resigned on 27 February 1998 to take up an appointment as Secretary of the Victorian Department of Premier and Cabinet.
- Mr Banks, Executive Commissioner of the Industry Commission, was appointed as acting Chairperson and, for six months from 27 February 1998, as the Acting Commissioner of EPAC.
- Associate Commissioner Professor Snape was appointed as acting Commissioner for six months from 27 February 1998.
- Commissioner Jeffrey Rae resigned on 13 February 1998 to take up a private sector position.

Mr Keith Horton-Stephens finished his term as a Commissioner when the Industry Commission Act was repealed.

**Table A.1 Chairman and Commissioners, 30 June 1998**

	<i>Period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr G R Banks (Chairman)	20 May 1998	19 May 2003
Dr R N Byron <sup>a</sup> (M)	17 Apr 1998	16 Apr 2002
Mr J H Cosgrove (C)	17 Apr 1998	16 Apr 2002
Mrs H J Owens (M)	17 Apr 1998	16 Apr 2001
Prof R H Snape (M)	17 Apr 1998	16 Apr 2003
Prof J Sloan (M) (p/t)	17 Apr 1998	16 Apr 2001
Mr M C Woods (C) (p/t)	17 Apr 1998	16 Apr 2001

(C) denotes Canberra based, (M) denotes Melbourne based and (p/t) denotes part time.

<sup>a</sup> Dr Byron did not commence duty until 15/7/98 due to prior international commitments.

## Associate Commissioners

Of the two fixed term Associate Commissioners of the Industry Commission, Mr Nicholas Gruen resigned on 29 August 1997, while Professor Richard Snape's appointment ended on repeal of the Industry Commission Act. There were no fixed term appointments of Associate Commissioner to the Productivity Commission at 30 June 1998.

Associate Commissioners may also be appointed for the duration of particular inquiries on a part-time basis. Appointments current during 1997-98 are shown in table A.2.

**Table A.2 Associate Commissioners appointed to Industry Commission inquiries, 1997-98**

	<i>Inquiry</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
Mr I E Webber AO	Automotive industry	22 Aug 1996	30 Nov 1997
Dr B J Kearney	Private health insurance	28 Oct 1996	16 Sep 1997
Mr P Brass	Textiles, clothing & footwear	23 Jan 1997	29 Aug 1997

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## Box A.1 Commissioners of the Productivity Commission

### ***Gary Banks (Chairman)***

- economics qualifications from Monash University and the ANU
- Executive Commissioner of the Industry Commission, to which he was first appointed in 1990
- headed several Commission inquiries including private health insurance, R&D, and regional industry adjustment and had special responsibility for regulation review
- member of the Commonwealth's Review of Higher Education Financing and Policy, which completed its report, *Learning for life*, in April 1998
- previously held positions with the Centre for International Economics, Canberra, as a consultant to the OECD and World Bank, senior economist with the GATT Secretariat in Geneva, and as a visiting fellow at the Trade Policy Research Centre, London

### ***Neil Byron (full-time Commissioner)***

- forestry and economics qualifications from the ANU and the University of British Columbia, Vancouver
- immediately before joining the Productivity Commission, he was the Assistant Director General, Center for International Forestry Research, Bogor, Indonesia and led economic and social research on forests and the environment
- previous positions held include: Director of Graduate Studies in Environmental Management and Development, ANU; Chief Technical Adviser, Planning Commission, Bangladesh (for the United Nations); lecturer in resource and environmental economics, ANU; and part-time Associate Commissioner on the Industry Commission's 1993 inquiry on Australia's forest products

### ***John Cosgrove (full-time Commissioner)***

- economics qualifications from the University of Sydney
- before being appointed to the Industry Commission, he served as an executive director of the World Bank in Washington DC from 1991 to 1995
- worked for the Australian Treasury until 1991, heading its Overseas Economic Relations, Economic and Fiscal Policy Divisions in the 1980s
- also served as: Treasury representative in the Australian Mission to the European Communities, the Australian Delegation to the OECD and the Australian High Commission (London); a member of Australian delegations to a number of OECD, International Monetary Fund, World Bank, Asian Development Bank and Commonwealth Finance Ministers' meetings; and as a member of Australia's Pacific Economic Cooperation Committee

### ***Helen Owens (full-time Commissioner)***

- economics qualifications from Monash University with research interests in health system financing, the evaluation of health technologies and pharmaceuticals, and quality of care
- before her appointment in 1993 as a full-time Commissioner with the Industry Commission, she held positions as: Associate Professor at the National Centre for Health Program Evaluation, Monash University; senior adviser to the Victorian Premier; Principal Analyst for the Accident Compensation Commission; senior health economist for the Health Commission of Victoria; lecturer and senior lecturer in Health Economics at Monash University; and junior research fellow at Melbourne University
- positions held with other bodies have included the Royal Melbourne Hospital Board, the Accident Compensation Commission Board of Management and membership of various

(continued on next page)

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**Box A.1** (continued)

committees including the Australian Health Technology Advisory Committee, the Social and Political Studies Advisory Committee of the Swinburne University of Technology, the Victorian Casemix Advisory Committee, the Economics Sub-Committee of the Pharmaceutical Benefits Advisory Committee and the Management Committee of the National Cancer Control Initiative

***Richard Snape (full-time Commissioner)***

- economics qualifications from University of Melbourne and the London School of Economics, with research interests in international trade policy
- seconded from his position of Professor of Economics at Monash University, Melbourne, where he was Head of the Department of Economics for several years
- a member of a World Trade Organization Dispute Panel, a Fellow of the Academy of Social Sciences in Australia, former President of the Victorian Branch of the Economic Society of Australia, former editor of the *Economic Record* and a member of several Australian and international editorial and research advisory boards
- worked at the World Bank, the GATT and the United Nations Conference on Trade and Development and has been visiting professor at the University of Stockholm, the Graduate Institute of International Studies in Geneva, and the Stockholm School of Economics
- appointed to the Industry Commission as a full-time Associate Commissioner in 1995

***Judith Sloan (part-time Commissioner)***

- economics qualifications from the University of Melbourne and the London School of Economics, with research interests in industrial relations, labour markets and training
- a director of Mayne Nickless Ltd, Santos Ltd, SGIO Insurance Ltd and chair of SGIC Holdings Ltd, a member of the Strategic Research Development Committee of the National Health and Medical Research Council and a member of the Australian Citizenship Council in addition to her appointment as a permanent part-time Commissioner
- appointed as Professor of Labour Studies in 1989, she held the position of Director of the National Institute of Labour Studies at Flinders University of South Australia from 1992 to 1998
- previous appointments include membership of the South Australian Council of TAFE, the Trade Development Council, the Textiles, Clothing and Footwear Development Authority, the Australian Statistics Advisory Council and the South Australian Ports Corporation Board

***Michael Woods (part-time Commissioner)***

- urban geography and economics qualifications from the ANU
- in addition to his appointment as a permanent part-time Commissioner, he is an Associate of the Australia Asia Management Centre at the ANU, lectures at the Centre for Developing Cities at the University of Canberra and is Principal of Woods Financial Designs, a Canberra consultancy
- member of the Government Sector Finance Task Force for the Securities Institute of Australia, the Canberra Business Council, the Institute of Public Administration of Australia and the Institute of Management Consultants
- formerly Secretary of the Treasury for the Australian Capital Territory, member of the Australian Statistics Advisory Council and a board member or shareholder of various government authorities and business enterprises and senior executive in the ACT, Commonwealth and Northern Territory public services in the fields of economic policy, public finance and health

## Staff

Staffing information by level, gender, employment status and location is provided in tables A.3 to A.6.

**Table A.3 Staff profile<sup>a</sup>, 30 June 1998**

<i>Level</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
Senior Executive Service Band 3	0	1	1
Senior Executive Service Band 2	2	1	3
Senior Executive Service Band 1	3	14	17
Senior Officer Grade A	1	0	1
Senior Officer Grade B	10	29	39
Senior Officer Grade C	18	24	42
Legal Officer Grade 1	1	0	1
Senior Information Technology Officer Grade B	1	0	1
Senior Information Technology Officer Grade C	0	1	1
Information Technology Officer Grade 2	0	3	3
Senior Public Affairs Officer Grade 1	1	0	1
Senior Professional Officer Grade C	1	0	1
Professional Officer Class 2	0	1	1
Research Officer Grade 2	3	5	8
Administrative Service Officer Class 6	11	14	25
Administrative Service Officer Class 5	5	7	12
Administrative Service Officer Class 4	7	1	8
Administrative Service Officer Class 3	21	4	25
Administrative Service Officer Class 2	2	0	2
Graduate Administrative Assistant	0	3	3
<b>Total</b>	<b>87</b>	<b>108</b>	<b>195</b>
Corresponding totals at 30 June 1997	100	127	227

<sup>a</sup> Excludes 12 inoperative staff at 30 June 1998 and 23 at 30 June 1997.

**Table A.4 Senior Executive Service staff<sup>a</sup> by employment status, 30 June 1998**

<i>Level</i>	<i>Status</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
SES Band 3	Full-time Permanent	0	1	1
SES Band 2	Full-time Permanent	1	1	2
SES Band 2	Part-time Permanent	1	0	1
SES Band 1	Full-time Permanent	3	12	15
SES Band 1 (HDA)	Full-time Temporary	0	2	2
<b>Total</b>		<b>5</b>	<b>16</b>	<b>21</b>
Corresponding totals at 30 June 1997		6	18	24

<sup>a</sup> Excludes 1 inoperative staff at 30 June 1998 and 2 at 30 June 1997.



**Table A.5 Staff other than Senior Executive Service<sup>a</sup> by employment status, 30 June 1998**

<i>Status</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
Full-time permanent	76	89	165
Full-time temporary	3	1	4
Part-time permanent	3	2	5
Part-time temporary	0	0	0
<b>Total</b>	<b>82</b>	<b>92</b>	<b>174</b>
Corresponding totals at 30 June 1997	94	109	203

<sup>a</sup> Excludes 11 inoperative staff at 30 June 1998 and 21 at 30 June 1997.

**Table A.6 Staff<sup>a</sup> by level and location, 30 June 1998**

<i>Level</i>	<i>Melbourne</i>	<i>Canberra</i>	<i>Total</i>
Senior Executive Service Band 3	1	0	1
Senior Executive Service Band 2	2	1	3
Senior Executive Service Band 1	9	8	17
Senior Officer Grade A	1	0	1
Senior Officer Grade B	16	23	39
Senior Officer Grade C	20	22	42
Legal Officer Grade 1	0	1	1
Senior Information Technology Officer Grade B	1	0	1
Senior Information Technology Officer Grade C	1	0	1
Information Technology Officer Grade 2	2	1	3
Senior Public Affairs Officer Grade 1	0	1	1
Senior Professional Officer Grade C	1	0	1
Professional Officer Class 2	1	0	1
Research Officer Grade 2	5	3	8
Administrative Service Officer Class 6	15	10	25
Administrative Service Officer Class 5	9	3	12
Administrative Service Officer Class 4	4	4	8
Administrative Service Officer Class 3	15	10	25
Administrative Service Officer Class 2	1	1	2
Graduate Administrative Assistant	3	0	3
<b>Total</b>	<b>107</b>	<b>88</b>	<b>195</b>
Corresponding totals at 30 June 1997	132	95	227

<sup>a</sup> Excludes the following inoperative staff at 30 June 1998 — Melbourne 3 and Canberra 9 and at 30 June 1997 — Melbourne 10 and Canberra 13.

## Separations

Seventy staff departed from the Commission during the year, the highest component being 30 employees who resigned. Of the 18 departures for 'other' reasons, 17 were temporary employees completing their contracts.

Further details of separations are shown in table A.7.

**Table A.7 Staff by level and reason for separation, 1997-98**

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Retirement</i>	<i>VRP<sup>a</sup></i>	<i>Other</i>	<i>Total</i>
SES <sup>b</sup>	1	1	0	0	0	1	3
SO <sup>c</sup> B	0	1	3	0	2	0	6
SO C	0	1	9	0	2	4	16
Legal 1	0	0	0	0	0	0	0
SITO <sup>d</sup> B	0	0	0	0	0	0	0
SITO C	0	0	0	0	0	0	0
ITO <sup>e</sup> 2	0	0	0	0	0	0	0
SPAO <sup>f</sup> 1	0	0	1	0	0	0	1
SPO <sup>g</sup> C	0	0	1	0	0	0	1
PO <sup>h</sup> 2	0	0	0	0	0	0	0
RO <sup>i</sup> 2	0	0	5	0	0	0	5
ASO <sup>j</sup> 6	3	2	7	0	0	3	15
ASO 5	3	2	2	0	1	0	8
ASO 4	0	0	1	0	0	0	1
ASO 3	1	0	1	0	2	1	5
ASO 2	0	0	0	0	0	9	9
GAA <sup>k</sup>	0	0	0	0	0	0	0
<b>Total</b>	<b>8</b>	<b>7</b>	<b>30</b>	<b>0</b>	<b>7</b>	<b>18</b>	<b>70</b>
Corresponding totals at 30 June 1997	5	18	15	0	43	34	115

<sup>a</sup> Voluntary Redundancy Package. <sup>b</sup> Senior Executive Service. <sup>c</sup> Senior Officer. <sup>d</sup> Senior Information Technology Officer. <sup>e</sup> Information Technology Officer. <sup>f</sup> Senior Public Affairs Officer <sup>g</sup> Senior Professional Officer. <sup>h</sup> Professional officer. <sup>i</sup> Research Officer. <sup>j</sup> Administrative Service Officer. <sup>k</sup> Graduate Administrative Assistant.

## Recruitment

The Commission recruited 27 staff during the year. Of these, six females and eight males were employed as full-time permanent staff. Five females and eight males were employed on a temporary basis for various periods.

Included in the recruitment were one female and four male Graduate Administrative Assistants.

## Workplace diversity

As foreshadowed in the Industry Commission's annual report for 1996-97, the Commission developed a successor to its 1993-1996 equal opportunity employment plan during 1997-98.

The new plan — *Equity and diversity: a strategic plan to the year 2000* — was distributed to all employees in January 1998. The development of the plan was

coordinated by the Commission's Workplace Diversity Committee, which comprises management representatives and staff representatives from both the Melbourne and Canberra offices.

The First Assistant Commissioner of the Melbourne Office is the Senior Executive Responsible for Equal Employment Opportunity within the Commission. The Manager Personnel Policy and Practices, an Administrative Service Officer Class 6, has day-to-day responsibility for these matters and undertakes the role of workplace diversity advisor. Harassment contact officers are available in both the Melbourne and Canberra offices. Some harassment contact officers underwent refresher training during the year and new appointees were trained in their responsibilities. The Commission participated in the Victorian APS Equal Employment Opportunity Network.

Commission employees at 30 June 1998 according to the designated equal employment opportunity groups are shown in table A.8.

**Table A.8 Staff by equal employment opportunity groups, 30 June 1998**

<i>Salary range<sup>a</sup></i>	<i>Gender</i>		<i>Total</i>	<i>Aboriginal or Torres Strait Islander peoples</i>	<i>People with disabilities</i>	<i>NESB<sup>b</sup></i>	
	<i>Female</i>	<i>Male</i>				<i>1st gen.</i>	<i>2nd gen.</i>
Above \$68 498 (includes SES)	5	17	22	0	2	1	2
\$55 172 – 68 497 (SO A, B & equiv)	14	30	44	0	1	0	3
\$47 592 – 55 170 (SO C & equiv)	22	26	48	0	6	4	8
\$40 676 – 47 591 (includes ASO 6)	12	20	32	0	1	0	8
\$37 342 – 40 675 (includes ASO 5)	6	7	13	0	0	0	5
\$33 305 – 37 341 (includes ASO 4)	10	6	16	0	0	0	0
\$30 043 – 33 304 (includes ASO 3)	22	4	26	0	1	0	4
\$26 458 – 30 042 (includes ASO 2)	3	3	6	0	1	0	0
Below \$26 457 (includes ASO 1)	0	0	0	0	0	0	0
<b>Total<sup>c</sup></b>	<b>94</b>	<b>113</b>	<b>207</b>	<b>0</b>	<b>12</b>	<b>5</b>	<b>30</b>

<sup>a</sup> Abbreviations as in table A.7. <sup>b</sup> Non-English speaking background (1st generation and 2nd generation).

<sup>c</sup> Includes 12 inoperative staff.

*Source:* Based on staff responses to voluntary EEO surveys. Staff may choose not to identify themselves in EEO groups.

Staffing in Equal Employment Opportunity (EEO) groups against Year 2000 targets for EEO groups on an Australian Public Service (APS) wide basis are shown in table A.9. In a number of areas, the Commission has already achieved the targets set.

**Table A.9 Proportion of staff in equal employment opportunity groups<sup>a</sup>**

<i>EEO Group</i>	<i>Productivity Commission</i>		<i>APS<sup>b</sup></i>	
	<i>per cent at 30-6-1997</i>	<i>per cent at 30-6-1998</i>	<i>per cent at 30-6-1996</i>	<i>Year 2000 target per cent</i>
Females				
– in SES	25	25	19	20
– in SO A, SO B or equivalent	25	32	29	28
– in total staff	44	45	48	50
Aboriginal or Torres Strait Islander people in total staff	0	0	2	2
People with disabilities in total staff	6	6	4	5
People of non-English speaking background in total staff	17	16	15	15

<sup>a</sup> Based on staff responses to voluntary equal employment opportunity surveys. <sup>b</sup> PSMPC (1997).

## Key developments

A key event during the year was the passage through the Parliament in April 1998 of the legislation establishing the Productivity Commission. Related to this was the appointment of the Chairman and Commissioners and the announcement of the Commission's forward work program.

Key management developments during the year included:

- a revision of the Commission's draft corporate plan in the light of the organisation's enabling legislation;
- an initial planning day attended by the Chairman and Commissioners to consider the functions and directions of the new organisation;
- the negotiation of Australian Workplace Agreements for the Commission's Senior Executive Service staff;
- the negotiation of a Certified Agreement with the Commission's non-SES staff. The Agreement was certified by the Australian Industrial Relations Commission on 10 August 1998;
- an assessment of the possible external provision of information technology (IT) infrastructure and services (see below);

- 
- implementation of a new financial management information system (FMIS) for the Commission. The new FMIS will allow the Commission to comply with the Government's move to an accrual based resource management system as well as positioning the Commission to enhance its internal resource management;
  - a review of the Commission's library management information system. The outcome was to replace the current system with a more effective and efficient system; and
  - activities associated with the Year 2000 issue. The Commission expects to be Year 2000 compliant by July 1999, achieved mainly through replacement of its computer systems.

A comparative summary of staff and financial resources in 1997-98 is provided in table A.10.

## **Internal and external scrutiny**

During the year the Commission undertook internal scrutiny of several areas of its operations. These included its information technology (IT) infrastructure and services, its library system, its occupational health and safety (OH&S) services and aspects of its inquiry processes.

In respect of IT infrastructure and services, the Government requires all agencies to outsource such services where this can be supported by a business case. The Commission undertook such an assessment in the second half of 1997, applying the principles expressed in its 1996 report on *Competitive tendering and contracting by public sector agencies*, subsequently adopted by the Government. The Commission was assisted in its task by an external consultant. Following this comprehensive assessment, the Commission concluded that external provision would not match the service levels and cost of the internal services. It decided to retain in-house provision of IT infrastructure and services for the time being, while continuing to outsource aspects of IT training and maintenance.

The Commission's library software system is dated. Following an internal review, it was decided to implement a new system (Optimus Prime's FIRST library system). Implementation is currently under way. There was also a review to see if an electronic daily press clipping service could replace the existing paper-based system. However, following a four-month trial period, it concluded that, at this stage, the on-line service was not adequate for the Commission's requirements. The services will be kept under review.

The Commission benchmarked its OH&S services against four similar agencies. Findings supported the Comcare audit of 1996 that the Commission provides a high level service.

A new database package for the Commission's client mailing list was adopted to improve the ability to service particular client groups. An overhaul of the data to ensure its accuracy was also commenced.

A new style manual for Commission reports was developed to ensure that they communicate effectively. Systems to ensure the timely production and distribution of Commission reports were further improved.

The Commission's reports continue to be available through its internet website. Feedback from users indicates that the information on the site is useful and informative.

**Table A.10 Staff and financial resources summary**

	1996-97 <sup>a</sup>	1997-98 <sup>b</sup>	2000-01 projection
<i>Commissioners and staffing at 30 June</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>
Commissioners (including Chairman)	6	7 <sup>c</sup>	
Associate Commissioners	2	0	
Operative staff <sup>d</sup>	227	195	
<b>Total</b>	<b>235</b>	<b>201</b>	<b>195</b>
<i>Expenditure</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Salaries and allowances			
Holders of Public Office <sup>e</sup>	1.5	0.9	
Staff	12.2	11.7	
Superannuation	2.3	1.9	
Administrative expenses			
Inquiry (non salary) expenditure	0.9	0.7	
Other program expenditure	1.3	1.3	
Corporate expenses			
Property operating expenditure	2.0	1.7	
Other corporate expenditure	3.1	2.6	
Amalgamation process	3.8 <sup>f</sup>	0.9 <sup>g</sup>	
Funding external economic modelling	0.2	0.8	
<b>Total expenditure</b>	<b>27.3</b>	<b>22.4</b>	<b>20.6</b>

Expenditure in this table is on a cash basis. <sup>a</sup> Includes expenditure from IC and EPAC appropriations. <sup>b</sup> Includes expenditure from PC, IC and EPAC appropriations. <sup>c</sup> Of the seven Commissioners, two are part time. <sup>d</sup> Those not absent from duty for 12 or more weeks. <sup>e</sup> Commissioners and Associate Commissioners. <sup>f</sup> Includes \$3.2m for the amalgamation process comprising voluntary departure packages and salaries awaiting departure. <sup>g</sup> Includes \$0.6m for voluntary departure packages.

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The Commission has an Audit Committee with a charter to review processes and practices, examine financial statements and advise on improvements. Most of the committee's efforts during the year related to the financial statements process.

Much of the Commission's work is subject to external scrutiny as a result of its public inquiry process, its practice of releasing draft reports for comment before finalising reports on individual inquiries, its use of external independent referees for its economic modelling and research reports, and the public release of its inquiry and research reports.

The Australian National Audit Office (ANAO 1997) included the Commission in a group of organisations for which audit results were stated as being satisfactory and unqualified. Based on the ANAO's benchmarking, the Commission received two A and four B ratings (on a rating scale from A to E) on the six assessment criteria. This represented a significant improvement over the previous year.

## **Social justice and equity**

The Commission's processes contribute to the Government's social justice and equity issues in a number of ways. The statutory requirement to approach industry policy from the perspective of the community as a whole, rather than from any particular industry group, is intended to promote fairer outcomes.

The transparency of the Commission's operations through public inquiry processes provides the opportunity for anyone with an interest in an inquiry to make their views known and to have these considered. The Commission actively seeks out those who are likely to have an interest in an inquiry, so that a range of views and circumstances can be taken into account.

The Commission's Access and Equity Plan sets out the processes to be followed to provide groups with special needs the opportunity to participate in Commission activities. This Plan will be updated during 1998-99 to reflect the Government's *Charter of public service in a culturally diverse society* and the extended functions of the Productivity Commission.

The Commission's internet home page (<http://www.pc.gov.au>) provides access to most facets of the Commission and its work. Such details include the current inquiry and research programs, publications, and employment opportunities.

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## Training and development

The Commission's expenditure on training and development in 1997-98 represented just under 2.5 per cent of the annual salary budget. A total of 747 days of training and development was undertaken by 192 of the Commission's current and former employees. These measures do not include the extensive on-the-job training within the Commission or attendance at internal seminars.

Training priorities for the year included a continuation of the development program for project management skills, health awareness assessments and seminars, development programs for Senior Executive Service employees and continuing computer training for employees at all levels. Induction of new starters, including graduates, continued to feature prominently in the Commission's training and development program.

Other development opportunities provided by the Commission include the Studies Assistance Scheme for part-time students, Post-Graduate Study Awards and Overseas Development Awards. During 1997-98, 35 staff participated in the Studies Assistance Scheme and associated financial assistance totalled just under \$10 500. Two employees were granted a post-graduate award to undertake full-time study and one employee was granted an overseas development award to undertake a short-term placement at the World Bank in Washington DC. Direct expenditure for the two award schemes totalled \$37 000.

## Performance appraisal and pay

All employees arrange a workplan (ASO1-6) or enter into a performance agreement (SO C and above) with their supervisor. At least twice during the year supervisors discuss each employee's performance in key areas and give individual feedback against performance indicators.

Employees at the SO C level and above participate in a performance-based bonus scheme. The Certified Agreement altered the range and rate of payment for the 1997-98 scheme (see below). Under the new arrangement, employees are rated on the APS-wide standard five level scale (with gradations), with those attaining a 3 or higher rating receiving a performance bonus of between 2 per cent and 12 per cent of annual salary.

Performance ratings for 1997-98 were as follows:

- for the Senior Executive Service — 10 per cent were rated at 5, 55 per cent at 4 and 35 per cent at 3 or 2; and



- 
- for Senior Officers — 4 per cent were rated at 5, 41 per cent at 4, 47 per cent at 3 and 8 per cent at 2.

Performance bonuses paid for the 1997-98 year totalled \$403 000.

## **Other matters**

### **Occupational health and safety (OHS)**

The Commission's OH&S Committee met three times during 1997-98 and dealt with a variety of topics including OH&S team training and a staff health assessment/seminar program. Each meeting received reports on the Employee Assistance Program, workplace hazard inspections, and accident, incident and injury statistics.

An OH&S Committee initiative — team training programs on OH&S — commenced in the Melbourne Office during the year. A health promotion program was conducted with cardiac risk profile screening and a 'Good Health' seminar was conducted for interested employees. An assessment by Comcare of OH&S awareness within the Canberra office is proposed for the 1998-99 year.

Contracted ergonomists continue to provide a preventative strategy for early identification of potential workplace injuries. All new staff receive an ergonomic assessment and advice as part of their induction process.

The Commission's insurance premium for workers' compensation for 1997-98 was 0.77 per cent of salary expenditure, which compares with the average premium of 1.2 per cent for the relevant equivalent pool of APS agencies.

No formal OH&S investigations were conducted during the year and no Provisional Improvement Notices were served.

### **Industrial democracy**

The Commission employs a range of measures to enable employee participation in policy formulation and work environment conditions. These include staff representation on committees, extensive consultation on important issues, and a variety of means of communicating internally. The Chairman and senior management hold regular staff meetings. No industrial issues affecting Commission staff arose during 1997-98.

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## **Employee Assistance Program**

The Commission continued to provide access for staff to an Employee Assistance Program. This program provides independent, confidential and professional counselling, consultation and training assistance to staff and their immediate families who seek help with work-related or personal problems.

Contracts were renewed during the year with Occupational Services of Australia in Melbourne and Industrial Program Services in Canberra.

Use of the service in 1997-98 was comparable to that of the preceding year for the Melbourne office, with 19 people using the service compared with 21 in 1996-97. The utilisation rate for the Canberra office decreased from eight to three people.

## **Service charters**

The *Industry Commission Service Charter* was released in December 1997, in draft form, pending the passage of legislation to formally create the Productivity Commission. The charter was amended to reflect the expanded functions of the new Commission and was published on 1 May 1998 as the *Productivity Commission Service Charter*.

Given its separate functions, a service charter has also been developed for the Competitive Neutrality Complaints Unit established within the Commission.

The Commission's service charters were developed through consultation with staff and apply to all its clients — all Australians, government bodies, the Commonwealth Treasurer, internal clients and service providers. The charters are available on the Commission's internet home page, internally on the Commission's database, at all reception areas in the Melbourne and Canberra offices, and are included in the Productivity Commission Information Kit.

## **Australian Workplace Agreements (AWAs)**

As part of the APS Reforms process, the Government expects all Senior Executive Service (SES) employees to enter into AWAs with their agency heads.

The Commission implemented a comprehensive information process for its SES employees on the operation of relevant sections of the *Workplace Relations Act 1996* and the Government's requirements (as the employer) in respect of AWAs.

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At 30 June 1998, AWAs had been negotiated with the majority of SES employees, with the remainder expected to be finalised in the near future. The AWAs have a duration of two years.

### **Certified Agreement 1998-2000**

During the latter half of the financial year, the Commission successfully negotiated a certified agreement with its employees in accordance with section 170LK of the *Workplace Relations Act 1996*. The agreement was the culmination of an extensive consultation process with staff. Eighty per cent of staff voted on the agreement, of whom almost 80 per cent were in favour of its implementation.

The agreement, which is of two years duration, will allow the Commission to build on current high performance standards, achieving some administrative and other cost savings. Productivity gains are expected to result from a better tailoring of resources to tasks and better, but not disproportionate, incentives for performance.

In summary, the agreement provides for the following remuneration benefits:

- a once off sign-on bonus;
- a pay rise of 4.5 per cent effective from 18 March 1998;
- a further pay rise of 2 per cent, contingent on performance being at least 'fully effective', from 1 July 1999;
- for Senior Officers, an expansion of existing performance-based pay arrangements so that, for 1997-98 and thereafter, those assessed as 'fully effective' also receive performance-based pay;
- payment of all existing increment entitlements until 30 June 1999;
- a system for salary advancement which offers prescribed increases subject to performance; and
- flexible salary packaging.

Some other changes in work arrangements are:

- an increase in the flexibility of working hours and greater carry-over provisions for additional hours worked;
- more flexible part-time work arrangements;
- more flexible home-based work provisions;
- access to 48/52 leave arrangements;
- the removal of deeming provisions for recreation leave;

- 
- enhanced carer's leave arrangements;
  - increased bereavement leave; and
  - generally easier to understand terms and conditions of employment.

The following key changes affecting staff are embodied in the agreement:

- broadbanding of staff into four levels — Level 1 (currently ASO1 to ASO4), Level 2 (currently ASO5 and ASO6), Level 3 (currently SOG C) and Level 4 (currently SOG B and SOG A);
- a relationship between further salary advancement and performance;
- cessation of the current increment system from 1 July 1999; and
- streamlining of allowances, in particular:
  - a commitment to limit the amount of paid overtime, overtime rates limited to time and a half, and abolition of the overtime meal allowance;
  - higher duties allowance no longer payable for periods under 2 weeks for ASOs or under 8 weeks for Senior Officers; and
  - abolition of same-day travel allowance.

## **Chief Executive Instructions**

The repeal of the *Audit Act 1901* and the introduction of replacement financial legislation, including the *Financial Management and Accountability Act 1997*, requires a new set of Chief Executive Instructions to be developed. This exercise, which is expected to be completed early in 1998-99, provides the Commission with an opportunity to review and update its administrative processes and procedures in line with identified best practices.

## **Information technology (IT)**

The IT Strategic Plan (July 1996 – June 1999) continues to provide a sound basis for the Commission's IT requirements. The main activities for the year included the continuing roll-over and upgrade of hardware, and standardisation of software to a common platform. In addition, the development of the local and wide area networks has resulted in a more modern, flexible and secure system of networks.

While there has been a downturn in the number of problems experienced by users, IT services provided have broadened to include more information management services for the internal and external release of information.

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The Commission is addressing the Year 2000 compliance issue and is participating in OGIT's monitoring process for the APS as a whole. Significant progress has been made in achieving compliance, a task the Commission is undertaking internally.

## Advertising and market research

The Commission publicises its government commissioned inquiries and studies so that any individual, firm or organisation with an interest has an opportunity to present their views. Publicity takes the form of newspaper advertisements, regular distribution of *pc update*, press releases and direct mailing of Commission circulars.

A total of \$27 342 was paid in 1997-98 to TMP Worldwide, the Commonwealth's master agency for classified advertising.

## Consultancies

The Commission utilised the services of a range of consultants where it was considered efficient and cost effective to do so. A summary of the consultancies is shown in table A.11.

Table A.11 **Summary of consultancies, 1997-98**

<i>Purpose</i>	<i>No.</i>	<i>Contract amount (\$)</i>
Government commissioned projects	3	141 000
General research	9	205 008
Corporate services	4	71 100
<b>Total</b>	<b>16</b>	<b>417 108</b>

Section 45 of the *Productivity Commission Act 1998* requires that, where the estimated value of a consultancy exceeds the amount prescribed by regulations under the Act, the Chairman of the Commission must ensure that an open and competitive tendering process is used to select the consultant. On 30 July 1998 the Governor-General made a regulation prescribing that amount to be \$20 000.

## Special payments

The Commission made a number of special payments during 1997-98. Such payments are made to organisations judged by management as being able to make a worthwhile contribution to the Commission's objectives. The main payments were as follows:

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*Economic modelling:* \$270 000 as the Commission's contribution to the Centre of Policy Studies at Monash University for the COPS/IMPACT economic modelling projects. In addition, the Commission was responsible for coordinating payment of approximately \$518 000 in matched funds on behalf of the Commonwealth. Both amounts were for work undertaken over a two-year period.

*Consortium membership:* \$21 676 for membership to the Global Trade Analysis Consortium based at Purdue University, USA. The Commission's contribution supports the development and updating of a publicly available database and model framework for multi-country trade policy analysis. It also gives the Commission early access to database updates, priority access to model training and input to the future direction of model and database development.

*Research partnership:* \$17 000 to the Melbourne Institute of Applied Economic and Social Research, University of Melbourne, as the first of two annual instalments for a project on innovation, productivity and profitability in Australian enterprises. The Commission is one of five partners in this project. The others are IBIS Information Pty Ltd, the Australian Taxation Office, the Office of Small Business and the Victorian Department of State Development. The project brings together a range of data, some previously unavailable for research purposes, to examine issues related to the performance of Australian enterprises.

*Conference sponsorships:* \$10 000 to the Australian National University for part sponsorship of the 1998 Industry Economics Conference; \$1500 to the Economic Society for part sponsorship of the 1997 Conference of Economists; \$1000 to the University of Western Australia for the PhD Conference in Economics and Business; \$1000 to the University of Technology Working Research Conference on non-profit organisations; and \$1000 to the Australian National University for an Intellectual Property Workshop.

*Awards:* \$500 to the top student, Master of Economics, at the Australian National University (Robert Jones Prize).

*Research sponsorships:* The Commission has a commitment to pay \$40 000 to the Johns Hopkins University, USA, subject to the completion of the final stage for the Australian component of the Comparative Non Profit Sector Project which aims to collect comparative data on non-profit organisations from a number of countries.

## **Publications and submissions**

Appendix E lists all publications and submissions to other inquiries and reviews completed in 1997-98.

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## Freedom of Information

The Commission received one application for documents during 1997-98 under the *Freedom of Information Act 1982*. The request sought access to information in relation to the Industry Commission's inquiry into the textiles, clothing and footwear industries. The request was received on 8 October 1997 and full access was granted within the required time.

A statement encompassing formal reporting requirements is provided in attachment A.1.

## Annual reporting requirements and aids to access

Information contained in this annual report is provided in accordance with sections 25(6) and 25(7) of the *Public Service Act 1922*, section 74 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*, section 50AA of the *Audit Act 1901* and section 8 of the *Freedom of Information Act 1982*.

The entire report is provided in accordance with section 10 of the *Productivity Commission Act 1998* and item 6 of Schedule 2 of the *Productivity Commission (Repeals, Transitional and Consequential Amendments) Act 1998*.

The annual report has been prepared in accordance with the guidelines issued by the Department of Prime Minister and Cabinet. The guidelines seek to minimise the amount of detail contained within annual reports, but state that matters of detail previously required for inclusion in annual reports should be made available within five working days of the date of request from Parliament. A compliance index is provided in attachment A.2.

The contact officer for inquiries or comments concerning this report is:

Assistant Commissioner  
Corporate Services Branch  
Productivity Commission  
LB2 Collins Street East Post Office  
MELBOURNE VIC 8003  
Telephone: (03) 9653 2251  
Facsimile: (03) 9653 2304

Inquiries about any Commission publication can be made to:

Director

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Media and Publications Unit  
Productivity Commission  
LB2 Collins Street East Post Office  
MELBOURNE VIC 8003  
Telephone: (03) 9653 2183  
Facsimile: (03) 9653 2199

### **Access to the Commission via the World Wide Web**

The Commission's home page on the Internet can be found at <http://www.pc.gov.au>. The entire site was re-designed in November 1997 to provide easier access to information about the Commission's activities including the current inquiry and research program, employment opportunities in the Commission and the full text of most of its publications.

The site underwent further revision in May 1998 upon formation of the Productivity Commission and now provides information on the expanded role and functions of the Commission, including the Competitive Neutrality Complaints Office, as well as biographies of the Chairman and Commissioners.

The Commission's home page was accessed approximately 300 000 times by external clients during 1997-98, a four-fold increase from the previous year. The two most accessed reports have been *Work arrangements in container stevedoring* and *International benchmarking of the Australian waterfront*, with over 7 000 requests for each to date.



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## Attachment A.1

### Freedom of Information Statement

The following information is provided in accordance with section 8(1) of the *Freedom of Information Act 1982*.

The role, functions and organisational structure of the Commission are detailed elsewhere in this report.

The Commission is required under its Act to conduct public inquiries on matters referred to it by the Government. The Commission's inquiry procedures actively seek to encourage participation by all interested parties.

The Commission may inspect and copy relevant documents and summons persons to give evidence in the course of its inquiries. Such persons are protected under the Act from being subject to prejudicial treatment as a result of their giving evidence.

#### *Categories of documents*

Information circulars, issues papers, inquiry guidelines and draft reports are sent to interested parties and inquiry participants, as well as being made available on request to the public free of charge. Final reports are distributed, free of charge, to inquiry participants.

Documents available for purchase at Government Info Shops include:

- the Commission's annual report to Parliament;
- reports on matters referred to the Commission by the Minister; and
- reports on matters researched by the Commission.

Copies of submissions made to inquiries, excluding confidential material, can be purchased through the Expo Document Copy Centre, PO Box 1154, Fyshwick, Canberra, ACT 2609. Transcripts of public hearings can be purchased from Spark and Cannon Pty Ltd, which has offices in Melbourne, Adelaide, Sydney, Brisbane and Perth. Transcripts and submissions can also be accessed through all State libraries.

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*Facilities for access*

Relevant Commission documents, including copies of submissions and transcripts, may be inspected in the Commission's libraries in Melbourne and Canberra between 9.00am and 5.00pm, Monday to Friday. Information and written requests for access to Commission documents under the *Freedom of Information Act 1982* can be made through:

Records Manager  
Productivity Commission  
LB2 Collins Street East Post Office  
MELBOURNE VIC 8003  
Telephone (03) 9653 2107  
Facsimile (03) 9653 2199

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## Attachment A.2

### Compliance index

<i>Topic</i>	<i>Page</i>
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Table of contents	vii
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## B Program performance

The role of the Productivity Commission is to contribute to the wellbeing of Australians by providing high quality information, analysis and policy advice to Australian governments, and to the community, about ways of best using the nation's resources.

The Commission performs this role through undertaking government commissioned inquiries and other projects, performance reporting, international benchmarking, regulation review, assessing competitive neutrality complaints against Commonwealth Government businesses, and its own general research. These activities are underpinned by corporate management and services.

This appendix reports on program objectives for these activities, resource usage, performance indicators and performance outcomes. As required under the transitional provisions relating to the Productivity Commission Act, this appendix reports on activities undertaken in 1997-98 by the Industry Commission, the Economic Planning Advisory Commission and the Productivity Commission.

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## Government commissioned projects

These are major tasks commissioned or explicitly requested by Australian governments. The tasks encompass the conduct of public inquiries, program evaluations, task forces and other commissioned research projects. They typically involve extensive public consultation.

### Public inquiries

#### *Objective*

- To provide information and policy advice through the conduct of public inquiries into matters referred by the Government.

#### *Resources*

- Staff years — 52
- Expenditure — \$6.5 million

#### *Performance indicators*

The Commission aims to provide public inquiry reports which:

- are influential in shaping Commonwealth, State and Territory government microeconomic policy;
- respond fully to the terms of reference and are well informed, with clear analysis and recommendations;
- provide appropriate opportunity for participation by interested members of the community; and
- are timely and are conducted economically.

Information on these performance indicators is derived in a number of ways, including through feedback from governments, inquiry participants and others, the contribution to the public debate through the media and conferences, the degree of public participation, report completion dates and inquiry costs.

#### *Performance*

Six formal public inquiries were under way during 1997-98, of which the following three were completed in the year:

- 
- *The textiles, clothing and footwear industries;*
  - *Ecologically sustainable land management; and*
  - *Telecommunications equipment, systems and services.*

Three other inquiries also commenced during the year: the Australian black coal industry; international air services; and the pig and pigmeat industries (safeguard action against imports). The inquiry program is summarised in table B.1. After 16 April 1998, inquiries which had commenced under the Industry Commission Act were completed under the Productivity Commission Act.

The 1997-98 inquiry program was more varied than in the preceding year, in that industry assistance issues involving tariffs and bounties were not so dominant. The inquiry into ecologically sustainable land management, for example, provided an opportunity to investigate how government regulatory regimes could be recast to ensure that resource owners and managers take into account the environmental impacts of their decisions, how to create or improve the markets for key natural resources and how to encourage conservation on private land. The black coal inquiry examined work arrangements and government regulation with a view to ensuring that Australia's largest export industry becomes more productive and remains competitive in the face of changing domestic and export markets. Australia's international air services are highly regulated by complex bilateral agreements. The air services inquiry investigated alternative regulatory approaches under which airlines could develop and operate more efficient networks, reduce costs, and encourage innovation and the development of new travel products.

On 25 June 1998 the Government designated the Productivity Commission as the investigatory body for inquiries into possible safeguard action against imports. The general procedures governing safeguard inquiries by the Commission were promulgated in the Special Gazette No. S297 and notified to the World Trade Organization. (The gazette notice is reproduced in attachment C1.) The reference on the pig and pigmeat industries was received on 26 June 1998 and the Commission is to report within 140 days

As indicated in table B.1, the Productivity Commission received five further references by the end of August 1998. Details are provided in appendix D.

Trends in inquiry activity and participation are shown in table B.2.

**Table B.1 Public inquiry program<sup>a</sup>**

Month	1996-97					1997-98					1998-99													
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Textiles, clothing and footwear industries																								
Ecologically sustainable land management																								
Telecommunications equipment, systems and services																								
Australian black coal industry																								
International air services																								
Pig and pigmeat industries																								
Nursing home subsidies																								
Progress in rail reform																								
Implementation of ecologically sustainable development																								
Australia's gambling industries																								
Impact of competition policy																								

<sup>a</sup> Shaded area indicates the approximate duration of the inquiry in the period covered by the table.

**Table B.2 Public inquiry activity, 1994-95 to 1997-98**

Indicators	1994-95	1995-96	1996-97	1997-98
References received	5	5	4	4
Issues papers released	5	5	4	3
Public hearings (sitting days) <sup>a</sup>	174	33	32	30
Industry visits <sup>b</sup>	941	586	375	241
Submissions <sup>b</sup>	2 082	1 329	774	626
Draft reports completed	6	5	6	4
Reports completed	7 <sup>c</sup>	5	7	3
References on hand (at 30 June)	5	5	2	3

<sup>a</sup> Excludes forums and roundtable discussions. <sup>b</sup> As distinct from hearing days, which are attributed to the year in which they occur, industry visits and submissions relate to inquiries completed in that year. <sup>c</sup> Excludes the completion of the Independent Committee of Inquiry into the Winegrape and Wine Industry. The Chairperson of the Industry Commission chaired the Committee, which was supported by Industry Commission staff.

Assessment of how well the Commission has responded to the terms of reference for particular inquiries is subjective. Even more subjective is determining how influential Commission reports are in shaping government policies, particularly because of lags between the release of reports and subsequent government action. For example, in its 1994 report on petroleum products the Industry Commission recommended, among other things, the termination of price surveillance arrangements for petroleum products, the repeal of industry-specific legislation governing site and franchise arrangements, a strengthening of the code of conduct for industry participants and an accelerated withdrawal of the Laidly Agreement

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restricting access to oil terminals. However, it was not until July 1998 that the implementation of these measures was announced (Costello and Moore 1998). In the intervening period, the Australian Competition and Consumer Commission had also recommended the lifting of prices surveillance arrangements and repeal of the Sites and Franchise Acts, a committee of the House of Representatives had reported on fair trading arrangements, and the principles of the strengthened Oilcode had been developed by industry participants in a negotiation process chaired by a former Supreme Court Judge.

Various indicators suggest that Commission reports make a significant contribution to the public debate on policy issues and in shaping government policies. One such indicator is the extent to which Commission recommendations are accepted by government — a summary of the recommendations of recent reports and of government responses is included in appendix C. Other indicators are the significant media coverage of most inquiries, reference to and use of Commission reports in parliamentary proceedings and community debate, and the invitations to the Chairman, Commissioners and staff to address or participate in conferences and similar forums. The quality of the Commission's work continues to attract the attention of international agencies and foreign governments. In May 1998 the Chairman was invited to address a conference on private health insurance in Ireland, where the Industry Commission's 1997 report on health insurance was described as a key input to the current review of that country's health insurance system.

Delays in the release of final reports compound the difficulties of assessing the impact of inquiry reports. These delays continue and were the subject of parliamentary scrutiny during the past year. The Productivity Commission Act, like the Industry Commission Act, requires that the Minister table inquiry reports within 25 sitting days of receipt. The Industry Commission report on State, Territory and local government assistance to industry was tabled on 23 February 1998, some 15 months after completion of the inquiry. The Industry Commission report on ecologically sustainable land management, which has not yet been released, was due to have been tabled by 26 May 1998.

The practice of consulting widely with industry, government departments and agencies, unions, academia and the broader community during the course of inquiries continued in 1997-98. The number of visits conducted and public hearing days held are shown in table B.2.

The performance in completing inquiry reports within the stipulated reporting period was variable in 1997-98. Whereas the textiles, clothing and footwear report was delivered on schedule, delays were experienced in completing the reports on



telecommunications equipment, systems and services (5 days) and ecologically sustainable land management (18 days).

The Commission endeavours to conduct its inquiries in an economical manner. For the inquiries completed in 1997-98, total costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) are as shown in table B.3.

The major administrative (non-salary) costs associated with public inquiries relate to the Commission's extensive consultative processes with industry and community groups, publicising and conducting public hearings and widely disseminating its draft and final reports. Comparisons of these costs for inquiries for the period 1994-95 to 1997-98 are in table B.4. Details of direct administrative expenses for inquiries in 1997-98 are provided in table B.5. Variations in the cost of inquiries arise from the extent and nature of public consultation, the number of inquiry participants, the complexity and breadth of issues, the need for overseas travel, printing costs and the duration of the inquiry.

**Table B.3 Cost of public inquiries completed in 1997-98**

<i>Inquiry</i>	<i>Total cost</i>
	\$'000
The textiles, clothing and footwear industries	1 828
Ecologically sustainable land management	1 233
Telecommunications equipment, systems and services	563

**Table B.4 Public inquiry direct administrative expenditure<sup>a</sup>, 1994-95 to 1997-98**

<i>Expenditure item</i>	<i>1994-95</i>	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>
	\$	\$	\$	\$
Travel	687 212	512 890	275 375	281 448
Printing	477 391	247 436	264 329	142 878
Consultants	340 917	160 362	122 578	163 957
Other <sup>b</sup>	443 002	302 086	154 811	107 377
<b>Total</b>	<b>1 948 522</b>	<b>1 222 774</b>	<b>817 093</b>	<b>695 661</b>

<sup>a</sup> Expenditure other than salaries and corporate overheads. <sup>b</sup> Includes other inquiry costs, such as advertising, venue hire, court reporters/transcription services and data acquisition.

**Table B.5 Public inquiry direct administrative expenditure<sup>a</sup>, 1997-98**

<i>Inquiry</i>	<i>Duration of inquiry</i>	<i>Travel</i>	<i>Printing</i>	<i>Consultants</i>	<i>Other</i>	<i>Total 1997-98</i>	<i>Total direct admin expenditure<sup>b</sup></i>
		\$	\$	\$	\$	\$	\$
Textiles, clothing and footwear industries	12/96 – 9/97	21 148	48 149	22 957	23 129	115 384	238 792
Ecologically sustainable land management	1/97 – 1/98	55 226	57 133	–	36 990	149 348	252 548
Telecommunications equipment, systems and services	7/97 – 4/98	23 615	16 918	–	6 592	47 125	47 125
Australian black coal industry	7/97 – 7/98	104 982	14 480	141 000	23 257	283 719	283 719
International air services	12/97 – 9/98	73 828	1 002	–	15 966	90 796	
General inquiry preparation and marketing		2 649	5 197	–	1 443	9 289	
<b>Total</b>		<b>281 448</b>	<b>142 878</b>	<b>163 957</b>	<b>107 377</b>		

– nil

**a** Includes all public inquiry (non-salary) expenditure acquitted in 1997-98, regardless of the commencement or completion date of the inquiry. **b** Total non-salary expenditure for completed inquiries only.

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## Case studies on work arrangements

### *Objective*

- To provide information on the costs and benefits of selected work arrangements (formal and informal, worker and management) which either enhance or restrict productivity in workplaces and to identify impediments to the introduction of performance-enhancing work arrangements. This includes reporting on the incidence of these costs and benefits to key players such as firms and workers, and to the wider community.

### *Resources*

- Staff years — 9
- Expenditure — \$1.1 million

(excludes the inquiry resources used to analyse work arrangements in Australia's black coal industry)

### *Performance indicators*

Work undertaken within this activity is judged by the comprehensiveness of the information provided on the costs and benefits of the workplace arrangements studied, and the timeliness and quality of the research.

### *Performance*

In January 1997 the Treasurer commissioned research studies into work arrangements in stevedoring and the black coal industry, with studies of meat processing and building and construction to follow. The studies aim to highlight the benefits and costs of workplace arrangements — involving both workers and management, and formal and informal arrangements.

The research report on work arrangements in container stevedoring was released in April 1998, together with a complementary Productivity Commission report on international benchmarking of the Australian waterfront. The two research projects took longer to complete than originally anticipated. (Reasons for this are outlined on page 82.) Both reports received substantial media attention and informed community debate on waterfront reform with detailed factual information and independent, objective analyses.

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While the work arrangement study did not make any recommendations, it drew attention to the need for greater flexibility in the allocation and use of labour to achieving improved workplace performance — providing details of the system of complex, inflexible and prescriptive work arrangements — and pointed to a number of impediments to the task of achieving change. The study also found that greater competition in container stevedoring would increase the pressure on all sides to change work arrangements and improve performance. The key workplace arrangements identified in the Commission's study were subsequently addressed in the enterprise agreement negotiated between Patrick Stevedores and the Maritime Union of Australia (box B.1).

The black coal study was incorporated into a broader public inquiry, which began in July 1997, on the international competitiveness of the Australian black coal industry. The draft report of that inquiry was released in April 1998 and included a comparison of work arrangements in the Australian black coal, the Australian metalliferous and the United States black coal mining industries. While increasing competition in the Australian black coal industry has led to many changes, the report found that there were still many productivity-restricting work arrangements which reduced mine managers' ability to achieve efficiency, led to over-capitalisation and raised unit labour costs. Accordingly, the draft report recommendations included a list of work arrangements which should not form part of the allowable award matters in Federal black coal industry awards. It also indicated changes to State coal industry legislation which would ease those restrictions which stifled management initiative and encouraged a compliance mentality. The final report (PC 1998c) has not yet been released by the Government.

A study of work arrangements in the Australian meat processing industry commenced in December 1997 and a work-in-progress report was circulated to industry participants for comment in July 1998. The final version of the research study will be released publicly in October 1998.

Research activity on a fourth work arrangement case study, in the building and construction industry, commenced in June 1998 and is expected to be completed by August 1999.

## Box B.1 Container stevedoring work arrangements

The Commission's report on work arrangements in container stevedoring, released in April 1998, found that despite some improvements in recent years, container stevedoring in Australia has been characterised by a system of complex, inflexible and prescriptive work arrangements which constrain workplace performance. It identified a range of work arrangements which individually and in combination act to inhibit productivity, reduce timeliness and reliability and increase labour costs for a given level of activity (PC 1998b).

Following extensive negotiations between Patrick Stevedores Holdings Pty Ltd and the Maritime Union of Australia, the Patrick Terminals Enterprise Agreement 1998 came into force for three years from 1 September 1998:

It is the intent of all parties to implement and achieve a fundamental and ongoing reform to the Patrick waterfront employment arrangements in various ports of Australia and to conform to appropriate benchmarks including achieving a productivity level target of an average 25 (net) crane movements per hour (AIRC 1998, p. 2).

The Agreement appears to address all the significant work arrangements identified in the Productivity Commission's study.

<i>Work arrangements:</i>	<i>Patrick Terminals Enterprise Agreement 1998:</i>
Order of engagement (or 'pick')	Constraints on the order in which different types of employees are engaged were removed for most shifts.
Relatively high shift premiums and penalties	Premiums and penalties for rostered shifts rolled into an aggregate wage; significantly reduced opportunities to work overtime and especially 'double header' shifts.
Relatively high redundancy provisions	Early Retirement and Redundancy Agreement to be terminated on 1 November 1999.
Prescribed workforce size and composition	Significant management discretion over manning levels; permanent manning reduced by approximately 600.
Equalisation schemes	Eliminated.
Rostering arrangements	Selection and allocation of shifts to be determined by management; introduction of flexible, irregular rostered shifts.
Relatively high leave and rostered time off provisions	Average 40 hour week; Award annual leave retained; rostered time off reduced.
Minimum call-up time and idle time	Likely to be reduced.
Productivity schemes	Minimum payable threshold lift increased.
Constraints on outsourcing	Maintenance, relocation of equipment, security and main gate, cleaning, and linemarking contracted out.

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## Other commissioned work

### *Objective*

- To contribute to the development of public policy issues by undertaking studies which utilise the Commission's inquiry, analytical and modelling expertise, within an independent, transparent and economy-wide framework.

### *Resources*

- Staff years — 6
- Expenditure — \$0.7 million

### *Performance indicators*

Work undertaken within this activity is judged by how well it meets the terms of reference, timeliness, quality and, where appropriate, cost.

### *Performance*

The four tasks performed in 1997-98 under this activity were research studies for the Commonwealth Government assessing:

- the value and feasibility of national performance indicators for local government;
- existing export activity by government departments, agencies and business enterprises and the potential to develop government services as a commercially viable export industry;
- the impact of Commonwealth indirect taxes on exporters, and particularly on manufacturing exports; and
- the potential effects of fresh and frozen New Zealand salmon imports on the performance of the Australian farmed Atlantic salmon industry and the Australian economy.

The program of studies and estimated total costs for each of them are shown in tables B.6 and B.7, respectively.

**Table B.6 Government commissioned research studies<sup>a</sup>**

Month	1996-97					1997-98												1998-99						
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Performance measures for councils																								
Export of government services																								
Impact of Commonwealth indirect taxes on exporters																								
Australian Atlantic salmon <sup>b</sup>																								
Banning of battery hens in the ACT																								

<sup>a</sup> Shaded area indicates the approximate duration of the study. <sup>b</sup> Study withdrawn in July 1998.

**Table B.7 Cost of commissioned research studies completed in 1997-98**

<i>Inquiry</i>	<i>Total cost</i>
	\$'000
Performance measures for councils	307
Export of government services	228
Impact of Commonwealth indirect taxes on exporters	97
Australian Atlantic salmon <sup>a</sup>	238

<sup>a</sup> Includes costs incurred in July 1998.

Research studies are typically conducted within shorter time frames than formal inquiries and other forms of consultation substitute for public hearings. The Commission endeavours to conduct such studies in an economical manner and to meet reporting deadlines, while maximising the opportunity for those people and organisations who wish to contribute to do so.

This can mean, however, that some flexibility is necessary in reporting deadlines. For example, in undertaking its assessment of the value and feasibility of national performance indicators for local government, the Industry Commission made 40 visits and received more than 100 submissions, including nearly 20 in response to a work-in-progress report. This study took approximately six weeks longer than initially anticipated because of the need to allow time for public consultation. The studies on exports of government services and the impact of Commonwealth indirect taxes were finalised within or close to their originally scheduled completion dates.

Following representations from the Tasmanian salmon industry, on 24 April 1998 the Treasurer extended the reporting deadline for the study of Australian Atlantic salmon from 30 June to 10 August 1998 to give interested parties additional time to contribute to the study. On 30 July 1998 the Treasurer formally withdrew the reference, indicating that recent and prospective developments in the industry relating to the World Trade Organization's consideration of Australian quarantine

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arrangements had made the study less pertinent to the current needs of the industry and the Government.

The commissioned research studies contributed significantly to public debate on policy issues and to the formulation of government policies. Government responses to the three completed studies are included in appendix C.

The Productivity Commission has commenced a further research study since the end of 1997-98. On 31 July 1998 the Commission received a request from the Treasurer to undertake, on behalf of the Australian Capital Territory Government, an examination of the public benefits of banning the production and sale of eggs from battery caged hens in the ACT and associated labelling requirements.

## **Performance reporting**

### *Objective*

- To provide secretariat, report preparation and research services to the Steering Committee for the Review of Commonwealth/State Service Provision in respect of developing performance indicators for government provided or sponsored services and analysing reforms in these government services.
- To provide secretariat, report preparation and research services to the Steering Committee on National Performance Monitoring of Government Trading Enterprises in respect of monitoring the performance of government trading enterprises. The Steering Committee was disbanded in May 1998 and the Productivity Commission is to continue performance monitoring and conduct related research.

### *Resources*

- Staff years — 10
- Expenditure — \$1.2 million

### *Performance indicators*

Both secretariats worked under the guidance of the respective Steering Committees which were established by the Council of Australian Governments. The Chairmen of the Industry Commission and the Productivity Commission chaired both Steering Committees.



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Performance can be judged by how well the needs of the Committees are met in respect of timeliness, quality and, ultimately, the usefulness of the work to service providers, government enterprises, governments and others.

## *Performance*

### *Performance monitoring of government service providers*

The Review of Commonwealth/State Service Provision was established by the Prime Minister, Premiers and Chief Ministers in July 1993. Its main tasks are to develop, and publish data on, agreed national performance indicators for key services delivered by governments in Australia and to analyse reforms in government services. The aim is to work cooperatively to facilitate and encourage innovation in the delivery of government services. The information produced by the Review aids comparisons of performance, allowing jurisdictions to identify where services could be delivered better, and from whom they could learn.

The Review published *Data envelopment analysis: a technique for measuring the efficiency of government service delivery* in November 1997. This paper outlined how this useful analytical technique can provide an important ‘first step’ in comparative analysis. In addition to an explanation of the technique and its application, the paper contained case studies applying the technique to Victorian hospitals, oral health services for Queensland school students, and NSW police services, corrective services and motor registry offices.

The third *Report on Government Services* was produced on time in February 1998 (SCGSP 1998a). The 1998 report extended the coverage of the Review to emergency management (fire and ambulance services) and public and community health services. In addition, performance information was enhanced for other services covered by the report — school education; vocational education and training; police; court administration; corrective services; aged care services; services for people with a disability; children’s services; protection and support services; and housing.

The Review is continuing to refine the methodology for measuring the performance of government services and the comparability of the data underlying the indicators presented. It is also expanding the dimensions of performance for which indicators are presented, particularly of quality.

The Review’s results and methodology continue to attract wide interest, both in Australia and overseas (including the OECD, Ireland, Thailand and the USA). The

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Review's reports are widely used in both central and line agencies in the States, Territories and the Commonwealth, as well as by those outside government, contributing to better policy development and implementation.

In conjunction with the 1998 *Report on Government Services*, a survey was conducted of the report's primary target audience — directors and/or managers responsible for strategic planning and policy planning in central agencies and line agencies covered by the report — from which 194 responses were received. A further 119 responses were received from central and line agencies involved in producing the report. In summary:

- about 60 per cent of the report's primary target audience use the report;
- in line agencies, the report is important for strategic and policy planning/evaluation and assessing the resource performance of their department for more than 80 per cent of users. It is important for assessing the resource needs of the department and identifying other jurisdictions with whom to share information for over 60 per cent of users;
- in central agencies, the report is important for strategic and policy planning/evaluation and identifying other jurisdictions with whom to share information for more than 80 per cent of users;
- the information in the chapters was considered very good or adequate in terms of credibility, relevance, objectivity and timeliness by more than 90 per cent of users;
- in general, however, central agency users were more positive about the usefulness of the report and the quality of the information than line agency users.

Work on a second series of case studies examining the implementation of reforms in government services was also under way in 1997-98. The case studies examined:

- the devolution of decision making in government schools in Victoria;
- competitive tendering and contracting for public hospital services in NSW;
- consumer funding and choice for services to people with disabilities in WA; and
- the pricing of transcription services in Commonwealth courts.

This report, which was released in September 1998, focused on how implementation choices were made and the implications of these choices for the reform objectives. It documented how other governments are implementing reform in these areas and included some checklists for effective reforms based on the experience of the Review to date (SCGSP 1998b).

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### *Performance monitoring of government trading enterprises*

The sixth annual report of the Steering Committee on National Performance Monitoring of Government Trading Enterprises was published on schedule in April 1998 (SCGTE 1998). The report presents information on the performance of 76 government trading enterprises using a broad range of financial and other indicators for the period 1992-93 to 1996-97.

This year's report was confined to reporting performance data and commentary from each participating enterprise on its own performance. Improved efficiencies resulting from a new database system assisted in the preparation and publication of the report in less time and with fewer staff than in the previous year.

In July 1997 the Chairman of the Industry Commission wrote to the Prime Minister advising that the Steering Committee had reviewed its role and recommended its disbandment.

The view of the Steering Committee was that the original objective of providing a catalyst for reform of government trading enterprises had been largely met and performance monitoring in the form conducted by the Committee should cease after the publication of the report for 1996-97. As noted in the Industry Commission's 1996-97 annual report, when national performance monitoring commenced, most monitored government trading enterprises were under direct ministerial control and some operated as government departments. These days, central agencies have monitoring systems in place and some enterprises are subject to independent price reviews by regulators. Some government trading enterprises do not provide the Steering Committee with non-financial performance indicators, arguing that disclosure of commercially sensitive information would advantage potential private sector competitors.

After consultation with Premiers and Chief Ministers, the Prime Minister accepted this recommendation and indicated that performance monitoring should continue as part of the Productivity Commission's research program. In consultation with governments, regulators, industry associations and others with an interest in government trading enterprises, the Commission is planning to continue monitoring performance and conducting related research involving three streams of activity:

- annual reporting of financial indicators;
- regular reporting of performance through selected international benchmarking and other industry studies; and
- research into issues relevant to the further reform of government trading enterprises.

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To mark the completion of the work of the Steering Committee, the Productivity Commission assumed responsibility for preparing a review of performance improvements in the period 1991-92 to 1996-97 and outcomes for consumers and users, employees, and the community generally (PC 1998f). While this report is the sole responsibility of the Commission, State and Territory Treasury officials have assisted by providing comments on the factual content of the report.

## **International benchmarking**

### *Objective*

- To provide national and international comparisons of the performance of key Australian industries — primarily economic infrastructure and government services — to help inform the community about significant performance gaps. Other comparisons extend to institutional arrangements, such as the performance of Australia's labour market.

### *Resources*

- Staff years — 5
- Expenditure — \$0.8 million

(excludes the resources used for the benchmarking work in the Commission's inquiry on Australia's black coal industry)

### *Performance indicators*

Work undertaken within this activity is judged by:

- how well it contributes to public understanding of the scope for improved performance in Australian industries; and
- the quality and timeliness of the analysis.

### *Performance*

The Productivity Commission released its international benchmarking report on the performance of the Australian waterfront in April 1998. This report followed two previous studies by the Bureau of Industry Economics published in 1993 and 1995.

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The purpose of the study was to determine how well the Australian waterfront industries compare with counterparts in other countries. The primary focus of the performance comparisons was on price and service outcomes for importers, exporters and users of coastal shipping. Cost outcomes were measured in terms of direct charges and the indirect costs that arise because of poor timeliness and unreliability. In contrast to previous studies, the Commission benchmarked *actual* charges and operations by collecting information on the charges levied against particular ships typical to Australian trades, rather than estimating the charges levied for hypothetical ship visits on the basis of scheduled charges. The scope of the study was also widened to increase the coverage of activities, commodities and ports.

In addition, the influence of governments on port operating environments and practices in Australia and overseas were compared. This work was undertaken to provide information on factors — such as the extent of government support, institutional arrangements and regulation — that bear on the interpretation of performance. In this regard, too, the Commission's study went further than earlier benchmarking studies which focused primarily on user satisfaction and productivity.

The study covered activities within the port precincts associated with container, break-bulk (motor vehicles, steel coil, pulp and paper, and timber), bulk (wheat and fertiliser) and cruise shipping (baggage and provedoring) operations. The activities benchmarked included stevedoring and services provided to ships — such as pilotage, towage and mooring. Consultancies were let to collect performance data on container and cruise shipping operations in Australia and other countries and information on government involvement in ports.

The research report on benchmarking the Australian waterfront (and the companion study *Work arrangements in container stevedoring*) had no specified reporting date. When the study commenced in January 1997, it was planned for completion late in 1997. This proved overly ambitious. There were unforeseen delays in gaining access to and verifying essential data and information. The analysis of such complex issues and the presentation of the findings in a measured way also took longer than anticipated. Approximately three months delay in receiving the principal consultant's material, and the transition in the chairmanship of the Industry Commission in February 1998, were additional factors. In view of the complementarity of the benchmarking and container stevedoring work arrangements studies, the Commission decided to release the reports together and this also added to the time taken.

The methodology used to benchmark waterfront performance has been acknowledged by members of the industry and academics as an advance on that used in previous studies. The information in the report received widespread

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coverage at a time when the issue of waterfront reform was the subject of intense parliamentary, media and community interest. The Treasurer noted that the two reports provided ‘a balanced and careful analysis of Australia’s waterfront performance and structure, and will prove a useful and objective reference source as consideration is given to reform options’ (Costello 1998c).

In March 1997 the Industry Commission commenced a research study to benchmark the institutional frameworks and processes by which governments in Australia — the Commonwealth, States, Territories and local government — fund, provide and manage road infrastructure against international best practice. Difficulties in collecting sufficient international information caused the scope of the research to be redefined. The research was published in June 1998 as a staff research paper (Abrams et al 1998), details of which are provided in appendix D.

As part of its inquiry on Australia’s black coal industry, the Commission was asked to report on benchmarks of productivity performance of Australian black coal mines compared with best practice in comparable international black coal mines and in analogous Australian metalliferous mines. The benchmarking consultancy funded by the Commission is the most comprehensive study undertaken on the productivity of the Australian black coal industry. It covered all three major mining technologies (truck and shovel, dragline and longwall operations) and made comparisons with better practice mines in both the US black coal industry and the Australian metalliferous sector. It compared performance between mines in NSW and Queensland and, within the limits imposed by confidentiality requirements, presented insights into the causes of the wide productivity differences among Australian coal mines observed in earlier studies. The findings are reported in PC (1998c) but this report has not yet been released by the Government.

Work commenced in July 1997 on an international benchmarking study of the Australian telecommunications services industry. The originally anticipated completion date of June 1998 has been extended to December 1998. An assessment of the study will be provided in the Commission’s annual report for 1998-99.

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## Review of regulation

Regulation review matters are dealt with principally by the Office of Regulation Review (ORR) which is part of the Productivity Commission. The activities of the ORR are covered in detail in a separate publication, *Regulation and its review 1997-98* (PC 1998g).

### *Objective:*

- To improve the effectiveness and efficiency of legislation and regulations developed and administered by Commonwealth departments and regulatory agencies.

### *Resources*

- Staff years — 15
- Expenditure — \$2.0 million

### *Performance indicators*

The seven principal elements of the ORR's charter serve as useful performance indicators. They are to:

- advise on quality control mechanisms for regulation making and review;
- examine and advise on Regulation Impact Statements (RISs) prepared by departments and agencies;
- provide training and guidance to officials;
- report annually on compliance with RIS requirements;
- advise Ministerial Councils and national standard setting bodies on regulation making;
- lodge submissions and publish reports on regulatory issues; and
- monitor reform developments in the States and Territories, and in other countries.

### *Performance*

In advising on quality control mechanisms for making and reviewing regulation in 1997-98, the ORR:

- 
- provided guidance to departments and agencies on appropriate terms of reference for around 25 legislation reviews undertaken as part of a four-year Australia-wide program to review and reform all legislation which restricts competition;
  - published *A guide to regulation* in October 1997 — a requirement that the document first be cleared by the Government caused delays from the intended (and publicly announced) publication date of 30 June 1997; and
  - chaired a Commonwealth interdepartmental committee which investigated and reported to the Government on aspects of quasi-regulation, meeting the set reporting date of 31 December 1997.

In the process of examining and providing advice on RISs during 1997-98, the ORR gave advice on some 350 different regulatory issues, of which around 80 concerned amendments to taxation arrangements.

Over the course of the year, the ORR conducted 34 general training sessions in 13 different departments or regulatory agencies, attended by some 650 Commonwealth officials. Around 1600 copies of *A guide to regulation* were distributed.

The annual report on compliance with the Government's regulatory requirements in 1997-98 takes the form of a separate report in the Productivity Commission's annual report series, *Regulation and its review 1997-98* (see also box 2.2).

In advising Ministerial Councils and national standard setting bodies on good regulatory practice, the ORR met with only limited success in 1997-98, mainly because of a widespread lack of appreciation among the staff of some Ministerial Council secretariats (Commonwealth, State and Territory officials) as to their responsibilities. In May 1998 the Prime Minister wrote to all Commonwealth Ministers reminding them of these requirements; similar advice was sent to all Ministerial Councils.

The four main reports completed by the ORR in 1997-98 were:

- *Regulation and its review 1996-97*;
- *A guide to regulation*;
- an unpublished report to the Government on quasi-regulation; and
- a staff working paper, *Some lessons from the use of environmental quasi-regulation in North America*.

In monitoring regulatory reform developments around Australia and internationally in 1997-98, the ORR:



- 
- convened a meeting with State, Territory and New Zealand officials to discuss regulatory best practice in Australasian jurisdictions;
  - contributed in a range of relevant meetings with State and Territory officials, on mutual recognition, quasi-regulation and regulatory reform performance indicators;
  - represented Australia at two OECD meetings on regulatory reform, covering developments in other countries; and
  - briefed visiting officials from the Netherlands, Denmark, New Zealand and South Africa.

## **Assessing competitive neutrality complaints**

### *Objective*

- The objective in 1997-98 was to establish an autonomous office within the Productivity Commission to administer the Commonwealth Government's competitive neutrality complaints mechanism.

### *Resources*

- Staff years — 2
- Expenditure — \$0.2 million

### *Performance indicators*

In April 1995 the governments of Australia agreed to implement a National Competition Policy Reform package. Under Clause 3 of the Competition Policy Agreement, governments agreed to consider the application of the principle of 'competitive neutrality' to their significant government businesses. They also agreed to establish a complaints mechanism to investigate and report on complaints about the application of their competitive neutrality arrangements.

The Commonwealth Government outlined its approach for achieving competitive neutrality in its Competitive Neutrality Policy Statement of June 1996. In this statement, the Commonwealth allocated the responsibility for administering its complaints mechanism to the Productivity Commission. This responsibility is outlined in the Productivity Commission Act. The Government's complaints mechanism formally commenced operation on 16 April 1998 following assent to the Productivity Commission Act.

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## *Performance*

In anticipation of this function being vested in the Productivity Commission, the Industry Commission began preparations necessary to establish an autonomous unit — the Commonwealth Competitive Neutrality Complaints Office — which could commence operating as soon as the legislation establishing the Productivity Commission was passed. This objective was achieved.

Over the past year, the Office:

- developed administrative and operating procedures for receiving, investigating and reporting on complaints;
- produced a brochure, released in May 1998, which provides background information on the Commonwealth's competitive neutrality arrangements and the role of the Commonwealth Competitive Neutrality Complaints Office. The brochure also provides an overview of the processes involved in lodging a complaint and the investigation and reporting procedures of the Office;
- established a website providing information similar to that in the brochure, as well as links to relevant publications and policy statements, and links to State and Territory government complaint offices;
- organised and hosted a one-day roundtable for government representatives of complaints mechanisms in other jurisdictions to discuss issues associated with the implementation of competitive neutrality and the effective operation of complaints offices;
- produced research papers (following from that roundtable) to assist complaints mechanisms in all jurisdictions in their operation;
- made presentations to workshops run by State government and private sector organisations on the implementation of competitive neutrality principles and the operation of the Commonwealth's complaints office;
- responded to queries from government commercial activities on their competitive neutrality obligations and what they need do to comply with those obligations; and
- provided advice to private businesses about competitive neutrality policy and how it may apply to the government businesses with which they compete.

In preparing its operational and administrative procedures and information brochure, the Complaints Office consulted extensively with relevant agencies in other jurisdictions.

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The Complaints Office did not receive any formal complaints between commencing operations and 30 June 1998.

## General research

### *Objectives*

- To provide high quality, policy-relevant information, analysis and advice to governments and the community generally on matters relevant to the Commission's charter.
- To provide objective reports which meet the statutory requirements under the Productivity Commission Act that the Commission report on industry and productivity performance, and on the effects of assistance and regulation on industry and on the economy as a whole.
- To develop analytical frameworks and elicit information that improve the Commission's general capabilities to undertake research.
- To develop and use resources in an effective and efficient way.

### *Resources*

- Staff years — 74
- Expenditure — \$8.3 million

### *Performance indicators*

The following indicators are used to judge the performance of the Commission's general research and related activities:

- influence on the microeconomic policies of the Commonwealth, State and Territory governments;
- the contribution to public debate;
- the quality, relevance and number of research publications; and
- timeliness.

### *Performance*

Although a large part of the Commission's research effort is directed towards externally determined projects — public inquiries and other commissioned research

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reports, and the performance reporting and benchmarking studies reported in earlier sections of this appendix — the Commission has a supporting research capacity which it manages autonomously.

The Productivity Commission has a statutory obligation to promote public understanding of industry development and productivity matters. To discharge this obligation, the themes of its program of supporting research are guided by consultations with a range of industry and community interests and the scope of its research program is necessarily broad ranging.

In the first quarter of 1998 the Commission met a range of Commonwealth Government departments, peak national employer bodies, community welfare and environmental groups to discuss current and future research. In addition, it also sought suggestions for research from State and Territory governments. Meetings are held with academics on an ongoing basis. Consultations with Commissioners and staff also contribute to the identification of broad research areas (box 2.4). The major components of the Commission's forward research program were finalised in July as part of its work plan for 1998-99.

The output of the general research program in 1997-98 included:

- research to meet the Industry Commission's statutory annual reporting obligations, comprising its annual report for 1996-97 which analysed important contemporary industry policy issues, and three companion publications on regulatory developments, trade and assistance issues and the microeconomic reforms implemented by Commonwealth, State and Territory governments in the year;
- 17 research reports, encompassing Commission research papers, staff research papers and staff working papers;
- six submissions to other review bodies;
- one volume of proceedings from a conference sponsored by the Industry Commission; and
- other projects associated with inquiry and research support, conference papers, assistance to other government departments, and journal articles.

The research publications produced in 1997-98 are listed in summary form in box B.2. Details of Commission research papers, staff papers and over 100 presentations given by the Chairmen, Commissioners and staff in the year are provided in appendix D. A list of research projects under way at the end of 1997-98 is in box B.3.

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Assessment of the performance of the Commission's general research and related activities relies on a range of indicators. Many of these are subjective and, given the diverse ways in which community debate can be influenced, are difficult to track and collect on a systematic basis.

An important means by which research projects contribute to public debate on policy issues is through media coverage and the dissemination of reports to key interest groups. Most of the 1997-98 publications received media coverage upon their release and, in some cases, continuing coverage. The Commission also receives feedback through requests for follow up presentations and in its

**Box B.2 Publications arising from the Commission's general research program in 1997-98**

***Research reports***

Australia's productivity performance	Compendium of microeconomic reforms
Impacts of microeconomic reforms on aluminium firms	Role of economic instruments in managing the environment
Innovation and firm performance in Australian manufacturing	Productivity growth and Australian manufacturing industry
Small business employment	Private investment in urban roads
Microeconomic reform and structural change in employment	Services trade and foreign direct investment
Environmental quasi-regulation in North America	Trade liberalisation and earnings distribution in Australia
Regulatory burden and firm size	Greenhouse emission trading framework
Access to essential facilities	State tax reform
Institutional arrangements for road provision	

***Annual report suite of publications***

Industry Commission annual report 1996-97	Microeconomic reform scoreboard 1996-97
Trade and assistance review 1996-97	Regulation and its review 1996-97

***Conference proceedings***

1997 Industry Economics Conference

***Submissions to other review bodies***

Review of Higher Education Financing and Policy (the West Review)	NCC review of the Australian Postal Corporation Act
NSW Dairy Industry Review	QLD Dairy Industry Review
Joint Committee of Public Accounts and Audit inquiry into internet commerce	Shipbuilding Industry Review

consultations on the research program. More informal feedback on the quality and findings of research projects occurs through contact with people in industry and community groups, government departments and agencies, universities and other research bodies. Additional indicators of the influence of research findings are

citations in other policy and discussion documents, sales of reports through bookshops and interest in reports as evidenced by use of the Commission's website.

Some indicators can be quantified. For the research publications listed in box B.2, the Commission made available a total of 20 600 copies. An additional 1100 copies have been sold to date through government bookshops. With the upgrading of the Commission's home page, the website provides people with ready access to its general research publications. In the period to June 1998, those publications were accessed by external clients a total of 26 000 times. The most utilised reports were those on Australia's productivity performance (3600 times), the compendium of microeconomic reforms (3200 times), the Industry Commission's annual report for 1996-97 (2800 times) and the staff research paper on a framework for greenhouse emission trading in Australia (2200 times).

**Box B.3 Commission research projects under way at 30 June 1998**

Productivity and employment	Minimum wages literature survey
Determinants of youth employment	Performance of manufacturing firms
Design of small business programs and regulations	Impacts of reform on productivity performance
Competitive neutrality: cost allocation issues	Innovation, productivity and profitability in Australian enterprises *
Impacts of early sectoral liberalisation in APEC	Australia's international maritime transport services
Modelling international aviation policy	Single desk marketing
Competitive neutrality: rate of return issues	Measuring impediments to international trade in services *
Structural change in Australia	Productivity growth in Australia
Private hospital industry	Measuring quality in service provision
Proceedings of the workshop on micro-economic reform and productivity growth	Industry competitiveness, trade and environmental issues workshop
Technological and organisational change and training in Australian workplaces *	Labour market inequality in Australia: trends, causes and consequences *

\* Collaborative projects. Information on research projects is provided in the Commission's *Digest of current research projects July 1998*.

The diverse ways in which the Commission's general research output contributes to community debate is illustrated by the research paper on Australia's productivity performance which was released in September 1997. Among other issues, this

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report showed how important productivity growth is to improved living standards, examined Australia's relatively poor performance over the past three decades and reported on recent evidence of a significant turnaround in productivity growth (IC 1997d).

- The report's findings were covered in the major daily newspapers and used in editorial comment. The report was also covered on the ABC news and was the subject of radio and television interviews on the day of its release.
- There were additional references to the report in the print media in October and November 1997, and again in May and July 1998.
- Professor Ross Garnaut, referring to it as 'an important recent monograph', drew on the report's findings in an address in November and this led to further media coverage (Garnaut 1997).
- Invitations to present seminars at the Commonwealth Treasury and the Reserve Bank were accepted.
- The report's findings were an important backdrop to, and drawn on by many participants at, the joint workshop held with the Australian National University in February 1998 on the links between microeconomic reform and productivity growth (PC/ANU 1998).
- The report has also been used by international bodies in their assessments of Australia's economic performance (OECD 1997, WTO 1998) and more generally in their research on productivity and industry performance (OECD 1998).

## **EPAC functions**

The Economic Planning Advisory Commission (EPAC) ceased administrative operations in November 1996, with the Chairman of the Industry Commission holding the position of Acting Commissioner of EPAC until both the Industry Commission Act and the EPAC Act were repealed on 16 April 1998.

One continuing statutory obligation for EPAC, until its abolition, was to seek and report to the Minister the views of industry, the trade union movement and the community in advance of each year's Commonwealth budget. As arranged for the 1997-98 Budget, this task was again performed by the Commonwealth Treasury. On 27 January 1998 the Treasurer announced the process for the lodgment of pre-budget submissions on the 1998-99 Budget but noted that, in view of the limited demand for the previous year's publication, an overview of submissions would not be published (Costello 1998a).



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## Corporate management and services

This activity is directed at the efficient management and operation of the Commission.

### Corporate management

#### *Objective*

- To provide strategic leadership and manage the effective and efficient achievement of the organisation's mission.

#### *Resources*

The Chairman, Head of Office and their support staff constitute the senior level of corporate management. They are assisted by a Management Committee which includes a number of SES officers and, in respect of the outputs of the Commission, they are assisted by Commissioners and Associate Commissioners.

- Staff years — 9
- Expenditure — \$0.9 million

#### *Performance indicators*

The extent to which the Commission's mission is achieved, in terms of the following broad goals:

- to assemble and test the best available information, analysis and advice so as to deliver high quality policy assessments, research and advice to governments;
- to be attuned to the needs and priorities of government, consistent with the Commission's charter and operating principles;
- to promote public understanding of factors shaping the performance of the economy, and ensure that all relevant groups have the opportunity to participate in Commission activities;
- to provide a stimulating, supportive and safe working environment, enabling Commission staff to apply and enhance their skills and realise their potential; and
- to manage the Commission's people and resources efficiently and effectively.

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## *Performance*

Performance against many of these goals is covered under the other activities reported in this appendix. Such performance is influenced by senior management's responsibility for setting priorities, allocating resources and overall management of the Commission.

A particular challenge during the year was maintaining the volume and quality of the work in the face of uncertainties due to the protracted passage of the Commission's legislation through the Parliament. As recorded in other sections, this challenge was met.

Other specific activities included further development of the Commission's corporate plan and the preparation of a service charter for the Commission.

## **Corporate services**

### *Objective*

- To provide quality advice and effective and efficient services in support of the Commission's key activities.

### *Resources*

Corporate services are provided by the staff of the Corporate Services Branch, the Canberra Office Support Unit and the Media and Publications Section. The services cover personnel management and development, financial management, information technology and telecommunications planning and management, library and information services, office support services, and media and publications services.

- Staff years — 36
- Expenditure — \$2.8 million

### *Performance indicators*

Work undertaken within this activity is judged by:

- relevance, quality and timeliness of advice and services provided;
- efficiency of service provision; and
- compliance with accountability and other statutory obligations.

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## *Performance*

There was no significant change in the range of services provided during the year, although the scope of some increased substantially. Of particular note was the work required to develop Australian Workplace Agreements for the Commission's SES and a certified agreement for other staff. This work took place over most of the financial year and presented new challenges. The formation of the Productivity Commission also led to an increase in activity by the Media and Publications Section. Information kits about the new organisation were developed and sent to key clients of the Commission. Copies of *pc update*, the Commission's new quarterly newsletter were also distributed widely.

An assessment of quality and timeliness relies largely on subjective judgements based on a range of feedback mechanisms and anecdotal evidence. While no comprehensive client satisfaction surveys were undertaken, client testing of particular components did occur. Overall feedback indicates a good to high standard of service. Steps to minimise the few instances of less than satisfactory service were continued during the year. A specific example of client satisfaction is the continued provision of library services by the Commission to the National Competition Council.

Substantial work was undertaken during the year to test the cost effectiveness of services and implement improvements in systems and processes.

The internal provision of IT infrastructure and services was market tested in accordance with government requirements that all agencies outsource their IT needs subject to a business case. Following a thorough cost-benefit analysis, including market testing, the Commission decided to retain in-house its IT infrastructure and services on the ground of there being no net advantage from outsourcing.

A major evaluation of the Commission's financial management and information system was undertaken, including an assessment of in-house versus bureau delivery. A new system (Finance One) was selected from the Office of Government Information Technology shared-systems suite for in-house delivery. Implementation occurred over the latter part of the financial year with the changeover to the new system occurring on 1 July 1998.

An evaluation of the Commission's library software system was also undertaken. Implementation of the selected system (FIRST) commenced during the later part of the financial year.

Apart from the above projects, further improvements in services were made through the following: continued implementation of the three-year IT strategic plan; a trial to

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assess the value of switching from a paper to an electronic media monitoring service; improved processes and reporting associated with implementation of the new finance system; improved reporting for human resource management; streamlined vehicle management processes; and the development of a Commission-wide style manual and associated report templates.

In regard to compliance requirements, the Commission met its reporting obligations. In particular, it received an unqualified audit opinion on its accrual financial statements for 1996-97, and substantially improved its performance rating by the Australian National Audit Office on the preparation process.

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## C Commissioned projects

**This appendix updates information provided in previous annual reports of the Industry Commission on public inquiries and other projects 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 that have been referred to it.**

Three inquiries, two work arrangements case studies and three other commissioned projects were commenced in 1997-98. The Industry Commission, or after its abolition in April 1998, the Productivity Commission, completed three inquiry reports, two work arrangements case studies and three other commissioned projects in the year. The study of work arrangements in black coal mining was incorporated in the broader public inquiry on the Australian black coal industry.

This appendix provides details of government responses to reports completed in 1997-98 and previous years. It also reports on commissioned projects received, reports released and government responses to reports since 30 June 1998.

This appendix is structured as follows:

- terms of reference for new government commissioned projects;
- reports released and government responses; and
- government responses to Industry Commission reports from previous years.

Table C.1 summarises activity since the Industry Commission's 1996-97 annual report and indicates where the relevant information can be found.

**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>
<b>Inquiries</b>					
31-10-95	State, Territory and local government assistance to industry	AR 95-96	IC Report no. 55 signed 29-10-96	page 106	page 107
29-1-96	Medical and scientific equipment industries	AR 95-96	IC Report no. 56 signed 20-12-96	AR 96-97	page 114
12-8-96	The automotive industry	AR 95-96	IC Report no. 58 signed 26-5-97	AR 96-97	page 115
9-12-96	The textile, clothing and footwear industries	AR 96-97	IC Report no. 59 signed 9-9-97	AR 96-97	page 118
17-1-97	Ecologically sustainable land management	AR 96-97	IC Report no. 60 signed 27-1-98	not yet released	na
9-7-97	Telecommunications equipment, systems and services	AR 96-97	IC Report no. 61 signed 9-4-98	not yet released	na
9-7-97	Australian black coal industry	AR 96-97	PC Report no. 1 signed 7-7-98	not yet released	na
9-12-97	International air services	page 99	PC Report no. 2 signed 11-9-98	not yet released	na
26-6-98	Pig and pigmeat industries	page 101	In progress		
13-7-98	Nursing home subsidies	page 101	In progress		
5-8-98	Progress in rail reform	page 103	In progress		
25-8-98	Implementation of ecologically sustainable development by Commonwealth agencies	page 103	In progress		
26-8-98	Australia's gambling industries	page 104	In progress		
31-8-98	Impact of competition policy on rural and regional Australia	page 105	In progress		
<b>Other commissioned projects</b>					
28-4-97	Performance measures for councils	AR 96-97	IC report completed 8-10-97	page 108	page 109
7-7-97	Export of government services	AR 96-97	IC report completed 17-12-97	page 109	page 111
21-1-97	Work arrangements in container stevedoring	na	PC report completed 28-4-98	page 111	page 112
23-2-98	Impact of Commonwealth indirect taxes on exporters	page 113	PC report completed 3-6-98	page 113	page 114
11-3-98	Australian Atlantic salmon	page 100	Study withdrawn (see page 101)	na	na
31-7-98	Banning of battery eggs in the ACT	page 102	In progress		

Note: References to previous annual reports are to those of the Industry Commission.

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## Terms of reference for new projects

This section presents the terms of reference for commissioned projects received since the Industry Commission's annual report for 1996-97 which are in progress or for which the report has not yet been released. As provided for in legislation, activities commenced under the Industry Commission Act were completed under the Productivity Commission Act.

### International air services

On 12 December 1997 the Treasurer referred international air services arrangements to the Industry Commission for inquiry and report within nine months.

The Commission was asked to report on the arrangements for negotiating entitlements under air services agreements and the process of allocating capacity entitlements to Australian carriers. Specifically, the Commission was to:

- identify the current regulatory/legislative framework in which international air services operate, including multilateral as well as bilateral structures, and the objectives of the framework — and in this context, identify the nature and characteristics of the commercial rights being traded, including reference to airport access as an essential prerequisite to trade in aviation services;
- identify the effect on competition in the global market of the bilateral international air services agreement framework;
- identify the effect on competition in Australia's existing and potential international aviation markets of Australian policy in relation to bilateral air services agreements;
- assess whether the International Air Services Commission allocation process provides net benefits to Australia, including reference to the value of provisions designed to favour new entrants;
- analyse and assess the benefits, costs and overall effects of the international aviation regulatory framework and Australia's approach to negotiating bilateral air services agreements for tourism, consumers, air freight and the aviation industry;
- in so doing, determine whether the approach currently adopted maximises the benefits to Australia possible within the bilateral framework;
- assess the options for greater liberalisation
  - within the context of the bilateral system (including the role that bilateral partners may play in restricting entry), and

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- alternatives to the bilateral system; and
  - identify the scope and consequences (costs and benefits and overall effects) for Australia of these options.

The Commission signed its report on 11 September 1998.

### **Australian Atlantic salmon**

On 11 March 1998 the Treasurer asked the Industry Commission to undertake a study of the potential effects of fresh and frozen New Zealand salmon imports on the Australian farmed Atlantic salmon industry and the Australian economy. The Commission was required to report by the end of June 1998.

In undertaking this study, the Commission's analysis was to have regard to the overall economic performance of the Australian economy and to build on the Commission's report *Australian Atlantic Salmon: Effects of Import Competition* of December 1996.

Specifically, the Commission was to examine:

- the potential effects of New Zealand imports on the Australian salmon industry, including whether imported product would compete directly with Australian product sold on the domestic market, the potential level of import penetration by New Zealand product and the effect on Australian prices, investment, incomes and profits in the short and long term;
- the potential effects of imports on Tasmanian farmed Atlantic salmon regions, in particular employment, regional economic growth and other social impacts;
- the capacity of the Australian salmon industry to adjust to the effects of New Zealand imports, and whether there are any impediments to adjustment, including the ability of the industry to diversify aquaculture operations and the export experience of the industry (including export activity and efforts to engage in export);
- the comparative policy and regulatory environments in Australia (Commonwealth and State) and New Zealand which affect the salmon industries in both countries, and the scope of the Commonwealth, the States and industry to improve the efficiency and international competitiveness of the Australian salmon industry.

The Commission was also take account of the views of stakeholders, including industry, input providers, processors, retailers and consumers.



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Following representations from the Tasmanian salmon industry, the Treasurer decided to extend the Commission's reporting deadline to 10 August 1998 to give interested parties additional time to contribute to the study.

On 30 July 1998 the Treasurer formally withdrew the reference, stating that recent and prospective developments in the industry relating to the World Trade Organization's consideration of Australian quarantine arrangements had made the study less pertinent to the current needs of the industry and the Government.

No report was issued.

### **Pig and pigmeat industries: safeguard action against imports**

On 26 June 1998 the Treasurer referred the question of whether safeguard action is warranted against imports of meat of swine, frozen, falling within tariff sub-heading 0203.29 of the Australian Customs Tariff. The Productivity Commission is to report within 140 days (or earlier) and is to hold hearings.

The reference specified that:

- in accordance with the WTO safeguard investigation procedures published in the Gazette of S297 of 25 June 1998, the Commission is to report on whether the circumstances are such that safeguard measures would be justified under the WTO Agreement; and
- if so, what measures would be necessary to prevent or remedy serious injury and to facilitate adjustment.

The Commission was also asked to report within 140 days on the factors affecting the profitability and competitiveness of the domestic pig farming and pigmeat processing industries, specifically examining the extent to which each factor influences industry profitability and competitiveness.

The procedures for Productivity Commission inquiries into safeguard action which were gazetted on 25 June 1998 are in attachment C1.

### **Nursing home subsidies**

On 13 July 1998 the Treasurer referred the current and alternative funding methodologies for nursing home subsidy rates to the Productivity Commission for inquiry and report within six months. The Aged Care Structural Reform Package, announced in the August 1996 Budget, included a process of 'coalescence', under which the different nursing home subsidy rates in States and Territories would

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gradually move to national rates over a period of seven years, commencing from 1 July 1998. The Government decided to delay the implementation of the coalescence process pending a review by the Productivity Commission into differential subsidy rates.

The Commission is to:

- report whether the proposed coalescence should proceed or whether it should be replaced by an alternative structure;
- examine issues including the current and alternative funding methodology and report on:
  - relative costs between the States and Territories of providing nursing home care, with emphasis on the relative wage costs of nursing and personal care staff;
  - trends in wage costs and likely future directions;
  - the extent to which, if any, subsidies for nursing home care should vary by State and Territory; and
  - if differential subsidies are considered appropriate, possible methodologies for maintaining appropriate relativities over time.
- make recommendations on the appropriate funding methodology and take account of the views of the sector.

The Commission is to hold hearings for the purposes of the inquiry.

### **Banning of battery eggs in the ACT**

On 31 July 1998 the Commission received a request from the Treasurer to undertake, on behalf of the Government of the Australian Capital Territory, a study into whether it is in the public interest for the ACT to:

- ban the sale of eggs from battery caged hens in the ACT (whether produced in the ACT or not);
- ban the production of eggs from battery caged hens in the ACT; and
- introduce a labelling requirement for all eggs displayed, or sold, in the ACT to indicate the conditions under which the hens produced the eggs.

The Commission is to report by mid-October 1998.

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## **Progress in rail reform**

On 5 August 1998 the Treasurer referred progress in rail reform for inquiry and report within 12 months. The Commission is to identify progress made in rail reform, as well as areas which could be subject to further reforms and the benefits of pursuing further reforms, and is to differentiate interstate rail operations from intrastate and urban rail operations.

Specifically, the Commission is to report on:

- recent reform initiatives and their implications;
- the current structure of the rail industry, including the regulatory environment;
- structural and operational rigidities and impediments which constrain the efficiency and development of the rail industry;
- the strengths and weaknesses of the Australian rail industry, drawing on international and intermodal comparisons where appropriate;
- the operation of third party access regimes for the interstate and intrastate rail freight networks;
- the implications of the changing role of the Commonwealth, the States and the private sector in rail operations and ownership;
- the implications for rail transport services and the economy generally of regulations, charges and arrangements affecting competing and complementary modes of transport; and
- international best practice in rail and impediments to achieving best practice in Australia.

The Commission is to hold hearings for the purposes of the inquiry.

## **Implementation of ESD by Commonwealth departments and agencies**

On 24 August 1998 the Treasurer referred the implementation of Ecologically Sustainable Development (ESD) by Commonwealth departments and agencies to the Commission for inquiry and report within nine months of receipt of the reference.

In undertaking this inquiry, the Commission is to:

- evaluate how those Commonwealth Government departments and agencies with significant policy or program management responsibilities related to ESD, or which undertake activities which directly impact on the achievement of ESD,

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have incorporated ESD into their policy formulation, decision-making processes and programs;

- review existing mechanisms to monitor and evaluate ESD outcomes, and report on the effectiveness of Commonwealth policies and programs in changing community or corporate behaviours in ways which promote ESD outcomes;
- analyse the policy and economic implications of these Commonwealth departments and agencies incorporating environmental considerations into their economic and social decision-making processes, and provide case studies in priority areas;
- develop conceptual frameworks and evaluation mechanisms for incorporating ESD into government decision-making processes;
- develop priorities among Commonwealth Government departments and agencies and their programs and activities for the further implementation of ESD; and
- recommend improved frameworks and processes for reporting, monitoring and evaluating the implementation of ESD.

### **Australia's gambling industries**

On 25 August 1998 the Treasurer referred Australia's gambling industries for inquiry and the provision of an information report within 12 months of receiving the reference.

The Commission is to examine and report on:

- the nature and definition of gambling and the range of activities incorporated within this definition;
- the participation profile of gambling;
- the economic impacts of the gambling industries, including industry size, growth, employment, organisation and interrelationships with other industries such as tourism, leisure, other entertainment and retailing;
- the social impacts of the gambling industries, the incidence of gambling abuse, the cost and nature of welfare support services of government and non-government organisations necessary to address it, the redistributive effects of gambling and the effects of gambling on community development and the provision of other services;
- the effects of the regulatory structures — including licensing arrangements, entry and advertising restrictions, application of the mutuality principle and differing

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taxation arrangements — governing the gambling industries, including the implications of differing approaches for industry development and consumers;

- the implications of new technologies (such as the Internet), including the effect on traditional government controls on the gambling industries;
- the impact of gambling on Commonwealth, State and Territory Budgets; and
- the adequacy of ABS statistics involving gambling.

The Commission is to hold hearings for the purpose of the inquiry.

### **Impact of competition policy reforms on rural and regional Australia**

On 28 August 1998 the Treasurer referred the impact of competition policy reforms on rural and regional Australia for inquiry and report within 12 months of receiving the reference. The Commission is to assess the impact (both transitional and ongoing) of the competition policy and related reforms introduced by the Commonwealth, State, Territory and local governments under the three intergovernmental agreements signed in April 1995 — the Competition Principles Agreement, the Conduct Code Agreement and the Agreement to Implement the National Competition Policy and Related Reforms.

In undertaking the inquiry, the Commission is to:

- have regard to the established economic, social, environmental and regional development objectives of Australian governments;
- consider the other influences on the evolution of markets in regional and rural Australia, including the role of international trade, foreign investment and globalisation generally; and
- specifically report on:
  - the impact of competition policy reforms on the structure, competitiveness and regulation of major industries and markets supplying to and supplied by regional and rural Australia;
  - the economic and social impacts on regional and rural Australia (including on small businesses and local governments) of the changes to market structure, competitiveness and regulation flowing from the reforms and the effect of these impacts and changes on the wider Australian economy;
  - possible differences between regional and metropolitan Australia in the nature and operation of major markets and in the economic and social impacts of the reforms promoted by national competition policy; and

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- any measures which should be taken to facilitate the flow of benefits (or to mitigate any transitional costs or negative impacts) arising from competition policy reforms to residents and businesses in regional and rural Australia.

The Commission is to hold hearings, including in rural and regional Australia, for the purpose of the inquiry.

## **Reports released by the Government**

This section summarises the main findings and recommendations of commissioned reports which were released by the Government during 1997-98. It includes terms of reference for those projects commenced and completed in the year and, where available, government responses.

### **State, Territory and local government assistance to industry**

Industry Commission inquiry report signed 29 October 1996, report released 23 February 1998.

The key findings of the Industry Commission's report were:

- State, Territory and local governments have an important role in developing a positive environment for the establishment and development of wealth-generating industries. However, this role is being undermined by their provision of significant assistance to industry.
- In 1994-95, State and Territory governments' industry assistance involved:
  - an estimated budgetary cost of \$2500 million (or \$137 per head); and
  - \$3200 million (\$176 per head) in payroll taxes forgone, predominantly to smaller businesses.

Local governments provided assistance of around \$220 million (\$12 per head).

By comparison, the Commonwealth provided an estimated \$9 900 million (\$547 per head) of assistance in 1994-95, mainly in the form of border and domestic market protection measures.

- Most State budgetary assistance is selective and discretionary. As discretion and selectivity increase, so does secrecy. Secrecy creates a potential conflict of interest for publicly accountable officials.

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- States engage in competitive bidding for major investments and events because they perceive a gain for their State in terms of employment and income — perceptions often supported by misuse of evaluation techniques.
  - Gains from providing selective assistance at the State level are largely an illusion. Only in a very few cases, with particular characteristics, is there likely to be a net gain for the State.
  - Most selective assistance has little or no positive effect on the welfare of Australians. Rivalry between jurisdictions for development and jobs at best shuffles jobs between regions and at worst reduces overall activity.
  - States find it difficult to abstain from offering assistance because of the perceived economic and political cost of losing out to other States.
  - There is a strong case for States to consider an agreement to cease or limit selective assistance to industry. At the very least, the provision of such assistance should be more transparent and more accountable.
  - The Commission saw the options for action by the States as involving a progression in the discipline applied — and in the benefits that could be achieved. Firstly, the States could agree to increase the transparency and accountability of their provision of assistance to industry. Secondly, the States could agree to limit firm and project-specific assistance to industry. Thirdly, the States could agree to limit the provision of assistance to industry to a few well defined activities and situations.
  - The States themselves could enforce any such agreement with only minimum involvement by the Commonwealth.
  - There is a legitimate role for the Commonwealth in encouraging the States to limit their selective industry assistance.
  - The inefficiencies and other problems identified by this inquiry with provision of selective assistance to industry by State and local governments will continue unless action is taken by the States.

### *Government response*

The Government's response to the report noted that the Industry Commission's analysis had been referred to by the Mortimer review of business programs (Costello 1998b). That review had also drawn attention to the costs associated with the competitive use of industry assistance between the States and argued that this approach could undercut Australia's competitive position and its ability to win investment. The Mortimer review had recommended greater Commonwealth–State coordination through formal agreements.

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In its *Investing for Growth* industry policy statement of 8 December 1997, the Government stated that it would negotiate clearer Commonwealth, State and Territory roles and responsibilities in investment promotion and facilitation. To this end, the Government would develop an agreed set of guiding principles on the roles and responsibilities of Commonwealth, State and Territory governments in investment promotion, attraction and facilitation.

### **Performance measures for councils: improving local government performance indicators**

Industry Commission research report released 14 October 1997.

The key messages of the report were:

- The goal for performance measurement should be to develop and publish dispassionate and objective data to facilitate well informed judgements which result in sound public policy action.
- The Industry Commission concluded that a nationally consistent approach to performance measurement for local government was not currently warranted.
- There would be considerable net benefits to the community from improving the existing performance measurement systems used at the State and Territory level and by groups of councils. In their current form these systems have significant shortcomings. If they are improved they will provide managers with insights into how to raise performance and will be a useful basis for yardstick competition. These systems could, and should, be improved by States, Territories and local governments:
  - agreeing on the policy objectives of local government and each service in terms of measurable outcomes and then developing indicators of efficiency and effectiveness; and
  - providing more information on the context in which services are delivered.
- As State and Territory systems evolve, and as the parties involved learn from each other, a convergence on best practice use of indicators is possible. National performance indicators could be defined now, in principle. But the Industry Commission considered that an iterative process which commenced with State- and Territory-based indicators would, with encouragement, produce more robust systems of indicators, and do so sooner than other approaches. In time, nationally consistent approaches may be developed for some services with the commitment of the key parties.



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- The Commonwealth Minister for Local Government is required to report on the performance of local government. National performance indicators would facilitate this, but the Minister should be able to meet this requirement by tabling information and analysis on:
    - the application of the national competition policy to local government;
    - progress by the States and Territories in improving the use of performance indicators; and
    - recent developments in areas such as competitive tendering and contracting, the increased use of service charters and measures of customer satisfaction, and changes in the structure of local government (for example, through council amalgamations).
  - In reaching these conclusions the Industry Commission recognised that effective and efficient local government is important because it delivers key human, economic and regulatory services.

### *Government response*

The Industry Commission's findings were considered at the Local Government Ministers' Conference on 6 November 1997. It was agreed that:

- the States and Territories would improve indicators at the state level generally in accordance with the principles recommended by the Industry Commission;
- the States and Territories would provide the Commonwealth with information arising from their development of performance measures; and
- for the purpose of publishing the National Report, the States, Territories and Australian Local Government Association would provide the Commonwealth with reports on progress in improving the performance of local government such as through the use of performance indicators and structural reform.

### **Export of government services**

Industry Commission research report released 8 January 1998.

The Industry Commission found that Australian governments produce many services which are in demand overseas. Service exports by government agencies were valued at around \$2 billion or some 2 per cent of total Australian exports in 1995-96.

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Exports of government services provide a range of benefits to Australia — in particular, the discipline of competing in export markets, and the experience gained, can help to improve the quality of services provided to Australian residents.

But there are also potential costs: government agencies are not subject to the full range of market disciplines facing private firms and many public sector managers have little commercial experience. This increases the risk of unsuccessful export ventures, the costs of which are borne by taxpayers.

There is a need for safeguards to ensure that only those exports of benefit to the community proceed. Accordingly, the Industry Commission recommended that:

- Government agencies should only export their services where this enhances, or at least does not reduce, the level and standard of services provided to Australian residents. In applying this principle, governments should provide their agencies with some scope to balance longer term gains for domestic customers against any short-term costs.
- Those jurisdictions which do not have explicit export guidelines for non-corporatised agencies should introduce them. Export guidelines should include a statement of government policy on exporting by agencies. They should also address the relationship between export and domestic activities, pricing, private sector involvement, risk management, capital investments, the use of intellectual property, and accountability and public reporting.
- Export guidelines should emphasise the need for rigorous risk assessment and management, and effective accountability mechanisms. With such requirements in place, government agencies should have some capacity to undertake export projects which involve more than minimal risk.
- Governments should not place a blanket ban on capital investments by non-corporatised agencies in offshore activities. Rather, export guidelines should make provision for case-by-case assessment of any such proposals. Responsibility for approving capital investments should reside with Treasurers.
- Governments should include specific provisions in export guidelines covering the use of their intellectual property.
- Budget sector agencies should report separately on the performance of any significant commercial export activity. Apart from information on revenues, costs, profits and rates of return, such reports should indicate the basis for cost allocation between commercial export and other activities.
- If governments wish to provide general support to the private sector to develop export markets, they should do so independently of commercial export ventures by their agencies and fund the activity separately.

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- To provide for a return on their intellectual property, government agencies should generally charge for staff participating in private projects, rather than grant those staff leave without pay.
  - Export guidelines for non-corporatised agencies should spell out pricing principles that meet efficiency and competitive neutrality requirements. In particular, they should:
    - spell out all components to be included in an agency’s cost base, including all taxes (or equivalent payments), charges and other costs normally faced by a private supplier, and the policy for allocating costs to the commercial activity; and
    - provide agencies with similar pricing flexibility open to private sector competitors, subject to their meeting an appropriate longer term rate of return target.

The Commission also commented on: future prospects for exports of government services; access by the Overseas Projects Corporation of Victoria to Victorian public sector resources; coordination of export activities in individual jurisdictions; and Australia-wide export coordination.

### *Government response*

On 2 July 1998 the Minister for Finance and Administration announced that the Government had responded to the Industry Commission’s report by approving principles which set out the broad policy parameters within which export activities may be carried out by Commonwealth budget-funded agencies (Fahey 1998). These principles will be applied to all Commonwealth agencies and departments covered by the *Financial Management and Accountability Act 1997*. The 18 principles are to help ensure that export activities by departments and agencies are appropriate, have explicit government approval, do not involve excessive commercial risk and are beneficial to Australia’s long-term interests by complementing, rather than competing with, Australian private sector export activity.

## **Work arrangements in container stevedoring**

Productivity Commission labour market research report released 28 April 1998.

Key findings of the report were that:

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- Flexibility in the allocation and use of labour is critical to stevedore workplace performance, given the highly variable demand for stevedoring services at Australian ports.
  - The container stevedoring industry is characterised by a system of complex, inflexible and prescriptive work arrangements which constrain workplace performance. They impede productivity, reduce timeliness and reliability, and increase labour costs.
  - The most significant of these work arrangements are the order of engagement (specifying the order in which different types of employees are engaged for a shift), shift premiums and penalty rates, and redundancy provisions.
  - The order of engagement, in combination with relatively high shift premiums and penalty rates, add significantly to total labour costs for a given level of activity. They detract from productivity by creating incentives for permanent operational employees to seek overtime and lead to poor timeliness and reliability. They can also have deleterious effects on the lives of operational employees.
  - The high cost of redundancies restricts the ability of stevedores to adjust manning levels of permanent employees. The redundancy agreements also foster skill mismatches and reduce the ability of management to allocate the best person for the job.
  - There are a number of factors which impede change, including an adversarial workplace culture, strong union bargaining power, limited competition in the labour market for operational stevedoring employees, and limitations on competition in the industry.
  - The *Workplace Relations Act 1996* facilitates change by enabling work arrangements to be determined primarily at the workplace level. Together with the secondary boycott revisions to the Trade Practices Act, it has also reduced some sources of union bargaining power.
  - Responsibility for better outcomes ultimately rests with managers and their employees. Greater competition in container stevedoring would increase the pressures on both sides to change work arrangements and improve performance.

### *Government response*

Upon release of the research report on work arrangements in container stevedoring (and the Productivity Commission's companion study *International benchmarking of the Australian waterfront*), the Treasurer noted that the two reports provided 'a balanced and careful analysis of Australia's waterfront performance and structure,

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and will prove a useful and objective reference source as consideration is given to reform options' (Costello 1998c). The key issues identified in the Commission's study of work arrangements were addressed in the enterprise agreement negotiated between Patrick Stevedores and the Maritime Union of Australia (box B.1).

## **Impact of Commonwealth indirect taxes on exporters**

Productivity Commission research report released 11 August 1998.

On 23 February 1998 the Treasurer asked the Industry Commission to undertake a short research study into the impact of Commonwealth indirect taxes on exporters, with particular regard to the effect of indirect taxes on manufacturing exports. The study was to compare the effects on one or two reasonably typical Australian firms with equivalent firms in one (or more) other countries, for example New Zealand. The objective of the study was to contribute to the tax debate by providing a well researched insight into the situation of Australian exporters. The study was to be an information exercise and not provide policy recommendations.

The major finding of the research study, which was forwarded to the Treasurer on 3 June 1998, was that Commonwealth indirect taxes on business inputs penalise exporters and detract from Australia's economic performance.

Economic modelling by the Commission indicated that the impact of wholesale sales tax and just 4 cents a litre of the current fuel excise is to:

- raise costs for the average manufacturing exporter by more than \$120 000 a year; and
- increase the total cost of manufactured exports by \$1 billion a year and the cost of all exports by \$2.4 billion a year.

The price-raising effects of these taxes on business are greater than the revenue collected. This is because they increase costs at several points in the production chain. Firms are typically unaware of the total cost burden that wholesale sales tax and fuel excise imposes on them. The report notes that the hidden nature of this taxes-on-taxes effect is a particularly pernicious aspect of the current regime.

A goods and services tax would avoid the cascading effects of the current indirect tax regime. This would stimulate investment and provide a significant boost to the economy. The Commission's modelling suggests that replacing wholesale sales tax and the small component of fuel excise with a revenue-neutral goods and services tax of around 5 per cent could:

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- raise GDP by nearly 1 per cent (more than \$4 billion) and disposable income by 0.3 per cent (\$1.3 billion); and
  - increase the overall value of exports by nearly 5 per cent, and ‘non-traditional’ manufactured exports by more than 10 per cent.

### *Government response*

When releasing the report, the Treasurer stated that the Commission’s study would play an important educational role in the public debate on the merits of taxation reform (Costello 1998e).

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

### **Medical and scientific equipment industries**

Industry Commission inquiry report signed 20 December 1996; report released and initial response on 6 August 1997 (details in IC 1997e).

On 24 July 1998 the Minister for Industry, Science and Tourism (Moore 1998c) announced acceptance of the Commission’s recommendations in the following terms:

#### *On conformance assessment of medical devices*

The Government agreed in principle to moving to regulatory arrangements for medical devices based on harmonising existing arrangements with those of the European Union. The Minister for Health and Family Services is to bring forward a submission dealing with:

- the process by which Australia would harmonise with, or adopt, the European Unions approach to the regulation of medical devices;
- the structural, regulatory and accreditation arrangements including any relevant public health and safety and industry implications, in particular, whether conformance assessment of medical devices should be opened up to third parties; and
- the reorganisation of the Therapeutic Goods Administration.

#### *Reorganisation of the Therapeutic Goods Administration*

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The Industry Commission's recommendations on the reorganisation of the Therapeutic Goods Administration — separating conformance assessment from regulatory activities and assigning those regulatory responsibilities to an independent statutory authority — would be addressed in the submission being brought forward by the Minister for Health and Family Services.

*Implement the provisions relating to medical devices in the proposed Mutual Recognition Agreement with the European Union*

On 24 June 1998 a multi-sectoral Mutual Recognition Agreement, including the medical device sub-sector, was signed by Minister for Industry, Science and Tourism and the Vice President of the European Commission.

*Regulation of medical devices*

The Industry Commission's recommendations on the regulation of medical devices would be addressed in the submission being brought forward by the Minister for Health and Family Services.

*Tariffs for the medical and scientific equipment*

The Government agreed to reduce to zero the remaining tariffs on medical and scientific equipment covered by headings 9011-9033 (inclusive) of the Customs Tariff excluding, as recommended by the Commission, any goods included in the passenger motor vehicle plan.

*Government procurement*

The Minister stated that recent changes to the Commonwealth purchasing arrangements provide a set of principles which can be used as a platform to promote improved national purchasing practices. Government procurement issues having an impact on the medical and scientific equipment industries would be raised at the next meeting of the Australian Procurement and Construction Council.

## **The automotive industry**

Industry Commission inquiry report signed 26 May 1997; report released and an initial response 5 June 1997 (details in IC 1997e).

On 24 November 1997 Ministers announced the appointment of a Special Automotive Envoy to work on international market access and development for Australia's car industry (Fischer and Moore 1997). The Envoy would work with the new Automotive Trade Council — comprised of representatives from Australia's

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automotive and component manufacturers — which would oversee coordination and planning of a new automotive market access and development strategy, an industry development and investment program and a new marketing and promotion campaign. The Council is also the Government's major consultative mechanism with the automotive industry.

On 22 April 1998 Ministers announced that an Automotive Competitiveness and Investment Scheme would commence on 1 January 2001 and run for five years (Fischer and Moore 1998, also Moore 1998a). The scheme:

- has two sub-schemes, one for passenger motor vehicle manufacturers (the PMVP subscheme) and the other for automotive component manufacturers and service providers such as an automotive tool or tooling manufacturer or a provider of automotive design, development, engineering or production services (the CMSP subscheme);
- limits the value of assistance to an individual firm in any year to 5 per cent of its sales of eligible products or services produced in Australia in the previous year;
- provides for all benefits under the Automotive Competitiveness and Investment Scheme to be paid as transferable duty credits; and
- caps total additional benefits for the industry as a whole at \$2 billion, with provision to equalise the rate of benefit paid to firms in each sub-scheme over the five years in the event that claims exceed the budget limit. The existing entitlements under the duty free allowance are not included in this cap.

In brief, benefits for PMV producers will comprise:

- an increase in the existing duty free allowance on eligible imports earned on the production of PMVs from 15 to 25 per cent, with the basis for calculating the value of production expanded to include
  - engines and certain engines parts in addition to PMVs, and
  - production for all markets rather than the current restriction to only the Australian and New Zealand markets;
- an investment benefit calculated as 10 per cent of a three year moving average of investment in new assets.

For component producers and other eligible participants, the benefit is to be calculated as 25 per cent of the investment in new capital assets and 45 per cent of the value of investment in R&D, where both values are calculated on the basis of three year moving averages.

The Government accepted the Industry Commission's recommendations that:



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- in encouraging APEC members to translate their general resolution to liberalise trade in services into firm commitments, Australia strive to ensure that no preferential treatment be allowed to apply to automotive research and development services;
  - governments implement broad ranging tax reform to improve the overall economic performance of the Australian economy — reform options should include consideration of a broad based consumption tax to replace the existing wholesale sales tax system; and
  - the Government continue to strive for comprehensive trade and investment liberalisation in the APEC forum, and that it ensure the removal of barriers to trade in automotive products remained part of its APEC commitment to free and open trade by 2010.

In principle, the Government accepted the Industry Commission's recommendation that, where international standards are equivalent to or more stringent than Australian safety standards, they should be recognised by the Federal Office of Road Safety. However, the Government noted this acceptance was subject to the qualification that the United Nations Economic Commission for Europe standards are the only vehicle standards currently recognised as international standards and that Australia has not agreed to adopt all of these. The Federal Office of Road Safety is pursuing a policy of international harmonisation of vehicle standards subject to the requirements which will be established under the Trans-Tasman Mutual Recognition Arrangement and international treaty obligations. All new standards will be implemented in accordance with the principles agreed under COAG requiring a full regulatory impact assessment to be undertaken. This may affect the timing of implementation as well as the particular standards adopted.

The Industry Commission had also recommended that the Commonwealth Government proceed with the development of an evaluation procedure for its labour market programs, ensuring that such evaluations took account of all costs and benefits of the programs, both direct and indirect, and compare the outcomes of program participants to those of other job seekers with similar labour market characteristics. The Government supported this recommendation in principle. However, it noted that DEETYA's approach to evaluating labour market programs takes account of the benefits (in terms of employment and education outcomes, income support status and social benefits such as improved self esteem and work habits), costs and cost effectiveness of assistance and compares the outcomes of program participants to those of job seekers with similar labour market characteristics. There are, however, methodological and data constraints to identifying and measuring all direct and indirect costs and benefits of labour market program assistance, particularly at a regional level.

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The Industry Commission's recommendation that the Government conduct a specific public inquiry if it wished to fully understand the environmental issues facing the automotive industry was rejected. The Government had announced on 5 June 1997 its commitment to developing an environmental strategy and a code of Environmental Performance for the automotive industry and consultations with industry were in train to deliver on this commitment.

The Government considered that the recommendation for public provision of information on State Government assistance to automotive firms was a matter for State Governments.

### **The textiles, clothing and footwear industries**

Industry Commission report signed 9 September 1997; initial government response announced 10 September 1997; report released 18 September 1997 (details in IC 1997e).

On 10 July 1998 the Minister for Industry, Science and Tourism announced a \$772 million program of assistance for Australia's textile, clothing and footwear (TCF) industries (Moore 1998b). The program has five major components.

#### *TCF Strategic Investment Program*

Under this program which will operate from 1 July 2000 to 30 June 2005:

- assistance will be available for all firms engaged in textile, clothing, footwear and leather manufacturing in Australia;
- funding will be capped at \$700 million;
- total benefits for eligible activities will be limited to 5 per cent of a firm's sales of eligible products in the previous year;
- eligible activities include
  - investment in new plant and equipment, with expenditure on new buildings, structures and structural alterations being eligible expenditure only to the extent required to accommodate such new plant and equipment and with a minimum expenditure of \$200 000;
  - research and development type activities, where the definition of eligible activities includes Australian-based activities directed at product and process innovation in the TCF industries; and
  - product development expenditure including: expenditure on Australian-based product design, testing, trialing and sample production, and employment of

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personnel principally engaged on product development and process improvement for goods manufactured in Australia, expenditure on market research, and of copyright promotions and product support, other than advertising and media related expenditure.

Benefits under the program, to be paid annually and in arrears, will be calculated as follows:

- up to 20 per cent of eligible investment expenditure;
- up to 45 per cent of eligible R&D type activities; and
- up to 5 per cent of the TCF value added by the firm in Australia in the year of the claim, limited to the total value of benefits earned on eligible investment and R&D type activities.

#### *TCF Regional Adjustment Package*

Assistance is provided under two components. To increase employment opportunities for displaced TCF employees, assistance through supplementation of the Regional Assistance Program administered by the Department of Employment, Education, Training and Youth Affairs may be provided to regions that are significantly affected by the restructuring of TCF industries. The regions which may qualify for assistance will be identified by one of the following two criteria:

- regions in which TCF employment constitutes more than 10 per cent of total manufacturing employment, and which experience either TCF firm closures/significant restructuring; or
- regions with an unemployment rate in excess of the national average, in which the TCF employment constitutes more than 5 per cent of total manufacturing employment, and which experience TCF firm closures/significant restructuring.

Structural adjustment assistance to the regions will be provided by extending the Strategic Investment Program to include the purchase of state of the art second hand plant and equipment subject to applications meeting the proposed criteria for regional reconfiguration and adjustment. Such adjustment assistance will be limited to where two or more existing corporate entities can demonstrate that merging to form a new entity will result in viable and sustainable operations not available to any of the pre-merged firms. All regional assistance will be provided from within the overall funding limit of \$700 million for the Strategic Investment Program.

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### *Overseas assembly provisions scheme*

Under an expanded overseas assembly provisions (OAP) scheme to operate from 1 January 1999, clothing and footwear firms will be able to convert cut or uncut fabric and leather into finished goods offshore. Specifically, the changes to this \$40 million scheme will mean:

- uncut fabrics and uncut leather will be eligible to participate in the scheme;
- embroidery will be excluded from the list of eligible activities;
- limits on the use of imported fabrics or materials will be uniformly set at up to 25 per cent;
- labour intensive post assembly operations of laundering, stone-washing, acid washing, pressing, labelling, ticketing and packaging will be considered as eligible; and
- an OAP authorisation will only be issued to a firm which is both the exporter of the fabrics/leather and the importer of the assembled garments/footwear.

### *Other initiatives*

The Government has confirmed its commitment to help the industry achieve best practice in technology development and product design by providing \$10 million over five years from 1 January 1999 to establish a TCF Technology Development Fund. The Fund will focus on projects with industry-wide or sector specific application and is intended to support the development of new product and process technologies which will enhance business competitiveness and result in a TCF industry capable of competing and prospering in a free trade environment.

From 1 July 1999, \$10 million is to be made available to fund a national framework for excellence in TCF training. The objective is to create an education and training infrastructure that meets the needs of the TCF industries as they approach a free trade environment.

The Government also announced a \$12.5 million TCF Market development Program to develop and implement strategies to increase the export capabilities of Australia's TCF industries. The key objectives will be to foster an export culture and greater capacity to capture export opportunities among domestic producers, to identify and address market access issues facing TCF exporters, and to develop market action plans in priority markets.

On 25 August 1998 the Minister for Employment announced that, from 1 September 1998, the Government would pay Job Network agencies to place people not on income-support benefits in a job (Kemp 1998). The groups to be covered are:

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- job seekers who have claimed unemployment allowance but are waiting for Centrelink to determine their eligibility for benefit payments;
  - job seekers who have claimed unemployment allowance but are serving a waiting period; and
  - other job seekers such as people who have received redundancy packages and people with working partners. Tests of a partner's income and assets will not be applied.

## **Attachment C.1**

### **Procedures for Productivity Commission inquiries into safeguard action**









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## D Research and other activities

The general research program of the Commission encompasses activities directed at promoting more informed community debate about the productivity performance of the economy and of Australian industry, factors affecting industry performance, assistance and regulation affecting industry and related matters. This appendix provides details for the Industry Commission and the Productivity Commission of research reports, conference proceedings, research submissions made to other review bodies, and staff research and working papers. It also lists the presentations given by the Chairmen, Commissioners and staff to conferences, parliamentary committees, and industry and community groups in 1997-98.

### Commission research reports

#### Assessing Australia's productivity performance

*Industry Commission research paper, September 1997*

The report highlighted that productivity growth is essential for sustainable economic growth and higher living standards. Over the past three decades, productivity growth accounted for the bulk (about two-thirds) of the growth in Australians' average real incomes.

The paper assessed Australia's productivity performance against historical benchmarks and the performance of other comparable countries. Australia's long-term rate of productivity growth has been well below potential and was one of the slowest among OECD countries. However, there are signs of significant improvement. Australia's rate of productivity growth is currently running at around 2 per cent a year or more, compared with the historical average of 1.5 per cent a year.

The paper examined the distribution of productivity benefits and some of the effects on employment. There is evidence that, with greater competition in markets, consumers and commercial users of the goods and services produced in high productivity growth industries are gaining more of the benefit through lower prices.

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While productivity growth can affect employment in specific occupations, industries and regions, it does not have to mean fewer jobs overall. In fact, productivity growth has been associated with sustained employment growth over long periods in Australia and other OECD countries.

## **Microeconomic reforms in Australia: a compendium from the 1970s to 1997**

*Industry Commission research paper, January 1998*

This paper provided a compendium of major microeconomic reforms which have been introduced in Australia since the early 1970s. It was intended primarily as a reference document to facilitate research and analysis of microeconomic reform. It brought together the major reforms identified in the annual record of progress in microeconomic reform and supplemented the *Stocktake of progress in microeconomic reform* (PC 1996).

Part A of the paper provided a snapshot of reform in Australia, drawing out some key reforms and some features of the reform experience. It also provided a brief overview of key reforms in different sectors and areas.

Part B provided a detailed compendium of reforms. It was constructed in a chronological format and classified reforms by major sector, industry and broad area of reform and, where practical, it separated reforms by jurisdiction.

## **Micro reform — impacts on firms: aluminium case study**

*Industry Commission research paper, March 1998*

This paper provided firm-level insights into the impacts of microeconomic reform on the Australian aluminium industry since 1990. The paper examined firms' perceptions about the impact of various microeconomic reforms on their competitiveness and decisions to invest in Australia. It also reported firms' views on the adequacy of the pace of reform and their assessments of priority areas for further reform.

Microeconomic reforms in several areas — industrial relations, rail freight services, the waterfront, coastal shipping, gas supply and tariff reductions on inputs — have had a positive impact on the competitiveness of firms since 1990. Industrial relations reforms were ranked by the industry as the leading positive reform, as well as the area likely to have the most positive influence on investment over the next three to five years.

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A number of policy changes were viewed as having a negative impact on the competitiveness of firms since 1990. The main ones were changes to air emission regulations, taxes on business inputs, labour on-costs, and land access/resource security arrangements.

Firms emphasised the importance of accelerating the pace of microeconomic reform to help them to improve their competitiveness, maintain their market position and attract new investment. Four areas of microeconomic reform were seen as being particularly important to the competitiveness of firms over the next three to five years — coastal shipping, electricity, natural gas and the development of an effective response to greenhouse gas emissions. Reforms in the areas of land access/resource security, industrial relations, taxes on business inputs and labour on-costs were also viewed as relatively important.

## **Conference/workshop proceedings**

### **1997 Industry Economics Conference**

*Conference Proceedings, February 1998*

The sixth Industry Economics Conference was hosted by the Commission and the Melbourne Business School at Melbourne University on 10–11 July 1997. The theme of the conference was *Making competitive markets*. The invited papers presented at the conference and the accompanying discussion are presented in this report on the conference proceedings. The invited papers covered a number of issues including: practical issues in implementing theoretical auction designs; market power in electricity markets; markets for privately produced public goods; telecommunications following deregulation; the national electricity market; and environmental regulation.

The aim of the conference was to bring together leading researchers and policy makers in the field of industry economics to discuss their current work, to examine emerging ideas and methodologies, to establish and extend communication channels and to encourage further research. The 1997 conference featured papers from 13 invited speakers and 27 papers contributed by other speakers and attracted over 170 participants.

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## Submissions

### **IC submission to the Review of Higher Education Financing and Policy (the West Review)**

*July 1997*

The Commission's submission did not seek to address all of the issues raised by the Review's broad terms of reference. Rather, it focused on two fundamental issues where it considered it could make a useful contribution — the appropriate role of government and the efficacy of different reform options for funding higher education.

The Commission found that governments have an important role to play in enhancing the contribution of the higher education sector to the nation. The main justifications for government involvement include:

- supporting the generation of 'external' or 'spillover' benefits arising from the teaching and research activities of the sector;
- addressing weaknesses in the capital market which impair the capacity of some students to finance their higher education; and
- improving access and equality of opportunity, particularly for disadvantaged students.

Further, given the substantial injection of public funds into higher education institutions — some \$5.4 billion in 1996 — governments also have a role and responsibility to develop mechanisms to promote accountability and monitor their performance.

The Commission identified several fundamental problems with the current policy framework for higher education. Current arrangements make it difficult for student preferences to be met effectively and stifle competition between institutions, including between private and public institutions. Institutions face problems in retaining quality staff, maintaining/improving standards and in innovating. To improve the performance of the sector, the policy framework should increase the exposure of institutions to competitive pressures. In essence, the reform choice is between two broad approaches — administratively-based reform or market-based reform.

In discussing administratively-based reforms, the Commission examined a number of refinements to the higher education contribution scheme (HECS) and the merits of adopting a performance-based funding mechanism for delivering the public

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subsidy to the sector. In reviewing market-based reforms, the Commission discussed the relative merits of competitive tendering and portable scholarships as mechanisms for delivering the public subsidy. The merits of providing institutions with greater autonomy in setting student fees were also addressed.

The Commission indicated that it favoured a market-based approach to reform directed at building a closer and more responsive relationship between students and institutions. Key elements of this approach would include: a system of portable scholarships; full fee autonomy for institutions; a HECS-type loan arrangement; targeted equity programs; and contestable forms of public funding of research.

### **IC supplementary submission to the NSW Dairy Industry Review**

*July 1997, Unpublished (available on request from the Commission)*

In 1997, as part of its commitments under the Competition Principles Agreement, the New South Wales Government initiated a review of the State's regulatory arrangements for the dairy industry. Included amongst those regulations are arrangements that fix the price paid to farmers for drinking milk and associated restrictions on farm production and supply that prevent competition among farmers from undercutting the regulated price.

In an earlier submission to the review published in June 1997, the Commission examined the impacts of these regulations on the community as a whole. It concluded that they raised the retail price of milk in NSW by as much as 20 cents a litre and could not be justified on public interest grounds.

This supplementary submission clarified and elaborated on analysis in the Commission's earlier submission. It followed a meeting between Commission representatives and the Review Panel.

Specifically, the supplementary submission:

- separated the key effects of deregulating the New South Wales farm-gate controls for market milk into transfers, efficiency effects and adjustment costs; and
- elaborated further on the size of the transfers from consumers to farmers under the current arrangements and the likely impact of deregulation on retail milk prices.

The New South Wales Government subsequently announced that the current controls will be retained until at least 2003, with a further review before that date.

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## **IC submission to the National Competition Council Review of the Australian Postal Corporation Act 1989**

*September 1997*

The submission focused on key issues of relevance to the NCC review — the effect of the current restrictions in the postal services industry, whether there were more efficient ways of meeting the Government’s objectives in relation to postal services, and the scope for further pro-competitive reforms in the industry.

Under the Australian Postal Corporation Act, Australia Post must provide a universal service at a uniform price. To allow Australia Post to cover the cost of the universal service, the Act gives Australia Post the exclusive right to carry standard and some large letters (the reserved service). By restricting competition, the reserved service allows Australia Post to cover the costs of servicing some customers by overcharging others.

The Commission argued that it is inefficient to fund the universal service by restricting competition. The reserved service should be abolished and the universal service directly funded by the Government from consolidated revenue. A maximum price should then be set for standard letters, initially at 45 cents, but consideration should also be given to reducing that price.

## **IC Submission to the Joint Committee of Public Accounts and Audit inquiry into internet commerce**

*October 1997*

To encourage the growth of internet commerce in Australia and create opportunities for businesses to improve their international competitiveness, it is crucial that internet access be priced appropriately. Two factors distort the cost of providing internet access.

- Given current local call pricing regulations, internet users are being cross-subsidised by users of voice telephony, undermining incentives to upgrade the telecommunications network to provide higher quality internet access.
- Australian access providers pay the full cost of the internet capacity between Australia and the United States, even though 30 per cent of traffic consists of US internet users downloading Australian content (including from US ‘mirror’ sites in Australia).

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There are potential cost imposts from new regulations, including any new tax arrangements. Provided that there is adequate enforcement of current arrangements, goods purchased over the Internet and delivered by other means are unlikely to have a significant impact on the competitiveness of Australian producers or retailers, or on the revenue base. The Australian Taxation Office has made a number of recommendations for monitoring and taxing transactions involving goods both purchased and delivered over the Internet. A proper regulatory cost–benefit analysis, including preparation of a Regulatory Impact Statement, should be undertaken before introducing taxation measures which could stifle internet commerce.

### **IC submission to the Queensland Dairy Industry Review**

*December 1997, Unpublished (available on request from the Commission).*

The Queensland Government reviewed its regulatory arrangements for the dairy industry during 1997-98. In the light of the earlier submissions to the New South Wales review, the Queensland review panel wrote to the Commission requesting it to make a separate submission on the arrangements in Queensland.

As in the case of the New South Wales arrangements, the Commission found that the current farm-gate controls raise the retail price of milk significantly and are difficult to justify on public interest grounds. Hence, it concluded that the key policy issue for the review was not whether to deregulate, but how to deregulate so as to minimise the adjustment burden for farmers and dairy communities.

### **IC submission to the Shipbuilding Industry Review**

*March 1998*

In January 1998, the Commonwealth Government announced a review of the Australian shipbuilding industry. The Commission's submission to the review focused on two issues:

- whether Australia should accede to the OECD Shipbuilding Agreement — an Agreement which, when implemented, will prohibit most forms of government support to shipbuilders; and
- the case for a further period of bounty support for the lightweight segment of the industry.

The Commission did not attempt to replicate the Review Panel's task and provide definitive answers. Rather, the submission set out some of the key issues relevant to

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an assessment of these issues. As such, the submission constituted a form of 'checklist' for the Panel.

## **Staff research papers**

*Note: The views expressed in staff papers do not necessarily reflect the views of the Industry Commission or the Productivity Commission.*

### **Role of economic instruments in managing the environment**

*Lisa Wall, Antonia Cornwell and Steven Bland, Industry Commission staff research paper, July 1997*

Economic instruments, such as levies/charges and tradeable permits, when used appropriately, can entail least-cost solutions to environmental problems, provide greater flexibility and encourage innovation. Economic instruments can be used on their own or in combination with other measures to improve the efficiency of environmental protection efforts.

The report reviewed the application of a number of economic instruments to key environmental problems in Australia and examined areas where the use of such instruments could be extended. In addressing key environmental issues such as native vegetation retention and dryland salinity, the report explored the scope for extending the use of economic instruments. Expanding the use of management agreements and conservation covenants to protect native vegetation and the possibility of extending the salt credits scheme currently operating in irrigation areas to dryland areas were some of the options canvassed in the report.

At present, Commonwealth, State and local governments use economic instruments such as effluent charges, load based licensing schemes, performance bonds and tradeable permit schemes to address a number of environmental problems associated with air, water and land.

The report highlighted the need to obtain adequate information about key environmental problems and to develop effective mechanisms to monitor and evaluate measures used to address these problems. It argued that effective implementation of



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incentive-based mechanisms to address environmental problems requires devolving responsibility and authority to the lowest practical level.

### **Small business employment**

*John Revesz and Ralph Lattimore, Industry Commission staff research paper, August 1997*

The paper examined the changing size distribution of firms in Australia, and the policy implications of the growing performance of small firms in the economy. Between 1983-84 and 1994-95, private non-farm sector firms with fewer than 100 employees increased their market share of national employment by 5 percentage points to nearly 47 per cent. This increase had been at the expense of public and agricultural employment where relative shares had declined. There was little change in the employment share of large firms.

While small firms may be employing more people than in the past, this does not mean their smallness is responsible for the increase in jobs. Indeed, the paper found that the smallness of firms is largely incidental to the process of job creation. Many of the additional jobs created in small business were not because of firm size, but because the products and services for which demand had increased were supplied mainly by small business.

The paper argued that there were strong grounds for removing impediments which hamper the sector's efficiency and its capacity to employ. But because of the complex interaction between small business and the rest of the economy, measures which selectively subsidise the small business sector can have little, or even perverse, impacts on employment. Policies should aim to improve the employment and efficiency of both small and big enterprises. Such policies might include: eliminating or modifying regulations whose overall benefits are questionable; re-designing regulation so that its compliance costs are lower for business users; and examining the laws and institutions which affect the likelihood of employment.

### **Innovation and firm performance in Australian manufacturing**

*Robert Phillips, Industry Commission staff research paper, September 1997*

An important way for a firm to gain a competitive advantage is to undertake technological innovation — that is, introduce a new or improved product or process. This paper reported results from a large-scale survey of innovation in the manufacturing sector carried out by the ABS in September 1994.

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The paper sought to identify whether the more innovative firms share common innovation strategies and the extent to which greater innovativeness is associated with better sales growth performance. It also looked at the extent to which key features of the innovation process vary across firms of different sizes.

The analysis of innovation behaviour indicated a number of key strategies likely to be associated with greater innovativeness. More innovative firms generally tended:

- to engage in a wider search process for new ideas for innovation;
- to have an R&D capability that allows them not only to develop their own new technology but also to modify and adapt purchased technology; and
- to develop both new products and new manufacturing processes — consistent with the view that process innovation is becoming an increasingly critical capability for new product development.

## **Productivity growth and Australian manufacturing industry**

*Paul Gretton and Bronwyn Fisher, Industry Commission staff research paper, September 1997*

This paper found that, in the longer term, manufacturing industries with above average productivity growth have usually experienced more rapid growth in output. The exception is the textiles clothing and footwear industries which had high productivity growth but a decline in output.

The paper also found that industries with the lowest assistance levels maintained or expanded their share of manufacturing output. The fastest growing sector — printing and publishing — had the largest decline in assistance. Textiles, clothing and footwear and transport equipment (including automobiles) were the slowest growing industries between 1968-69 and 1994-95. These industries, which were amongst Australia's most highly assisted activities, also had the largest job losses.

These findings were based on an examination of growth in eight manufacturing industry subdivisions over the period 1968-69 to 1994-95 and the use of a new method for estimating capital stocks by industry.

## **Private investment in urban roads**

*Glen Hepburn, Michael Pucar, Chris Sayers and Dianne Shields, Industry Commission staff research paper, October 1997*

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The research paper presented an in-principle assessment of Australia's experience with Build, Own, Operate and Transfer (BOOT) schemes for the provision of urban roads. While it was not an assessment of any particular project, examples were drawn from recent Australian projects. BOOT schemes were compared with the alternative of competitive tendering and contracting out under public ownership in order to assess the relative advantages and disadvantages of BOOT schemes.

The paper found that the main benefit claimed for urban road BOOT schemes — earlier investment than that possible with public funding — depended upon the appropriateness of constraints on existing public funding levels. It was concluded that a case-by-case assessment of each BOOT project should be conducted against the alternative of public sector financing and contracting out to establish which approach is superior. In addition, it was found that there would be greater community understanding of the benefits of BOOT schemes if the results of the comparative assessment leading to the choice of funding arrangements were made transparent.

### **Microeconomic reform and structural change in employment**

*Craig de Laine, Kerry Lee and Graeme Woodbridge, Industry Commission staff research paper, October 1997*

This paper reported in detail on research originally undertaken in support of the Industry Commission's 1995-96 annual report. The aim of the research was to analyse structural change in employment in Australia between 1972 and 1995 and to examine whether microeconomic reform policies had influenced the rate of this change.

A commonly used measure of the extent of structural change in employment in the economy is the rate or coefficient of (compositional) structural change. On this measure, the overall rate of structural change in employment in Australia has been stable since the 1970s and the rate did not increase substantially after the mid-1980s when most microeconomic reform took place.

The paper used an input-output framework to determine the contribution of various factors to changes in employment for 11 industry groups in the periods 1977-78 to 1983-84 and 1983-84 to 1992-93. The factors were: labour productivity; demand for final goods by consumers, government and investment; export demand for final goods; import demand for final goods, or import substitution of final goods; demand for imported goods used in the production process, or import substitution of intermediate goods; and demand for goods used as inputs into production, or input-output coefficients. Analysis of the sources of change in industry employment

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suggests that microeconomic reform may have influenced change at the industry level.

It appears that while microeconomic reform is contributing to an improvement in performance, it has not led to an increase in the overall rate of structural change in employment. This is likely to be due to its overall impact being small relative to all the other factors influencing structural change.

## **Services trade and foreign direct investment**

*Alexis Hardin and Leanne Holmes, Industry Commission staff research paper, November 1997*

Foreign direct investment (FDI) plays a key role in international trade in services. For services where ongoing direct contact with consumers and a physical presence in the market is important, establishing a commercial presence via FDI may be the most efficient way for a foreign supplier to deliver its service. FDI plays a particularly important role in financial services, communications, retailing and various business and professional services. Restrictions on FDI can therefore have an impact on services trade. While many economies have liberalised their FDI regimes in recent years, most still apply some restrictions on inward FDI.

Estimates presented in this report indicate that FDI is relatively heavily restricted in key service industries such as communications, transport and financial services. Across the 15 APEC economies analysed in the report, FDI is relatively heavily restricted in Korea, Indonesia, Thailand, China and the Philippines. The United States and Hong Kong are relatively open to FDI.

To estimate the economic effects of removing FDI barriers, further development of existing economic models is required. For example, the links between the foreign parent and the affiliate, and the benefits that these could bring to the host economy, need to be captured. Estimates of the potential gains from investment liberalisation are likely to become more important over the next few years as WTO members work toward the next round of negotiations on the General Agreement on Trade in Services in the year 2000, APEC members implement the commitment to free and open investment and OECD members work toward a multilateral agreement on investment.

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## **Framework for greenhouse emission trading in Australia**

*Antonia Cornwell, Johanna Travis and Don Gunasekera, Industry Commission staff research paper, December 1997*

A system of tradable permits could lower the economic costs of reducing greenhouse gas emissions. The paper brought together several recent analyses of tradable permit schemes and provided a basic framework for establishing a domestic greenhouse gas emission trading scheme in Australia.

A domestic greenhouse gas emission trading scheme could accommodate existing greenhouse response initiatives, such as the Commonwealth Government's Greenhouse Challenge Program which is currently investigating opportunities for firms to invest in carbon sequestration activities to reduce their net emissions.

A domestic emission trading scheme could also provide a useful interface with an international trading scheme in the event that such a scheme is established. Recent OECD analysis suggests that international emission trading could lower the cost of emission abatement to Australia by 50 per cent, compared with having to meet an abatement target in the absence of an international trading scheme.

There are several issues that need to be considered in setting up a domestic emission trading scheme. These include: defining permits; the overall emission cap; coverage of greenhouse gases; the market participants; the method of allocating permits; the administrative structure; and the role of carbon sequestration.

## **Reducing the regulatory burden: does firm size matter?**

*Ian Bickerdyke and Ralph Lattimore, Industry Commission staff research paper, December 1997*

The paper discussed the regulatory costs facing Australian firms and provided guidelines on the circumstances where it could be appropriate for small businesses to be treated more leniently than other firms for regulation and tax purposes. Examples of more lenient regulatory approaches to small businesses include the granting of regulatory and tax exemptions, applying less stringent standards or allowing less onerous record keeping requirements.

The appropriateness of policies favouring the differential application of regulations was assessed from a theoretical perspective (economic efficiency and equity considerations) and by an examination of the empirical evidence.

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The paper found that measures to ease the regulatory burden on business should, by and large, be broad-based and aimed at eliminating arbitrary, ineffective and badly designed features of regulations — irrespective of whether this affects small or large businesses. However, while an ‘all of business’ approach to regulatory reform is appropriate in most cases, the differential regulatory treatment of small business may sometimes be economically justified. Such favourable regulatory treatment of small businesses has to be considered on a regulation-by-regulation basis and a number of pre-conditions have to be met.

Importantly though, there is a strong case for singling out small business for special help in dealing with the administrative complexities of regulation. More flexible approaches — such as designing less complex forms for small business and providing them with additional information and advice to make it easier for them to understand and to meet regulatory requirements — might not only reduce regulatory costs, but may also result in higher levels of small business compliance and improve the effectiveness of regulations.

### **Trade liberalisation and earnings distribution in Australia**

*Greg Murtough, Kate Pearson and Peter Wreford, Industry Commission staff research paper, February 1998*

The paper used a wide range of data and several analytical approaches to investigate whether trade liberalisation by Australia has reduced the wages and/or employment of low-skill workers relative to other employees.

It found that the effects of reduced trade barriers were overshadowed by other structural changes in the economy. These structural changes led to a shift in the distribution of employment away from industries which are intensive users of tradespersons, plant and machine operators and drivers, and labourers and related workers. They also led to a substitution within industries toward higher skill occupations and the less skilled occupations of salespersons and personal service workers.

No more than around one-twentieth of these occupational changes were found to be related to reduced assistance. Among the primary causes were adverse shifts in international trading conditions for primary commodities and technical change which favoured greater use of high-skill labour.

The paper concluded that retaining or increasing trade barriers would have been of little use as a policy instrument directed at aggregate employment or income distribution.

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## Directions for State tax reform

*Owen Gabbitas and Damien Eldridge, Productivity Commission staff research paper, May 1998*

This paper assessed four main types of State, Territory and local government taxation — payroll tax, taxes on land, financial taxes and business franchise fees — against standard economic criteria — efficiency, equity, administration and compliance costs, and stability. It identified various reform options that State and Territory governments could undertake within a revenue neutral framework (that is, within the current structure of Commonwealth-State financial relations).

The paper developed a methodology for assessing the efficiency of State, Territory and local taxes in the presence of existing Commonwealth taxes, as well as adverse ‘external’ costs associated with the use of commodities subject to franchise fees. The paper applied this methodology to estimate the marginal excess burden of each tax — its efficiency cost per extra dollar of revenue raised.

The paper found that no one tax performed well against all of the criteria. However, the more efficient taxes — *municipal rates* and, to a lesser extent, *land* and *payroll tax* — tended to be the more equitable. The least efficient taxes were bank account debits tax, conveyancing duty and most stamp duties. These were also the least equitable. The paper concluded that reforms could improve the efficiency and equity of the State tax system, while reducing administration and compliance costs. It outlined a number of practical ways in which this could be achieved — changing the way existing taxes operate, changing the mix of taxes used, or going beyond current State tax bases.

## A comparison of institutional arrangements for road provision

*Barry Abrams, Peter Cribbett and Don Gunasekera, Productivity Commission staff research paper, June 1998*

This paper evaluated four institutional approaches to road provision: traditional ‘departmental’ arrangements, output-based management, an effective road fund and a public utility model.

Road provision in Australia is characterised by the traditional ‘departmental’ and output-based management approaches which allow Ministerial discretion over the provision of road networks.

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The effective road fund approach, partly adopted by the New Zealand Government and several other countries, involves the devolution of responsibility for decision-making to a management board.

Under a public utility model, which has been proposed by several organisations in Australia and overseas, including the Australian Automobile Association, a road utility would charge directly for road use and provide road services on the basis of being able to earn a reasonable rate of return on its investments.

The paper argued that there is value in exploring the merits and scope for gradually incorporating the relative strengths of alternative approaches to the way road networks are provided in Australia.

## **Staff working papers**

*Staff working papers are available on request but are not for quotation without the permission of the authors.*

### **Some lessons from the use of environmental quasi-regulation in North America**

*Sue Holmes, Office of Regulation Review staff working paper, December 1997*

### **Public interest tests and access to essential facilities**

*Jeff Hole, Andrew Bradley and Patricia Corrie, Industry Commission staff working paper, March 1998*



**Table D.1: Speeches and presentations by the Chairmen, Commissioners and staff, 1997-98**

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Chairmen:</b>		
<b>Bill Scates to 27 January 1998</b>		
Institute of Public Affairs	Economic Freedom Award acceptance speech	July 1997
Australian Equipment Lessors Association	Activities of the Commission and the automotive inquiry	July 1997
Property Council of Australia	Microeconomic reform in Australia: successes, challenges and opportunities	Aug 1997
Victorian Employers Chamber of Commerce Tax and Economic Affairs Committee Meeting	Microeconomic reform	Aug 1997
CEDA 'Driving Australia's Growth' Conference	Current status of industry policy in Australia	Aug 1997
Australian Public Service Regional Directors and Senior Staff of South Australia	Are public servants truly servants of the public: what have we learnt from monitoring of public sector performance?	Aug 1997
Sustainable Economic Growth in Regional Australia National Conference	The challenges for regional Australia	Sept 1997
La Trobe University Dean's Address	Reinforcing good business strategy with good public policy	Sept 1997
Victorian Office of Training and Further Education Conference	Vocational Education and Training: Implications for the International Competitiveness of Australian Firms	Sept 1997
Melbourne Institute of Applied Economic and Social Research Third Quarterly Briefing	Productivity, economic growth and associated policy issues (panel discussion)	Oct 1997
CEDA Trustees, Sydney	The importance for Australia of free trade	Oct 1997
Greater Western Sydney Business Connection	Public policy, productivity and increased living standards – the virtuous cycle	Oct 1997
NSW Treasury	Future directions in microeconomic reform	Nov 1997
Sydney Institute	Australia – a nation in transition	Dec 1997
Australian Agricultural Resource Economics Society	Microeconomic reform and competition: the big picture	Jan 1998

(Continued next page)

Table D.1 Continued

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
<b>Gary Banks from 27 January 1998</b>		
University of Adelaide/ AJRC/ARC Workshop on measuring impediments to trade in services	Work on the measurement of and assessment of impact of barriers to trade in services	April 1998
Third Annual Conference on Private Medical Insurance, Centre for Insurance Studies, University College, Dublin, Ireland	The Industry Commission's report on private health insurance in Australia	May 1998
OECD Secretariat, Paris	The Productivity Commission: its origins, role and contribution to policy reform in Australia	June 1998
Senate Rural and Regional Affairs and Transport Legislation Committee hearings on the Stevedoring Levy Bills	PC reports on work arrangements in container stevedoring and international benchmarking of the Australian waterfront	June 1998
Australian Coalition of Service Industries	Lifting the performance and competitiveness of Australia's service industries	June 1998
ACCI Manufacturing and Business Affairs Committee	The role and activities of the Productivity Commission	June 1998
<b>Commissioners:</b>		
CEDA 'The State of Health' conference (Helen Owens)	Review of current strategies	July 1997
Environment Australia Environmental Economics Round Table (Jeffrey Rae)	Economic instruments relating to the environment	July 1997
Australian Health Economics Society 19th Conference of Health Economics (Helen Owens)	Private health insurance – where do we go from here?	July 1997
Australian APEC Study Centre Conference on Carbon Dioxide, Global warming and the framework convention on climate change: the implications for APEC (Richard Snape)	Problems of the global commons	Aug 1997
Korea Economic Institute of America (and others) 8th US-Korea Academic Symposium, Los Angeles (Richard Snape)	APEC	Sept 1997
Senate Economics References Committee Inquiry on Promoting Australian industry (Gary Banks with Robert Kerr)	Industry policy	Sept 1997
Australian Agricultural and Resource Economics Society, Victorian Branch meeting (Jeffrey Rae)	Review of the Industry Commission's draft report on ecologically sustainable land management	Sept 1997

Swiss Asia Foundation & Global Industrial Social Progress Research Institute Conference on international economic organization in the post-Uruguay Round era: an agenda for Asia and Europe, Lausanne (Richard Snape)	Post-Uruguay Round trade policy and the World Trade Organization	Sept 1997
World Trade Organization seminar, Geneva (Richard Snape)	Where is world trade policy heading?	Sept 1997
Drug Information Association Conference (Helen Owens)	The Australian pharmaceutical guidelines: some economic issues	Sept 1997
Centre for International Economics Trade Symposium (Gary Banks)	Liberalisation strategies for world agricultural trade	Sept 1997
River Basin Society Second National Workshop on integrated catchment management (Jeffrey Rae)	Sustainable agriculture	Oct 1997
Victorian Workcover Authority Health and Safety Week '97 (Jeffrey Rae)	Workcover	Oct 1997
APHA Congress (Helen Owens)	Health care financing – a legitimate target for microeconomic reform?	Oct 1997
National Centre for Development Studies Conference on Back sliding from trade liberalisation commitments (Gary Banks)	Committing to trade liberalisation in Australia	Oct 1997
University of Adelaide Department of Economics Seminar (Richard Snape)	Where is international trade policy heading?	Oct 1997
National Association of Forest Industries Conference on Creating comparative advantage (Jeffrey Rae)	Sustainable land use: expanding the forestry base	Oct 1997
Senate Foreign Affairs, Defence and Trade References Committee Inquiry into Australia and APEC (Richard Snape)	Australia and APEC	Feb 1998
Australia-Japan Research Centre Conference on APEC and its impact on the Chinese Economy (Richard Snape)	Discussant	Feb 1998
IC/ANU Workshop on microeconomic reform and productivity growth (Gary Banks)	Opening remarks	Feb 1998
IC/ANU Workshop on microeconomic reform and productivity growth (Richard Snape)	Review of the microeconomic reform experience of New Zealand (discussant)	Feb 1998
DFAT seminar (Richard Snape)	Asian financial crisis – discussion opener	April 1998
Department of Human Services (Victoria) Senior Management Briefing (Helen Owens)	Private health insurance: some implications for States	April 1998
1998 Australian Coal Conference (John Cosgrove)	The Australian black coal industry: keys to better performance	May 1998

(Continued next page)

**Table D.1** Continued

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Minerals Council of Australia Conference on Competing globally (John Cosgrove)	Microeconomic reform and the Australian coal industry	May 1998
Australian Institute of Health and Welfare Conference: Australia's Health 1998 (Helen Owens)	Counting the costs of health	June 1998
<b>Staff:</b>		
Australian Competition and Consumer Commission (Ron Arnold)	Overview of the role of the Commonwealth Competitive Neutrality Complaints Mechanism	July 1997
1997 Industry Economics Conference (Philippa Dee)	Telecommunications following deregulation	July 1997
1997 Industry Economics Conference (John Salerian)	Evaluating market power and transmission pricing in the Australian electricity market	July 1997
1997 Industry Economics Conference (Don Gunasekera)	Role of economic instruments in managing the environment	July 1997
1997 Industry Economics Conference (Natalia Nunes & Stephen Farago)	The economic impact of airline alliances	July 1997
1997 Industry Economics Conference (Ilias Mastoris)	A quantitative analysis of Australia's anti-dumping system	July 1997
1997 Industry Economics Conference (Alexis Hardin)	International telecommunications reform in Australia	July 1997
Industry Commission/University of Melbourne: Forward Economic Conference (Robert Kerr)	Opening remarks	July 1997
Australasian Fire Authorities Council Workshop on comparative performance measurement and benchmarking (Christian Klettner)	Comparative performance measurement of government services	July 1997
Independent Pricing and Regulatory Tribunal of NSW (Ron Arnold)	Overview of the role of Commonwealth Competitive Neutrality Complaints Mechanism	July 1997
Victorian Parliamentary Committee on CTC (Robert Kerr & Lyn Maddock)	Competitive tendering and contracting	Aug 1997
Institution of Engineers and Airport Industries Aust Inc 'Airports '97: Future Perspectives' Conference (Andrew Smith)	The economics of national airport networks – policy and planning frameworks	Aug 1997
Commonwealth/State Officials meeting on performance indicators (Lyn Maddock)	Performance indicators for workers compensation and OH&S	Aug 1997
Department of Workplace Relations and Small Business Workshop on regulatory performance indicators (Paul Coghlan)	How compliance with Regulation Impact Statements interrelates with regulatory performance indicators	Aug 1997
US International Trade Commission Conference on Evaluating	The comprehensiveness of APEC's free trade commitment	Sept 1997

APEC trade liberalisation: tariff and non-tariff barriers Washington DC (Philippa Dee)					Oct 1997
Australian Agricultural and Resource Economics Society, ACT Branch Meeting (Herb Plunkett)				The economics of ecologically sustainable land management	Oct 1997
National Marine Safety Committee Workshop on reform of safety arrangements (Paul Coghlan)				Reform of the regulatory arrangements for interstate shipping and recreational craft	Oct 1997
Sydney Futures Exchange Victorian Electricity Seminar (Don Gunasekera)				Competitive wholesale electricity prices: the winners, the losers, the hedgers	Sept 1997
Council of the Australian Services Union, National Airlines Division (Natalia Nunes)				The economic impact of international airline alliances	Oct 1997
Monash University Economics Department seminar (Greg Murtough, Kate Pearson & Peter Wreford)				Trade and income distribution – preliminary results	Oct 1997
Economic and Planning Law Association (NSW) Annual Conference (Herb Plunkett)				IC draft report on ecologically sustainable land management	Oct 1997
Melbourne Institute of Applied Economic and Social Research Conference on Unemployment in Australia: in search of solutions (Lynne Williams)				Issues related to unemployment and how to prevent the apparent long-term rise in unemployment (rapporteur)	Nov 1997
SHOROC Regional Organisation of Councils Conference on Local approvals, good practice – the way forward (Simon Corden)				The role of benchmarking and performance indicators in local government	Nov 1997
Australian Centre for Regional and Local Government Studies Federalism Seminar Series: Local Government Accountability (Simon Corden)				The role of performance indicators in local government	Nov 1997
Association of Certified Practising of Accountants ACT Congress 1997 (Helen Silver)				Comparative performance measurement of government services	Nov 1997
Council of Aboriginal Reconciliation Conference on Benchmarking for Aboriginal and Torres Strait Islander people (Helen Silver)				Considering ways to ensure greater accountability and effectiveness of outcomes in the delivery of services to ATSI people.	Nov 1997
ANU Conference on the Corporate Law Economic Reform Program (Stephen Rimmer & Ravi Prasad)				Electronic money and regulatory responses from governments	Nov 1997
Reserve Bank of Australia seminar (Dean Parham)				IC paper on assessing Australia's productivity performance	Nov 1997
1997 Annual Conference of the Victorian Commercial Teachers Association (Robert Kerr)				Industry policy and microeconomic reform	Nov 1997

(Continued next page)

Table D.1 Continued

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Commonwealth Treasury seminar (Dean Partham)	IC paper on assessing Australia's productivity performance	Dec 1997
Australian Centre for Corporate Public Affairs: 1998 Politics & Public Policy Review (Robert Kerr)	Activities of the Industry Commission and plans for the future Productivity Commission	
Department of Finance and Administration Conference on competing for performance (Helen Silver)	Determining the cost effectiveness of government services – the development of comparable performance measures	Feb 1998
Australia APEC Study Centre Conference on Kyoto: the impact on Australia (Don Gunasekera)	Economic issues in emission trading	Feb 1998
Victorian Department of Premier and Cabinet Conference on competition policy and legislative reform (Helen Silver)	Better performance measurement – a key element of NCP reform	Feb 1998
Victoria University Labour Market Research Workshop (Greg Murtough)	Trade liberalisation and earnings distribution in Australia	Feb 1998
Centre for Public Policy, University of Melbourne Conference on public policy and private management (Stephen Rimmer)	Competitive tendering and outsourcing – initiatives and methods	Feb 1998
House of Representatives Standing Committee on Environment, Recreation and the Arts – Inquiry into the Regulatory Arrangements for Trading in Greenhouse Gas Emissions (Robert Kerr, Don Gunasekera and Ilias Mastoris)	Summary of recent greenhouse related Industry Commission reports	Feb 1998
Urban Institute/ICMA Large City/County Comparative Performance Measurement Project – Advisory Steering Committee, Washington DC (Simon Corden)	Aspects of the service provision performance measurement project	Feb 1998
IC/ANU Workshop on microeconomic reform and productivity growth (Dean Partham)	Growth theory perspective on the effects of microeconomic reform (discussant)	Feb 1998
IC/ANU Workshop on microeconomic reform and productivity growth (Paulene McCalman)	Trade liberalisation and manufacturing industry productivity growth	Feb 1998
Public Sector Group/Regulation & Competition Policy Group seminar, World Bank, Washington DC (Simon Corden)	Comparative performance measurement – better information about government services.	Feb 1998
UK Conference on Better government: more effective regulation, Manchester (Paul Bek)	Good regulatory principles – the Australian experience	March 1998
Commonwealth Treasury seminar (Ralph Lattimore)	Rationale and analysis of small business policies including tax policies	March 1998
DFAT Staff seminar (Greg Murtough)	Trade liberalisation and earnings distribution in Australia	March 1998

ABS/AIHW Workshop on indigenous disability data (Jeff Byrne)	Reporting on government services to indigenous people with a disability	April 1998
CEDA/Sydney Futures Exchange Conference on greenhouse gas emissions trading (Don Gunasekera)	Framework for greenhouse emission trading in Australia	April 1998
A TAX/University of Sydney Third International Conference on tax administration (Stephen Rimmer)	Regulatory best practice and taxpayer compliance costs	April 1998
University of Adelaide/ AJRC/ARC Workshop on measuring impediments to trade in services (Leanne Holmes)	Barriers to foreign direct investment	April 1998
University of Adelaide/ AJRC/ARC Workshop on measuring impediments to trade in services (Greg McGuire)	Australia's' impediments to trade in financial services	April 1998
Flinders University Research Workshop on issues in foreign direct investment (Leanne Holmes)	Measuring and modelling barriers to foreign direct investment	May 1998
University of Sydney Dept of Economics seminar (Lynne Williams)	Work arrangements in stevedoring, black coal and preliminary thinking on meat processing	May 1998
ABARE International Conference on greenhouse emission trading (Don Gunasekera)	Estimating the cost and benefits of emission trading (discussant)	May 1998
Brandeis University 4th APEC Roundtable, Boston (Philippa Dee)	Estimating the impact of voluntary early sector liberalisation	May 1998
NSW Treasury: Pricing guidelines workshops for NSW agencies (Stuart Wilson)	Approaches to pricing and costing under competitive neutrality	May 1998
Conference on state tax reform (Philippa Dee)	State tax efficiency: the PC report card with a focus on land tax	June 1998
Special Non-profit Research Conference (Jeff Byrne)	Comparative performance monitoring: what it can tell you and how you might go about it	June 1998
National Institute of Standards and Technology, Advanced Technology Program International Conference on the economic evaluation of technological change, Washington DC (Ralph Lattimore)	Evaluation of R&D policy	June 1998
Victorian Department of Treasury (Jeff Byrne)	Performance monitoring for a competitive economy	June 1998
Institute of Public Administration of Australia Workshop on competitive neutrality and national competition policy (Stewart Plain)	Experience with Commonwealth implementation of competitive neutrality and the Commonwealth's complaints mechanism	June 1998

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## E Publications

This appendix provides a list of Industry Commission and Productivity Commission reports, papers and submissions completed in 1997-98. The views expressed in staff research papers and staff working papers do not necessarily reflect the views of the Commission. The Commission now has a comprehensive website providing public access to nearly all of its publications, including most of those listed in this appendix.

### Annual reports

Copies of annual reports can be obtained from the Government Info Shops and from the Commission's website.

- *Industry Commission annual report 1996-97* (October 1997)
- *Economic Planning Advisory Commission annual report 1996-97* (October 1997)
- *Regulation and its review 1996-97* (October 1997)
- *Trade and assistance review 1996-97* (November 1997)
- *Microeconomic reform scoreboard 1996-97* (December 1997)

### Commissioned projects

#### *Inquiries — draft reports*

Draft reports can be obtained from the Commission during the course of an inquiry and from the Commission's website.

- *A full repairing lease: inquiry into ecologically sustainable land management* (15 September 1997)
- *Telecommunications equipment, systems and services* (19 December 1997)
- *The Australian black coal industry* (2 April 1998)
- *International air services* (18 June 1998)



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### *Inquiries — final reports*

Copies of final reports can be obtained from the Government Info Shops upon release by the Government and from the Commission's website thereafter.

- *The textiles, clothing and footwear industries*, Industry Commission report no. 59 (9 September 1997)
- *A full repairing lease: inquiry into ecologically sustainable land management*, Industry Commission report no. 60 (27 January 1998), not yet released by the Government
- *Telecommunications equipment, systems and services*, Industry Commission report no. 61 (9 April 1998), not yet released by the Government

### *Case studies on work arrangements*

Copies of reports can be obtained from the Government Info Shops and from the Commission's website.

- *Work arrangements in container stevedoring* (April 1998)

### *Other commissioned projects*

Copies of these commissioned studies can be obtained from the Government Info Shops upon release by the Government and from the Commission's website thereafter.

- *Performance measures for councils: improving local government performance indicators* (October 1997)
- *Export of government services* (December 1997)
- *Impact of Commonwealth indirect taxes on exporters* (June 1998)

## **Performance monitoring**

Copies of these publications are available only from the Commission which acts as the Secretariat for the relevant COAG Steering Committees. The publications can also be accessed from the Commission's website.

- *Data envelopment analysis: a technique for measuring the efficiency of government service delivery* (November 1997)
- *Report on government services 1998, Volume 1: education, health, justice, emergency management* (February 1998)

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- *Report on government services 1998, Volume 2: community services, housing* (February 1998)
  - *Government trading enterprises performance indicators 1992-93 to 1996-97* (April 1998)

### **Benchmarking**

Copies of benchmarking studies can be obtained from the Government Info Shops and from the Commission's website.

- *International benchmarking of the Australian waterfront* (April 1998)

### **Office of Regulation Review**

Copies are available from the Office of Regulation Review and from the Commission's website.

- *A guide to regulation*, 1st edition (October 1997)

### **Conference/workshop proceedings**

Copies of conference proceedings are available from the Government Info Shops and from the Commission's website.

- *1997 Industry Economics Conference*, Proceedings of the 6th Industry Economics Conference hosted by the Melbourne Business School at the University of Melbourne, 10–11 July 1997 (February 1998)

### **Submissions to other review bodies**

Requests for copies of submissions should be made to the Productivity Commission. The submissions can also be accessed from the Commission's website.

- *Industry Commission Submission to the NSW Dairy Industry Review* (July 1997)
- *Industry Commission Submission to the Review of Higher Education Financing and Policy* (August 1997)
- *Industry Commission Submission to the National Competition Council Review of the Australian Postal Corporation Act 1989* (September 1997)
- *Industry Commission Submission to the Joint Committee of Public Accounts and Audit inquiry into internet commerce* (October 1997)

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- *Industry Commission Submission to the Queensland Dairy Industry Review* (December 1997)
  - *Industry Commission Submission to the Shipbuilding Industry Review* (March 1998)

## Research reports

Unless otherwise indicated, copies of research reports can be obtained from the Government Info Shops and from the Commission's website.

### *Industry Commission research papers*

- *Assessing Australia's productivity performance* (September 1997)
- *Microeconomic reforms in Australia: a compendium from the 1970s to 1997* (January 1998)
- *Micro reform — impacts on firms: aluminium case study* (March 1998)

### *Industry Commission/Productivity Commission staff research and staff working papers*

- *The role of economic instruments in managing the environment*, Lisa Wall, Antonia Cornwell and Steven Bland (July 1997)
- *Small business employment*, John Revesz and Ralph Lattimore (August 1997)
- *Innovation and firm performance in Australian manufacturing*, Robert Phillips (September 1997), not available on the website
- *Productivity growth and Australian manufacturing industry*, Paul Gretton and Bronwyn Fisher (September 1997)
- *Private investment in urban roads*, Glen Hepburn, Michael Pucar, Chris Sayers and Dianne Shields (October 1997)
- *Microeconomic reform and structural change in employment*, Craig de Laine, Kerry Lee and Graeme Woodbridge (October 1997)
- *Services trade and foreign direct investment*, Alexis Hardin and Leanne Holmes (November 1997)
- *Some lessons from the use of environmental quasi-regulation in North America*, Sue Holmes (December 1997), available upon request from the Commission
- *Framework for greenhouse emission trading in Australia*, Antonia Cornwell, Johanna Travis and Don Gunasekera (December 1997)

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- *Reducing the regulatory burden: does firm size matter?*, Ian Bickerdyke and Ralph Lattimore (December 1997)
  - *Trade liberalisation and earnings distribution in Australia*, Greg Murtough, Kate Pearson and Peter Wreford (February 1998)
  - *Public interest tests and access to essential facilities*, Jeff Hole, Andrew Bradley and Patricia Corrie (March 1998), available upon request from the Commission
  - *Directions for State tax reform*, Owen Gabbitas and Damien Eldridge (May 1998)
  - *A comparison of institutional arrangements for road provision*, Barry Abrams, Peter Cribbett and Don Gunasekera (June 1998)

### **Other publications**

- *The Industry Commission's research program 1997-98* (July 1997)
- *Digest of current research projects*, Industry Commission (January 1998)
- *Commonwealth Competitive Neutrality Complaints Office service charter* (April 1998)
- Productivity Commission information kit (May 1998)
- *Productivity Commission service charter* (May 1998)
- *Competitive neutrality: a guide to its application to Commonwealth Government businesses*, Commonwealth Competitive Neutrality Complaints Office (May 1998)
- A quarterly information sheet on Productivity Commission activities, *pc update*, covers key events on the work program, major activities and publications released (Issue 1, June 1998)



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## F Financial statements

**This appendix presents the audited financial statements for the Productivity Commission for 1997-98. The statements have been prepared on an accrual accounting basis.**

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letter from Audit Office



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letter continued

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## Statement by the Chairman

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### Certification

In my opinion, the attached financial statements give a true and fair view of the matters required by Schedule 2 to the Finance Minister's Orders made under section 63 of the *Financial Management and Accountability Act 1997*.

Gary Banks  
Chairman

8 September 1998

**Productivity Commission**  
**REVENUES AND EXPENSES**

*for the year ended 30 June 1998*

	<i>Note</i>	<i>1998</i> \$'000	<i>1997</i> \$'000
<b>NET COST OF SERVICES</b>			
<b>Expenses</b>			
Employees	3	16,399	15,586
Suppliers	3	5,661	6,103
Depreciation and amortisation	3	731	858
Write-down of assets	6	114	-
Net losses from sale of assets		4	83
<b>Total expenses</b>		<b>22,909</b>	<b>22,630</b>
<b>Revenues from independent sources</b>			
Sales of goods and services		61	118
<b>Total revenues from independent sources</b>		<b>61</b>	<b>118</b>
<b>Net cost of services</b>		<b>22,848</b>	<b>22,512</b>
<b>REVENUES FROM GOVERNMENT</b>			
Appropriations used for:			
Ordinary annual services (net appropriations)	10	23,401	27,007
Other services		457	538
Resources received free of charge	4	54	51
<b>Total revenues from government</b>		<b>23,912</b>	<b>27,596</b>
<b>Operating surplus before extraordinary items</b>		<b>1,064</b>	<b>5,084</b>
Net expense from extraordinary items:			
Restructuring	12	-	(36)
<b>Operating surplus</b>		<b>1,064</b>	<b>5,048</b>
Accumulated results at 1 July		1,262	(3,786)
<b>Accumulated results at 30 June</b>		<b>2,326</b>	<b>1,262</b>

The above Statement should be read in conjunction with the accompanying notes.

**Productivity Commission**  
**ADMINISTERED REVENUES AND EXPENSES**

*for the year ended 30 June 1998*

	<i>Note</i>	<i>1998</i> \$'000	<i>1997</i> \$'000
<b>REVENUES</b>			
NON TAXATION			
Other		14	8
<b>Total revenues</b>		<b>14</b>	<b>8</b>
<b>Net contribution to government</b>		<b>14</b>	<b>8</b>
TRANSFERS			
Cash to Official Commonwealth Public Account		(14)	(8)
<b>Net change in administered assets</b>		<b>-</b>	<b>-</b>
Accumulated results at 1 July		-	-
<b>Accumulated results at 30 June</b>		<b>-</b>	<b>-</b>

The above Statement should be read in conjunction with the accompanying notes.

**Productivity Commission**  
**ASSETS AND LIABILITIES**

*as at 30 June 1998*

	<i>Note</i>	<i>1998</i> \$'000	<i>1997</i> \$'000
<b>DEBT</b>			
Other		60	70
<b>Total debt</b>		<b>60</b>	<b>70</b>
<b>PROVISIONS AND PAYABLES</b>			
Employees	7(a)	5,329	4,767
Suppliers	7(b)	225	694
<b>Total provisions and payables</b>		<b>5,554</b>	<b>5,461</b>
<b>EQUITY</b>			
Accumulated results	8	2,326	1,262
<b>Total equity</b>		<b>2,326</b>	<b>1,262</b>
<b>Total liabilities and equity</b>		<b>7,940</b>	<b>6,793</b>
<b>FINANCIAL ASSETS</b>			
Cash		22	20
Receivables	5	4,430	2,946
<b>Total financial assets</b>		<b>4,452</b>	<b>2,966</b>
<b>NON-FINANCIAL ASSETS</b>			
Infrastructure, plant & equipment	6	2,922	3,561
Intangibles	6	408	27
Inventories		4	-
Other		154	239
<b>Total non-financial assets</b>		<b>3,488</b>	<b>3,827</b>
<b>Total assets</b>		<b>7,940</b>	<b>6,793</b>
Current liabilities		2,406	2,160
Non-current liabilities		3,208	3,371
Current assets		4,611	3,205
Non-current assets		3,329	3,588

The above Statement should be read in conjunction with the accompanying notes.

<b>Productivity Commission</b>
<b>STATEMENT OF CASH FLOWS</b>
<i>for the year ended 30 June 1998</i>

	<i>Note</i>	<i>1998</i>	<i>1997</i>
		<i>\$'000</i>	<i>\$'000</i>
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Revenues from appropriations		21,851	24,136
Sales of goods and services		77	91
<b>Total cash received</b>		<b>21,928</b>	<b>24,227</b>
<b>Cash used</b>			
Employees		(15,838)	(18,566)
Suppliers		(6,107)	(5,797)
<b>Total cash used</b>		<b>(21,945)</b>	<b>(24,363)</b>
<b>Net cash used by operating activities</b>	9	<b>(17)</b>	<b>(136)</b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Revenues from appropriations		507	495
Proceeds from sales of plant and equipment		19	62
<b>Total cash received</b>		<b>526</b>	<b>557</b>
<b>Cash used</b>			
Purchase of plant and equipment		(507)	(506)
<b>Total cash used</b>		<b>(507)</b>	<b>(506)</b>
<b>Net cash from investing activities</b>		<b>19</b>	<b>51</b>
<b>Net (decrease)/increase in cash held</b>		<b>2</b>	<b>(85)</b>
add cash at 1 July		20	105
<b>Cash at 30 June</b>		<b>22</b>	<b>20</b>

The above Statement should be read in conjunction with the accompanying notes.

**Productivity Commission**  
**ADMINISTERED STATEMENT OF CASH FLOWS**

*for the year ended 30 June 1998*

	<i>Note</i>	<i>1998</i> \$'000	<i>1997</i> \$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
NON TAXATION			
Other		14	8
<b>Total cash received</b>		<b>14</b>	<b>8</b>
<b>Cash used</b>			
Cash to Official Commonwealth Public Account		(14)	(8)
<b>Total cash used</b>		<b>(14)</b>	<b>(8)</b>
<b>Net cash from operating activities</b>		<b>-</b>	<b>-</b>
add cash at 1 July		-	-
<b>Cash at 30 June</b>		<b>-</b>	<b>-</b>

The above Statement should be read in conjunction with the accompanying notes.

**Productivity Commission**  
**SCHEDULE OF COMMITMENTS**

*for the year ended 30 June 1998*

	<i>1998</i>	<i>1997</i>
	<i>Note</i>	
	<i>\$'000</i>	<i>\$'000</i>
<b>OTHER COMMITMENTS</b>		
Operating leases	11,281	13,211
Other commitments	291	300
<b>Total other commitments</b>	<b>11,572</b>	<b>13,511</b>
<b>BY MATURITY</b>		
One year or less	1,696	1,924
From one to two years	1,599	1,539
From two to five years	4,890	4,653
Over five years	3,387	5,395
<b>Total commitments</b>	<b>11,572</b>	<b>13,511</b>

The above Statement should be read in conjunction with the accompanying notes



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## Productivity Commission

### Notes to and forming part of the Financial Statements for the Year Ended 30 June 1998

<b>Note</b>	<b>Description</b>
1	Objectives and Restructuring
2	Summary of Significant Accounting Policies
3	Net Cost of Services — Expenses
4	Resources Received Free of Charge
5	Financial Assets
6	Non-financial Assets
7	Provisions and Payables
8	Equity
9	Cash Flow Reconciliation
10	Expenditure from Annual Appropriations
11	Receipts and Expenditure of the Reserve Money Fund
12	Restructuring
13	Act of Grace Payments and Waivers
14	Average Staffing
15	Remuneration of Executives
16	Contingencies
17	Financial Instruments

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## **Note 1 Functions and Restructuring**

### **1 (a) *Commission Functions***

The Commission operates as a single program. Its functions are described in Chapter 2 of the Annual Report.

### **1 (b) *Restructure of Administrative Arrangements***

The Productivity Commission was formed on 16 April 1998 following the amalgamation of the Industry Commission and the Economic Planning Advisory Commission (EPAC). This formalised the restructure of administrative arrangements announced by the Government on 11 March 1996 to merge the activities of the Industry Commission, the Bureau of Industry Economics (BIE) and EPAC.

The financial statements and accompanying notes disclose the net cost of services and revenues from the Government for the 12 months, and incorporate the activities of the merged bodies, now known as the Productivity Commission.

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## **Note 2 Summary of Significant Accounting Policies**

### **2 (a) Basis of Accounting**

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report. The statements have been prepared in accordance with Schedule 2 to the Financial Management and Accountability (FMA) Orders made by the Minister for Finance and Administration. Schedule 2 requires that the financial statements be prepared:

- in compliance with Australian Accounting Standards, Accounting Guidance Releases and Urgent Issues Group consensus views; and
- with regard to Australian Statements of Accounting Concepts.

The financial statements have been prepared on an accrual basis, and are in accordance with the historical cost convention, except for certain assets which, where noted, are at valuation. They do not take account of changing money values.

The continued existence of the Commission in its present form is dependent on government policy and continuing appropriations by Parliament for its administration and program activity.

### **2 (b) Change in Accounting Policy**

#### Appropriations

Schedule 2 of the FMA Orders requires that amounts received as appropriations for agency running cost operations are to be recognised according to their nature under the Running Cost Arrangements. Under these arrangements, the Commission receives a base amount of funding by way of appropriation for running costs each year. The base amount may be supplemented in any year by a carry-over from the previous year of unspent appropriations up to allowable limits, as well as by borrowings at a discount against future appropriations of the base amount. The repayment of a borrowing is effected by an appropriate reduction in appropriation actually received in the year of repayment. Interest may also be charged on borrowings.

The Commission recognises:

- as revenue, an amount equal to the base funding spent in the year or carried over to the next year; and
- as a receivable, an amount equal to the amount of unspent appropriation carried over to the next financial year.

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## **2 (c) Rounding**

Amounts have been rounded to the nearest \$1,000 except in relation to the following items:

- act of grace payments and waivers;
- receipts and expenditure of the reserve money fund;
- remuneration of executives; and
- remuneration of auditors.

## **2 (d) Employee Entitlements**

### Leave

All vesting employee entitlements (including annual leave and long service leave) are recognised as liabilities.

The provision for annual leave reflects the value of total annual leave entitlements of all employees at 30 June 1998 and is recognised at the nominal amount. Long service leave is recognised and measured at the present value of estimated future cash flows to be made in respect of all employees at 30 June 1998. In determining the present value of the liability, estimated attrition rates and pay increases through promotion and inflation have been taken into account. The determination of current and non-current portions is based on past history of payments.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken by employees is less than the annual entitlement for sick leave.

### Separation and Redundancy

Provision is also made for separation and redundancy payments in circumstances where the Commission has formally identified positions in excess to requirements and a reliable estimate of the amount of payments can be determined.

### Superannuation Payments

Staff of the Commission contribute to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions amounting to \$1,655,265 (\$2,152,675 in 1996-97) have been expensed in these financial statements.

No liability is shown for superannuation in the Assets and Liabilities as the employer contributions fully extinguish the accruing liability which is assumed by the Commonwealth.

## **2 (e) Taxation**

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The Commission's activities are exempt from all forms of taxation except fringe benefits tax.

**2 (f) *Foreign Currency***

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date.

**2 (g) *Prepayments***

Prepayments consist of amounts paid by the Commission in respect of goods and services which have not been received at 30 June 1998.

**2 (h) *Cash***

Cash includes notes and coins held and deposits held at call with a bank or financial institution.

**2 (i) *Infrastructure, Plant and Equipment***

Asset Recognition Threshold

Infrastructure, plant and equipment consist of items having an individual cost/value in excess of \$2,000. Items costing less than this amount (other than where they form part of a group of similar items which are significant in total) are expensed in the year of acquisition.

Measurement of Assets

Assets are recorded at cost of acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired as a consequence of restructuring administrative arrangements are recognised initially at the amount at which they were recognised in the transferor department's accounts immediately prior to restructuring.

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## Depreciation/Amortisation of Non-Current Assets

All non-current assets having a limited useful life are depreciated/amortised systematically over their estimated useful lives to the Commission, using the straight-line basis, and the rates are reviewed annually. Major depreciation/amortisation periods are:

<i>Asset Class</i>	<i>Total useful life</i>
Infrastructure, plant and equipment	
Leasehold improvements	lease term
Plant and equipment	3 to 10 years
Intangibles	
Computer software	5 years

The aggregate amount of depreciation/amortisation allocated for each class of asset during the reporting period is disclosed in note 6. Depreciation/amortisation rates applied in 1997-98 are consistent with those used in 1996-97.

## Revaluations

Schedule 2 of the FMA Orders requires that infrastructure, plant and equipment be progressively revalued in accordance with the 'deprival method of revaluation' by July 1999 and thereafter be revalued progressively on that basis every 3 years.

The Commission is implementing progressive revaluations as follows:

- plant and equipment was revalued initially in 1997-98; and
- the remaining assets (leasehold improvements and intangibles) are to be revalued in 1998-99.

The financial effect of the move to progressive revaluations is that the carrying amounts of assets will reflect current values and that depreciation charges will reflect the current cost of the service potential consumed in each period (see note 6).

## **2 (j) Inventories**

Inventories are stated at the lower of cost and net realisable value.

## **2 (k) Operating Leases**

Operating lease payments are charged to Revenues and Expenses on a basis which is representative of the pattern of benefits derived from the leased assets.

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## **2 (l) Creditors**

Creditors consist of amounts which were due to be paid by the Commission for goods and services received on or before 30 June 1998, but which were unpaid at that date.

## **2 (m) Insurance**

In accordance with government policy, assets are not insured and losses are expensed as they are incurred.

## **2 (n) Resources Received Free of Charge**

Resources received free of charge are recognised as revenue where the amounts can be reliably measured. Use of those resources is recognised as an expense.

## **2 (o) Agency Items and Administered Items**

Agency assets, liabilities, revenues and expenses are those which are controlled by the Commission, including:

- infrastructure, plant and equipment used in providing goods and services;
- liabilities for employee entitlements;
- revenues from running cost appropriations (or from other appropriations for resources used in providing goods and services);
- revenues from user charges and profits on asset sales deemed to be appropriated pursuant to section 31 of the *Financial Management and Accountability Act 1997*; and
- employee expenses and other administrative expenses (including contracting out) incurred in providing goods and services.

Administered assets, liabilities, revenues and expenses are those which are controlled by the Government and managed by the Commission in a fiduciary capacity.

The purpose of the separation of administered and agency items is to enable the assessment of administered efficiency of the Commission in providing goods and services. Administered items are distinguished from agency items by separate statements for Revenues and Expenses, and Cash Flows.

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**2 (p) *Lease Incentives***

Lease incentives taking the form of ‘free’ leasehold improvements are recognised as debt. The debt is reduced by allocating lease payments between rental expenses and the reduction in debt.

**2 (q) *Financial Instruments***

Accounting policies for Financial Instruments are stated at note 17. The Commission is complying with requirements of *AAS 33 Presentation and Disclosure of Financial Instruments*, which applies to the Commission for the first time in 1997-98.

**2 (r) *Comparative Figures***

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the financial statements.



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### Note 3 Net Cost of Services — Expenses

The aggregate amounts shown in the Revenues and Expenses include the following classes of expenses and revenues:

#### Employee Expenses

	<i>1998</i>	<i>1997</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Remuneration (for services rendered)	15,650	15,564
Separation and redundancy	749	22
	<b>16,399</b>	<b>15,586</b>

#### Supplier Expenses

	<i>1998</i>	<i>1997</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Supply of goods and services	4,193	4,797
Operating lease rentals	1,468	1,306
	<b>5,661</b>	<b>6,103</b>

#### Depreciation and Amortisation

	<i>1998</i>	<i>1997</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Infrastructure, plant and equipment	721	851
Intangibles	10	7
	<b>731</b>	<b>858</b>

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## Note 4 Resources Received Free of Charge

The following resources received free of charge from other agencies have been recognised in the Revenues and Expenses:

	<i>1998</i>	<i>1997</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Financial statement audit fee	40	41
Department of Finance & Administration services	2	10
Other	12	-
	<b>54</b>	<b>51</b>

Financial statement services are provided free of charge to the Commission by the Auditor-General. The fair value of the services was \$40,000 (1996-97 \$41,500). No other services were provided by the Auditor-General.

The following resources received free of charge are not recognised as the costs cannot be measured reliably:

Australian Archives — Storage and disposal facilities.

## Note 5 Financial Assets

### Receivables

	<i>1998</i>	<i>1997</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Appropriations	4,415	2,914
Productivity Commission staff	2	9
Goods and services	13	23
	<b>4,430</b>	<b>2,946</b>

The Commission had no doubtful debts at year end.

Of the total amount outstanding as at 30 June 1998, the following amounts were *overdue* (ie. unpaid after 30 days from date of issue of the debit advice) for the periods shown below:

	1998	1997
	(\$'000)	(\$'000)
Less than 30 days	-	1
30 to 60 days	-	1
	-	<b>2</b>

## Note 6 Non-Financial Assets

### Infrastructure, Plant and Equipment, and Intangibles

Table A Movement summary 1997-98 for all assets irrespective of valuation

Item	Leasehold improvements (\$'000)	Plant and equipment (\$'000)	Total infrastructure, plant and equipment (\$'000)	Intangibles (\$'000)	Total (\$'000)
<b>Gross value (at cost)</b>					
As at 1 July 1997	3,475	2,969	6,444	47	6,491
Additions	6	212	218	391	609
Restructure	-	-	-	-	-
Disposals	-	(462)	(462)	-	(462)
Other movements	(252)	251	(1)	-	(1)
Revaluations	-	(1,211)	(1,211)	-	(1,211)
As at 30 June 1998	3,229	1,759	4,988	438	5,426
<b>Accumulated depreciation/amortisation</b>					
As at 1 July 1997	1,034	1,849	2,883	20	2,903
Restructure	-	-	-	-	-
Disposals	-	(439)	(439)	-	(439)
Charge for reporting period	328	393	721	10	731
Other movements	(73)	72	(1)	-	(1)
Adjustments for revaluations	-	(1,098)	(1,098)	-	(1,098)
As at 30 June 1998	1,289	777	2,066	30	2,096
<b>Net book value as at 30 June 1998</b>	<b>1,940</b>	<b>982</b>	<b>2,922</b>	<b>408</b>	<b>3,330</b>
Net book value as at 1 July 1997	2,441	1,120	3,561	27	3,588

Table B Summary of balances of assets at valuation as at 30 June 1998

Item	Leasehold improvements (\$'000)	Plant and equipment (\$'000)	Total infrastructure, plant and equipment (\$'000)	Intangibles (\$'000)	Total (\$'000)
<b>As at 30 June 1998</b>					
Gross value	-	1,759	1,759	-	1,759
Accumulated depreciation/amortisation	-	777	777	-	777
Net book value	-	982	982	-	982

A revaluation of plant and equipment as at 30 June 1998 was undertaken by Mr J Collins CPV, an employee of the Australian Valuation Office, a body independent to the Commission. The 'deprival method of valuation' was adopted as the basis of valuation, which was estimated by calculating the written down replacement cost.

Table C Summary of valuation adjustments as at 30 June 1998

	1998 (\$'000)	1997 (\$'000)
Valuation		
Cost adjustment	1,211	-
Depreciation adjustment	(1,097)	-
<b>Net write-down on revaluation</b>	<b>114</b>	<b>-</b>

## Note 7 Provisions and Payables

### 7 (a) Liabilities to employees

	1998 (\$'000)	1997 (\$'000)
Salaries and wages	840	167
Leave	4,213	4,546
Superannuation	59	23
Staff redundancies	160	22
Other	57	9
	<b>5,329</b>	<b>4,767</b>

### 7 (b) Suppliers

	1998	1997
	(\$'000)	(\$'000)
Trade creditors	225	694
	<b>225</b>	<b>694</b>

### Note 8 Equity

	1998	1997
	(\$'000)	(\$'000)
<b>Opening balance at 1 July</b>	1,262	(3,786)
Operating result	1,064	5,048
<b>Balance at 30 June</b>	<b>2,326</b>	<b>1,262</b>

### Note 9 Cash Flow Reconciliation

A reconciliation of net cost of services to net cash provided by operating activities is shown below:

	1998	1997
	(\$'000)	(\$'000)
<b>Net cost of services</b>	<b>(22,848)</b>	<b>(22,512)</b>
Revenue from government for operating activities	23,405	27,101
Depreciation and amortisation	731	858
Loss on sale of assets	4	83
Stocktake adjustment	-	(23)
Assets expensed on restructure	-	13
(Increase)/decrease in financial assets	(1,484)	(2,941)
Decrease/(Increase) in non-financial assets	81	54
(Decrease)/Increase in provisions and payables	562	(2,980)
Increase/(Decrease) in creditors	(572)	221
Decrease in debt	(10)	(10)
Revaluation adjustment	114	-
<b>Net cash used by operating activities</b>	<b>(17)</b>	<b>(136)</b>

## Note 10 Expenditure from Annual Appropriations

	<i>1998 Budget Estimates</i>	<i>1998 Additional Appropriations</i>	<i>1998 Total Appropriations</i>	<i>1998 Actual Expenditure</i>	<i>1997 Actual Expenditure</i>
	<i>Act No. 1</i>	<i>Act No. 3</i>			
	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<b>Ordinary Annual Services of Government Appropriation Act Running Costs</b>					
Division 678 - Industry Commission	24,410,000	1,418,000	25,828,000	17,403,336	24,582,823
Division 680 - Productivity Commission	-	-	-	4,254,615	-
	<u>24,410,000</u>	<u>1,418,000</u>	<u>25,828,000</u>	<u>21,657,951</u>	<u>24,582,823</u>
<b>Other Services</b>					
Contribution to Impact/Cops project					
Division 678 - Industry Commission	457,000	331,000	788,000	379,100	206,667
Division 680 - Productivity Commission	-	-	-	408,900	-
	<u>457,000</u>	<u>331,000</u>	<u>788,000</u>	<u>788,000</u>	<u>206,667</u>
<b>Total - Appropriation Acts Nos 1 and 3</b>	<b>24,867,000</b>	<b>1,749,000</b>	<b>26,616,000</b>	<b>22,445,951</b>	<b>24,789,490</b>

### Reconciliation of Commission Running Costs

	<i>1998</i>	<i>1997</i>
	<i>(\$)</i>	<i>(\$)</i>
<b>Running cost appropriation spent</b>		
Industry Commission	17,403,336	24,582,823
Productivity Commission	4,254,615	-
	<u><b>21,657,951</b></u>	<u><b>24,582,823</b></u>
less: appropriation under FMA Act section 31	(89,422)	(158,306)
add: carryover 30 June	4,415,471	2,583,000
less: carryover 1 July	(2,583,000)	-
Running Costs Revenue (included in Statement of Revenue and Expenses)	<u><b>23,401,000</b></u>	<u><b>27,007,517</b></u>
Revenue from government - ordinary annual services (per Statement of Revenues and Expenses)	<b>23,401,000</b>	<b>27,007,517</b>

## Note 11 Receipts and Expenditure of the Reserve Money Fund

Transactions under the trust fund relate to incapacity payments to current employees in accordance with determinations made, and funds issued, by COMCARE. Legal authority for such transactions is section 20 of the *Financial Management and Accountability Act 1997*.

	1998	1997
<b>Services for other governments and non FMA bodies</b>	(\$)	(\$)
Opening balance	227,820	124,186
Receipts	30,827	103,634
	<b>258,647</b>	<b>227,820</b>
Expenditure	-	-
Investments by DoFA	(250,000)	-
Closing balance	<b>8,647</b>	<b>227,820</b>

## Note 12 Restructuring

During 1996-97, the Commission assumed responsibility for the assets and liabilities of EPAC as part of a restructuring of administrative arrangements.

In respect of the operations assumed, the following assets and liabilities were recognised at the date of transfer:

	1998	1997
	(\$'000)	(\$'000)
<b>Assets</b>		
Infrastructure, plant and equipment	-	116
	-	<b>116</b>
<b>Liabilities</b>		
Provisions	-	(152)
	-	<b>(152)</b>
<b>Net liabilities assumed</b>	-	<b>(36)</b>

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### **Note 13 Act of Grace Payments and Waivers**

#### *13 (a) Act of grace payments*

No act of grace payments were made during the reporting period.

#### *13 (b) Waiver of rights to payment of moneys*

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997*.

### **Note 14 Average Staffing**

The average staffing level is in respect of all employees of the Commission, including Holders of Public Office.

	<i>1998</i>	<i>1997</i>
	<i>No</i>	<i>No</i>
Average staffing level	<b>218</b>	<b>233</b>

Further information on staffing levels (including salary movements) is provided in Appendix A of the Annual Report.



## Note 15 Remuneration of Executives

The amounts of total remuneration received/receivable by Holders of Public Office and senior staff, where such amounts exceed \$100,000 during the year, are shown in the table. The number of executives include those employed part-time, for part of the year, or on an acting basis.

For 1997-98 total remuneration includes salary, superannuation, performance pay and other package components such as executive vehicle. For 1996-97, total remuneration excludes performance pay as it was only required to be disclosed in aggregate.

	<i>1998</i>	<i>1997</i>
<b>Total remuneration</b>	<i>No.</i>	<i>No.</i>
\$100,000 to \$110,000	2	6
\$110,000 to \$120,000	4	8
\$120,000 to \$130,000	11	6
\$130,000 to \$140,000	1	-
\$140,000 to \$150,000	3	2
\$150,000 to \$160,000	1	2
\$160,000 to \$170,000	1	2
\$170,000 to \$180,000	2	2
\$180,000 to \$190,000	1	-
\$200,000 to \$210,000	-	1
	<b>26</b>	<b>29</b>
Aggregate amount of total remuneration of executives shown above	\$3,448,144	\$3,856,190
Aggregate amount of performance pay during the year to executives shown above	\$128,493 <sup>1</sup>	\$186,713 <sup>2</sup>
Aggregate amount of separation and redundancy payments during the year to executives shown above <sup>3</sup>	\$91,438 <sup>2</sup>	-

1 Included in total remuneration

2 Excluded from total remuneration

3 Excludes accrued leave

## Note 16 Contingencies

To the best of its knowledge, the Commission was not exposed to any unrecognised liabilities which would have any material effect on the financial statements.

## Note 17 Financial Instruments

### 17 (a) Terms, conditions and accounting policies

Financial Instrument	Note	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms & conditions affecting amount, timing and certainty of cash flows)
Financial Assets		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash		Deposits are recognised at their nominal amounts.	The Commission maintains advance accounts which bear no interest.
Receivables	5	These receivables are recognised at nominal amounts due less any provision for doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	Credit terms are net 30 days (1997: 30 days).
Fees receivable		Fees accrue and are recognised at the time services are performed.	As for receivables.
Financial Liabilities		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Lease incentives		The lease incentive is recognised as a liability on receipt of the incentive. The amount of liability is reduced on a straight-line over the life of the lease by allocating lease payments between rental expense and the reduction of the liability.	The Commission received a fitout incentive on entering a property operating lease in September 1996. Lease payments are made monthly.
Trade creditors	7	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	Settlement is usually made net 30 days.

### 17 (b) Interest rate risk

The Commission does not have any interest-bearing financial assets or liabilities.

### 17 (c) Net fair values of financial assets and liabilities

The net fair values of cash and non-interest-bearing financial assets, lease incentive liability and trade creditors equate to their carrying amounts.

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17 (d) *Credit risk exposures*

The Commission's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Assets and Liabilities.

The Commission has no significant exposures to any concentrations of credit risk.

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