CHAMBER OF COMMERCE AND INDUSTRY
WESTERN AUSTRALIA

COMPETITION POLICY

January 1999

A submission to the Productivity Commission's inquiry into the impact of National Competition Policy on regional and rural Australia

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1 INTRODUCTION AND SUMMARY

1.1 Background

Treasurer Peter Costello has instructed the Productivity Commission to conduct an inquiry into the impact of National Competition Policy on regional Australia.

Its terms of reference are to report on:

- the impact of competition policy reforms on the structure, competitiveness and regulation of major industries 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
- 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 has also been asked to examine other influences on rural and regional Australia, including international trade, foreign investment and globalisation.

In response to the Terms of Reference, the Commission has stated that it will pay particular attention to:

- economic and social effects of the national competition policy reform package on rural and regional Australia and on the wider Australian economy;
- differences between rural and metropolitan Australia in the effects of those reforms.

1.2 Overview

The Chamber of Commerce and Industry of WA (CCI) believes that regional and rural Australia stands to benefit substantially from the implementation of National Competition Policy.

Those industries which represent a high proportion of economic activity in regional Australia have for many years been disadvantaged by high costs and restrictions on activity in monopolistic or over-regulated industries.

In Western Australia the benefits of competition-oriented reforms are already manifest across a range of economic activities, most evidently in the reductions in regional power and transportation costs which have attended deregulation in recent years, and the rapid growth of investment and infrastructure which those changes have helped to stimulate. These benefits have flowed disproportionately to regional WA.

However, CCI is also aware that the pace of economic change across the Australian economy has in some cases caused uncertainty and distress. While these concerns are apparent across Australia, they have perhaps been most evident in regional and rural areas.

There appears to be some confusion and misunderstanding in the broader community of what National Competition Policy actually entails, and the changes it is likely to initiate. This has three dimensions.

Firstly, the potential benefits of competition policy are often poorly understood. For example, many of the complaints of smaller and regional businesses about the behaviour of government agencies and business enterprises relate to issues which could be addressed under competition policy (for example, excessively onerous regulation, lack of competitive neutrality and conflict of interest where an agency is both an industry regulator and a market participant). The fact that competition policy offers possible redress for businesses complaining of such behaviour is not widely known.

Secondly, the potential disadvantages of competition policy are often exaggerated, and competition policy and related reforms are often mistakenly (and sometimes, perhaps, deliberately) blamed for developments which in truth have little or nothing to do with government policy on competition. In Western Australia competition policy has been blamed for a school's decision to charge users of its sports oval.

Thirdly, there is little clear distinction made between specific policy measures flowing from the inter-governmental agreements which comprise National Competition Policy, related but separate measures such as tariff reductions and privatisation, and issues which are loosely related but have wider dimensions, such as globalisation. The terms of reference of the current inquiry may reflect the fact that these issues are often viewed as synonymous.

There are aspects of National Competition Policy which have specific or disproportionate implications for regional and rural Australia. In particular concerns have been raised about:

- possible impacts on rural product marketing authorities and similar arrangements
- the extent to which the costs of essential goods and services might rise if cross-subsidy arrangements to finance the provision of community service obligations are removed or undermined
- the withdrawal of private sector businesses from regional communities, and increasing competition from large, metropolitan-based businesses
- the removal of government assistance and protection from some industries (although not all of these processes flow directly from National Competition Policy, they are clearly related to it)
- reductions in employment in regional and rural areas in government businesses enterprises, general government agencies and local authorities
- the risk that regional and rural areas might not share the benefits of innovation and technical change, especially in telecommunications

Further, regional and rural communities and economies have characteristics which mean that the potential impact of economic changes, whether driven by competition policy or other factors, can be very different from the effects of similar pressures in metropolitan areas.

This submission addresses the benefits of competition policy and suggests some ways in which it can be implemented in such a manner that the concerns and characteristics of regional communities can be appropriately accommodated.

2 THE EVOLUTION OF COMPETITION POLICY

Competition policy comprises a raft of related economic policies and reforms based on the assumption that, in general, the performance of Australia's economy and the welfare of its citizens will be improved if competition in markets for goods and services is increased.

Its objective is to use competition as a means to an end, rather than viewing competition as an end in itself. The underlying benchmark used in evaluating competition-based reform is whether reform will result in a net benefit to the community.

Competition policy was not invented by Fred Hilmer. Governments at all levels throughout Australia and overseas have for years undertaken reforms such as deregulation, reform of government business enterprises, and measures to prevent anti-competitive behaviour with the explicit intention of improving economic performance by enhancing competition.

But while Hilmer's 1993 Report on National Competition Policy did not initiate Australian competition policy, it did make a vital contribution to its evolution. Its key contributions were to propose a co-ordinated, systematic and uniform approach to competition policy across all government jurisdictions, and to recommend mechanisms designed to address the institutional and political factors which can lead governments and regulators to adopt anti-competitive measures which are not in the public interest. In particular, it proposed:

- the establishment of a clear principle that anti-competitive regulation and legislation should be permitted only when it can be demonstrated to be in the interest of the community, and cannot be achieved by other means; and
- the establishment of 'arms-length' bodies to oversee and advise on the general implementation of competition policy (the National Competition Council) and regulate its detailed application (the Australian Competition and Consumer Commission).

2.1 National Competition Policy

The 1993 Hilmer Report formed the basis for the three inter-governmental agreements signed in 1995 which underpin current National Competition Policy:

- the Conduct Code Agreement along with the Competition Policy Reform Act and various State and Territory legislation extended coverage of part IV of the Trade Practices Act to all businesses irrespective of their legal form or ownership;
- the Competition Principles Agreement set standards on structural reform of public monopolies, reviews of anti-competitive legislation and regulation, prices oversight, access to essential infrastructure, competitive neutrality, and local government;
- the Agreement to Implement the National Competition Policy and Related Reforms set out conditions for financial transfers to the States and local government in return for implementing competition reforms.

2.1.1 Key Elements of National Competition Policy

The key measures contained in National Competition Policy are:

- small businesses and government-owned businesses have been brought within the remit of the Trade Practices Act
- government owned businesses which compete with the private sector are to enjoy no special advantages and suffer no disadvantages as a result of public ownership ('competitive neutrality')

- public monopolies are to be reformed, their commercial and regulatory functions separated and their pricing policies subject to oversight
- all regulations which restrict competition are to be reviewed in order to determine whether regulation delivers a net benefit to the community
- under the National Access Regime, businesses have a legal mechanism to obtain essential services from other businesses' infrastructure (mainly, but not exclusively, government-owned infrastructure such as railways)
- state governments receive payments for compliance with national competition policy

2.1.2 How Competition Policy Is Applied

National Competition Policy is applied by governments in all jurisdictions:

- governments are to conduct reviews of legislation to determine whether their anti-competitive regulations and legislation yield net benefits for the community
- governments are to restructure their business activities in order to ensure competitive neutrality and to review monopoly structures, especially prior to privatisation
- governments retain the power to exempt agencies from the Trade Practices Act
- the ACCC administers the Trade Practices Act and has the power to authorise practices which are, or may be, in breach of the Act
- The NCC provides analysis and policy advice, including advice to the Commonwealth on whether the States have complied with their National Competition Policy obligations and are entitled to payments under the Implementation Agreement. The NCC also evaluates whether infrastructure should be 'declared' for access and makes recommendations on whether access regimes should be 'certified' as effective

2.1.3 The Public Benefit Principle

The overriding objective of National Competition Policy is to structure markets in such a way that the community as a whole receives the greatest benefit. In this respect, competition is a means to an end, not an end in itself.

However, competition policy is founded on a presumption that, unless there are strong reasons to restrict activity in a market, competition is the most effective means of maximising public benefit. Hence, in the application of competition policy, the burden of proof lies with advocates of regulation or restricted market access to demonstrate both that a competitive market yields fewer community benefits than an uncompetitive one, and that the benefits attributed to regulation or restricted access cannot be achieved in any other way.

This presumption in favour of competition has a sound foundation in economic theory and in observable experience in Australia and overseas.

The public benefit principle not only has intrinsic merit; it is also a useful focus for regulation and market structure review, and helps to check the institutional and political pressures which may lead to inappropriate regulation.

Stigler (1971) and others were among the first to offer a theory of regulation which analysed the behaviour of regulators and revealed the source of inefficiencies[1]. He argued that compact, well-organised groups (usually producers) tend to benefit more from regulation than broad,

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[1] Winston C., Economic Deregulation: *Days of Reckoning for Microeconomists*, Journal of Economic Literature, Vol. XXXI (September 1993) page 1267.

diffuse groups (usually consumers), and that regulatory policy will seek to preserve a politically optimal distribution of rents across a coalition of well-organised groups.

In particular, he argued that businesses will form coalitions to lobby for government actions which provide them with direct subsidies, which constrain competition from similar or substitute products, which permit collusion and other forms of price fixing, or which prevent the entry of new competitors into a market. In other words, it is logical and predictable that businesses will ask government to adopt policies which enable them to achieve sustainable monopoly profits.

Such policies are unlikely to be countered by broad opposition from consumers because the individual costs of a particular regulation for a particular consumer is typically quite small, even if in aggregate the cost may be large.

The regulatory instruments available for this purpose are many and include quotas, licences and subsidies, each of which can lead to wealth transfers from consumers to small groups of producers.

WA's Potato Market Act appears to illustrate this theory quite well. It results in a transfer from consumers to producers of around $12 million a year[1]. However, while the benefit to each potato producer in the State is around $57,000 a year, the cost to each consumer for a kilogram of potatoes is around 25 cents. So few consumers spend their time and money lobbying for Western Australia's potato marketing arrangements to be dismantled, but producers lobby vigorously for it to be maintained.

While such transfers are less visible than budget-funded subsidies, their costs are just as large and as real.

Regulation theory also suggests that political redistribution is sensitive to deadweight losses. Regulation to prevent competition in the absence of market failure reduces the total amount of resources available to be distributed and so there is an internal check to the system. In other words, regulation to distribute rents between interest groups will continue to the point where the deadweight loss became so large that the political gains from redistribution are outweighed by the political costs arising from reduced economic welfare.

A distinction can be drawn between the motivation of politicians and of bureaucracies. Stigler also observed a tendency for professional regulators to be 'captured' by the industries they regulate. As with political lobbying, it is in the interests of business to devote significant resources to influencing the opinions of those public servants whose decisions could influence or determine their regulatory environment. The regular change of personnel between regulators and regulated industries is often cited as evidence supporting this proposition.

Institutionally as well as personally, single industry regulators have a stake in ensuring that their industries remain regulated. Deregulation of the industries they control would effectively make their jobs unnecessary.

National Competition Policy contains a number of measures to counter these institutional and political tendencies towards regulation which is not in the public interest.

Firstly, the burden of proof lies clearly with advocates of monopolistic or anti-competitive markets to demonstrate that such restrictions provide a benefit to the community as a whole.

[1] Industry Commission Report 1995, The Growth and Revenue Impactions of Hilmer and Related Reforms.

Secondly, the arms-length oversight of the application of National Competition Policy through the National Competition Council, and the implementation of trade practices regulation through a broad-based agency (the ACCC), should in theory reduce opportunities for political pork-barrelling and bureaucratic capture.

In many jurisdictions, these institutional safeguards have been reinforced by the introduction of independent cross-industry regulators and bodies to investigate complaints about competitive neutrality which are separate from the agency being complained about.

2.1.4 Public Benefit in Practice

The common perception that competition policy focuses on competition for its own sake, or at least only on economic benefits, does not match either the record or the stated procedures of the agencies involved. For example, the Competition Principles Agreement states that:

> *"Without limiting the matters that may be taken into account, where this Agreement calls:*
>
> *(a) for the benefits of a particular policy or course of action to be balanced against the costs of the policy or course of action; or*
>
> *(b) for the merits or appropriateness of a particular policy or course of action to be determined; or*
>
> *(c) for an assessment of the most effective means of achieving a policy objective;*
>
> *the following matters shall, where relevant, be taken into account:*
>
> *(d) government legislation and policies relating to ecologically sustainable development;*
>
> *(e) social welfare and equity considerations, including community service obligations;*
>
> *(f) government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity;*
>
> *(g) economic and regional development, including employment and investment growth;*
>
> *(h) the interests of consumers generally or of a class of consumers;*
>
> *(i) the competitiveness of Australian businesses; and*
>
> *(j) the efficient allocation of resources."*

The ACCC recognises a range of matters as constituting a public benefit. It has issued a brochure outlining the authorisation process and in that brochure it lists a range of public benefits including:

> *(a) "economic development, eg. In natural resources, through encouragement of exploration, research and capital investment;*
>
> *(b) fostering business efficiency, especially where this results in improved international competitiveness;*
>
> *(c) industry rationalisation resulting in more efficient allocation of resources*

and in lower or contained unit production costs;

(d) *expansion of employment or prevention of unemployment in efficient industries and employment growth in particular regions;*

(e) *industrial harmony;*

(f) *assistance to efficient small business, eg. guidance on costing and pricing or marketing initiatives which promote competitiveness;*

(g) *improvement in the quality and safety of goods and services and expansion of consumer choice;*

(h) *supply of better information to consumers and business to permit informed choices in their dealings;*

(i) *promotion of equitable dealings in the market;*

(j) *promotion of industry cost savings resulting in contained or lower prices at all levels in the supply chain;*

(k) *development of import replacements;*

(l) *growth in export markets;*

(m) *steps to protect the environment."*

Contrary to the impression given by some critics of competition policy, the public benefit tests applied by various jurisdictions are amply broad and flexible to incorporate non-economic considerations.

Indeed, it is precisely this breadth and flexibility which has initiated some criticism of the public benefit test. Determining public benefit is not an entirely quantifiable or objective process. The outcome of competition policy reviews depends on the relative weight given to each of the factors affecting public benefit, the importance given to non-quantifiable objectives, and, in some cases, plain political expediency.

The public benefit test may not provide purely objective or deterministic means of evaluating the impact of government activity. But this is both inevitable and desirable, as non-quantifiable factors affecting public benefit should not be disregarded simply because they cannot be measured.

In summary, the public benefit test provides a framework for systematic and structured evaluation of government activity which requires governments to justify anti-competitive regulation and legislation.

2.2 The Wider Micro-Economic Reform Agenda

Antipathy to competition policy is often associated with antipathy to the wider micro-economic reform agenda. In some cases, competition policy has been blamed for government decisions which are in no way related, or at least only distantly related, to the terms of National Competition Policy. In particular:

- competition policy does not apply to the labour market (an omission which many believe was a mistake)

- competition policy does not cover international relations, the liberalisation of international trade and tariff reductions (except in the broadest sense as regulation which should be subject to a public benefit test), or agreements on foreign investment or capital flows, although government initiatives in these areas are clearly motivated by considerations similar to those which drive National Competition Policy.
- competition policy does not require governments to privatise agencies, although it does require them to corporatise and possibly restructure public monopolies prior to privatisation. It can also in some instances increase the pressure for privatisation – for example, in Western Australia the case for privatisation of Westrail stems in part from perceptions that it would be extremely difficult for the agency to survive as a government-controlled entity in a competitive environment.
- competition policy does not cover taxation structures, except in the narrow sense that competitive neutrality will often require the imposition of tax-equivalent payments on government business enterprises.
- competition policy does not prohibit the provision of community service obligations, either through government business enterprises or through the private sector. It does, however, have ramifications for the funding and delivery of those services (see section 4.1 on page 11).

3 COMMUNITIES IN REGIONAL AND RURAL AUSTRALIA

Communities and local economies in regional and rural Australia have some very different characteristics to those in the larger metropolitan areas.

1. Regional and rural towns and shires are often reliant on a single industry or limited range of industries to generate a large proportion of local income and employment. Consequently, the economic fortunes of such communities can fluctuate much more markedly than the economies of cities and large centres with more diverse economic bases. This process can be further exacerbated if the dominant local industry is mining or agriculture, in which output prices fluctuate markedly and production can be affected by climatic and other natural conditions, or by the depletion of non-renewable resources.

2. Local economies are typically quite small, and as a result often support a relatively small number of businesses, especially businesses servicing local consumers. Competition between those businesses may be less intense than in metropolitan and larger centres where consumers have a wide choice of businesses selling similar products.

3. Regional and rural Australians often have access to a more limited range of government-provided services than households in larger centres. Further, those services are sometimes more expensive to deliver. Cost issues may be addressed by higher per capita government outlays on the provision of services such as primary education or roads, the provision of special government subsidies or incentives for regional service delivery (such as for doctors to locate services in regional areas) or by internal cross-subsidies between different groups of customers in the case of government business enterprises.

4. The disproportionately large contribution of export-oriented agriculture, mining and tourism to Australia's regional and rural areas means that they are particularly exposed to changes in the international economy and also to government policies which harm or benefit exporters. In particular, measures which push up input costs (monopoly pricing of transport and energy, import tariffs on vehicles, etc) fall most heavily on exporters who are price takers on world markets. Many communities in regional and rural Australia have most to gain from the implementation of competition policy reforms which improve the efficiency and reduce the costs of essential infrastructure and services used by exporters.

5. Conversely, parts of mining and, more especially, agriculture have historically been amongst the more heavily regulated industry sectors within the Australian economy, subject to production and marketing regulation and, in some cases, protection from direct competition from imports. Communities whose local economies are heavily reliant on industries which benefit from regulation or protection potentially have the most to lose from the implementation of National Competition Policy, at least in the short term.

6. Local authorities in regional and rural Australia may also be very different from their metropolitan counterparts. They have fewer employees, fewer resources and may lack the expertise to apply competition policy principles properly. They may have fewer businesses to choose from if contracting services out, and have sometimes expressed preferences for contracted-out activities to be performed by local businesses or at least businesses with locally based employees. Their revenue bases reflect the volatility of local economies identified above, and in the more remote areas they may be heavily dependent on grants for revenue (in some remote areas in WA, local authorities raise less than 20 per cent of their revenue needs). This local variant of vertical fiscal imbalance can reduce the incentives for local authorities to implement cost-saving measures (they do not raise the money they spend), a process further exacerbated because their share of the States' payments for implementing competition policy is not guaranteed and is distributed at the States' discretion.

These features of smaller local communities and their economies have for decades meant that the fortunes of regional and rural Australia fluctuate much more widely than those of larger and more diverse metropolitan areas. Such fluctuation is inescapable and not necessarily undesirable – the capacity of the Australian economy to respond quickly to new opportunities is a source of strength and contributes to overall output and employment, even if the corollary is that sometimes, industries and regions go into decline.

4 ISSUES OF PARTICULAR CONCERN TO REGIONAL COMMUNITIES

The following sections discuss a range of specific issues relating to competition policy which have particular relevance for regional and rural Australia.

4.1 Community Service Obligations

For many years Australian governments have used a range of explicit and implicit regulations and obligations imposed on government agencies in order to pursue a range of social, political and economic objectives. These have included:

- the location of general government and government commercial activities in regional or non-CBD locations in order to further regional development.
- obligations on agencies providing goods and service to provide services to a minimum standard or maximum price regardless of the cost of delivery, usually financed by cross-subsidies from other customers.
- obligations to provide free or below-cost services to particular groups of customers, such as students, pensioners or retirees.

Governments still have the option of delivering these community service obligations under National Competition Policy, but it does have implications for the way in which these services are delivered.

4.1.1 Cross Subsidies

In particular, the use of internal cross-subsidies as a means of financing community service obligations is harder and less appropriate in a competitive environment. This should not be viewed as a disadvantage of competition policy. The use of cross-subsidies has never been an optimal means of financing community service obligations.

The key arguments against internal cross subsidies are examined below.

Efficiency

If a business is forced to supply goods or services to some customer groups at a price below the cost of supply, it must recoup the losses by charging other customer groups more than the cost of supply. This has several implications.

Subsidised and subsidising consumers will base their consumption decisions on price signals which do not reflect the cost of the goods and services they use. Subsidised users tend to consume more of the subsidised goods and services than they otherwise would; subsidisers consume proportionately less. Allocative efficiency[1] will be undermined because resources are diverted away from their optimal use to meet the new demand patterns. Producers, in responding to these consumers' demand signals (or the dictates of government) will adjust their investment and resource allocation decisions. Dynamic efficiency[2] is also impeded.

In theory, the most efficient means of ensuring that high-cost users get access to essential goods and services is to provide them with sufficient income to do so, but charge them cost-based prices. For example, if it costs $200 more to supply a service to a country than a

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[1]Allocative efficiency is the extent to which economic resources are deployed in such a way to derive maximum benefit. An important condition is that prices reflect underlying costs.

[2]Dynamic efficiency describes the efficient allocation of resources over time, including through innovation and exploiting new opportunities.

metropolitan household with water, a payment of $200 will ensure that the high-cost household can use the service as intensively as the metropolitan one should it wish. But if it chooses to spend some of the money on something else the metropolitan (subsidising) household is no worse off while the country household is better off (presuming it would prefer to spend more money on something else and less on water, given that water is relatively expensive). Both households have equal opportunity to access the essential service, both are choosing to buy the mix of goods and services they most want, and both are basing their consumption choices on prices which reflect the true cost of supply.

This is seldom adopted as a means of fulfilling community service obligations, for three reasons.

Firstly, there is a political aversion to charging different groups very different prices for similar essential services, regardless of any measures adopted to offset disadvantages in access.

Secondly, such subsidies would be blunt instruments, necessarily over-compensating some consumers and under-compensating others.

Thirdly, in the case of some essential services, it disregards externality effects - for example the network externalities[1] associated with telephone networks.

Increasingly, governments are adopting direct general government funding paid to the operator as an alternative to internal cross-subsidies as a means of subsidising essential goods and services for high-cost consumers. While this is a price not an income subsidy, and high-cost users still base demand on prices which do not reflect true costs, it has the merit that at least low-cost users' demand decisions are based on prices which reflect costs.

It also has other benefits described below.

Competition

The requirement on many essential service providers to finance community service obligations through cross-subsidies from low-cost to high-cost customers can be a major impediment to effective competition. Indeed, essential service providers have often cited such requirements as a justification for regulation to prevent competition, and it may be in the interests of essential service providers to exaggerate the costs of fulfilling community service obligations in order to justify inefficiency or ensure the continuation of protection or other market privileges.

Competition is impeded in both low-cost and high-cost markets.

Low-cost customers are required to pay more than the cost of the goods and services they use in order to subsidise high-cost users. This means that a competitor with the same cost structure could offer to supply these customers at a lower price and still make a profit. Either the cross-subsidising supplier will lose the profitable share of the market to a competitor ("cherry picking"), or it must be protected from competition. Generally, the latter is adopted.

In high-cost markets community service obligations frequently take the form of uniform tariff structures applying prices which are below the cost of supply. This means that a competitor

[1]An externality is an effect (cost or benefit) on a third party of a transaction between two other parties for which the third party is not compensated. In telephony systems the network externality reflects the benefits to existing users of the maximum possible number of other users being on the network. So if a household decides to subscribe to a telephone service, this benefits not only members of that household but also existing network users who want to telephone them.

with a lower cost structure than the subsidising provider is unable to gain entry to a market which would otherwise be profitable. This effect of pricing-out efficient users has been blamed, for example, for the failure of small scale and alternative energy producers to gain access to markets in remote areas and country towns where there are no economies of scale associated with the provision of electricity through a national or state-wide grid.

Meeting the costs of community service obligations through transparent government transfers goes a long way towards reducing these difficulties, especially if subsidies are available equally to all potential suppliers, and even more so if suppliers compete for subsidised markets. It means that low-cost users can be charged prices which reflect the cost of supply, so there is no justification for inhibiting competition. High-cost users' subsidies are not an impediment to entry to the market for efficient competitors if they have equal access to subsidies. If the provision of subsidised services is contestable, it also means that the community's cost of fulfilling its community service obligations is minimised through competition between suppliers.

Transparency

Community service obligations are generally imposed by government as a means of fulfilling social objectives. They necessarily entail costs. It is important for the community to understand exactly what costs it is incurring and what benefits it is receiving when it imposes community service obligations. It is only on this basis that it can make an informed choice about the level and nature of community service obligations which it wishes to sustain.

When community service obligations are financed through cross-subsidies, accurate measurement of costs and benefits is extremely difficult. For example, the difficulty of estimating the real cost of community service obligations is a recurring theme in state and federal governments' privatisation and corporatisation programs. This problem becomes greater when organisations' community service obligations become vague or contradictory so their benefits are hard to measure.

Paying for community service obligations through taxation revenues transferred from general government rather than cross-subsidies between customers does not impose a new cost on the community. It only means that the community is financing its objectives in a different way. It also means that the true cost of community service obligations is readily observable, and may allow those obligations to be financed in a more equitable way (see below).

Equity

When the cost of community service obligations is met by internal cross-subsidies from profitable to unprofitable customers, the distribution of that cost cannot be allocated according to principles of equity. Cross-subsidies generally occur between intensive and non-intensive users and/or between low-cost and high-cost users. There is no correlation between the extent to which a user contributes to or benefits from a subsidy and any usual concept of ability to pay. Indeed it is plausible that households with low incomes are, at least proportionately, relatively intensive users of the types of essential goods and services which governments typically subject to community service obligations.

In contrast, the tax bases of the States are probably somewhat skewed towards being progressive (taking proportionately more from the incomes of the higher-paid than the lower-paid), while the Commonwealth's tax base is explicitly so. Financing community service obligations in proportion to the tax base rather than service provider's revenue base should deliver a more progressive means of meeting the cost of social obligations, especially in the case of Commonwealth Government subsidies.

Maintaining Service Range and Quality

Finally, a service provider obliged to provide loss-making services to high-cost customers has no incentive to provide a quality or range of services other than the minimum required by government. Unless the minimum standards mandated by government are constantly changing, it is likely that the quality and range of services provided to subsidised consumers will not expand and improve at the same rate as services offered to profitable customers. This is of particular concern in industries like telecommunications, where technological change and the emergence of new types of services and equipment mean that the range and quality of services potentially on offer has widened enormously in recent years, while the real cost of services has declined for most groups of customers.

Market-based pricing mechanisms which enable suppliers to recover costs and to respond to consumer demand can, if properly implemented, provide appropriate incentives for service providers to supply new products in high-cost as well as low-cost areas.

Conclusions

It is both highly likely and desirable that Governments will continue to ensure that remote and regional communities have access to certain essential facilities at prices which are not prohibitive, even if the provision of those services is not profitable. The key question is not whether governments will or should support community services for potentially disadvantaged customers, but how they should achieve this objective.

In most cases the financing of community service obligations through internal cross-subsidies is not the best way to deliver such services. It leads to economic inefficiency, reduced competition and higher average costs. It lacks transparency and equity, and can lead a decline over time in the quality and quantity of services provided to high-cost relative to low-cost users.

In general, when governments wish to ensure that some consumers pay below-cost prices for access to goods and services, this should be achieved through a transparent and contestable subsidy paid for from general government revenues.

4.2 Marketing Authorities

Marketing Authorities which manage or regulate the provision of particular products have long been a feature of Australia's rural industries, but their number and powers have been in decline over many years. As is the case for many other micro-economic reforms, while National Competition Policy explicitly deals with the role of Marketing Authorities, it did not initiate their decline. Rather, National Competition Policy codifies and rationalises processes for reviewing Marketing Authorities which were being undertaken anyway by governments as part of their established economic reform programs. In some cases, the pressure for reform and deregulation has come from producers themselves.

Marketing Authorities have been established and maintained for a variety of reasons:

- to exploit market power and maximise producer revenues by selling through a monopoly agency in domestic and/or overseas markets;

- to ensure minimum standards and systematic evaluation of quality, either as a protection for consumers or to make product more saleable;

- to stabilise prices;

- To protect small and diverse producers from the monopsony power of large purchasers;

- to achieve economies of scale and scope in activities such as transportation and storage; and

- to eliminate "free rider" problems by ensuring a common base for industry costs, such as research or the advertising of homogenous products.

All of these justifications for regulation can and should be given due consideration under legislative reviews which seek to evaluate the impact of regulation on the whole community, including primary producers.

However, there will inevitably be occasions on which the benefits to producers are deemed not to outweigh the disadvantages to consumers arising from anti-competitive legislation. To the extent that primary production takes place mainly in regional or rural communities while the consumption of primary products is spread across the whole community, reductions in the monopoly power of marketing authorities could be seen to be disadvantaging regional and rural Australia relative to metropolitan Australia.

This uneven impact of the costs and benefits of reform can be further compounded by the geographic concentration of producers of some (not all) primary products currently regulated by marketing authorities. For example, in Western Australia a large proportion of potato production is concentrated in a relatively small area of the state's South West, around the town of Manjimup. Such geographic concentration can mean that disruption to a particular industry flowing from deregulation translates into disruption for particular local economies, an issue which is less problematic in more evenly dispersed industries or those concentrated in regions with broader economic bases.

In the final analysis, governments should be mindful of these potential disadvantages to regional and rural economies from the implementation of National Competition Policy, but the fact that a particular reform potentially advantages the whole community at the expense of rural communities does not necessarily mean that the reform should not proceed. However, it may be more appropriate for governments to respond by implementing programs which smooth the processes of structural adjustment arising from the implementation of competitive reforms, a consideration which has perhaps received too little attention in the implementation of competition policy to date, whether in rural or metropolitan areas.

4.2.1 Producer Pressures For Reform

Very few Statutory Marketing Authorities with legislative powers to regulate a particular market enjoy unqualified and unanimous support from producers within their industry. The disadvantages to producers from regulation of their market may include:

- a more limited capacity to determine what to grow and when;
- lack of control over the sale price;
- loss of earnings if a product cannot be produced according to the quality standards or timetable required by the Authority;
- limited capacity to establish a competitive edge through quality improvements, innovation, downstream processing or product diversity and differentiation;
- vulnerability to incompetence or poor judgement on the part of the Authority;
- a reduced return to producers because a proportion of receipts is absorbed in the Authority's administration costs and/or licence fees;
- reduced contact with final consumers and downstream processors;
- vulnerability to market shocks – for example if interstate or overseas competition is

introduced into markets where domestic producers are still subject to local regulation;

- potential exposure to penalties and sanctions for activities which are not immoral and which in other very similar industries and activities would be legal and acceptable (for example, WA has a black market in illegally traded potatoes, but not carrots).

For these reasons, pressures for reform and deregulation may arise from within a regulated industry, or at least from a minority of producers within it (see Box below, and appendix).

4.2.2 The Consumer Interest

A CASE STUDY ON POTATOES

During 1997 and into 1998 Galati Nominees, a WA potato grower and CCI member, came into dispute with Western Potatoes. The dispute rose initially when the growers failed to supply their crop within the deadline specified by the authority and were subsequently prohibited from selling their product for domestic retailing at premium rates. Rather then sell into the cheaper export or processing markets, the growers decided to give away their produce to WA consumers in an effort to draw attention to what they considered inappropriate anti-competitive regulation. They attracted considerable media attention and large crowds of people wanting free potatoes.

Western Potatoes responded by engaging a private security firm to undertake surveillance of the growers' property, at a cost of $268,616, in order to "ensure compliance with the Marketing of Potatoes Act".

In response to a question on notice, the representing minister indicated that this had gained "... potential savings of around $2 million to the industry by preventing Galati's export and processing potatoes from entering the domestic ware market". At the same time, potatoes grown in South Australia were freely entering the WA market.

This seemingly trivial and at times farcical example of the impact of anti-competitive legislation on an agricultural family business illustrates both the difficulties and the importance of addressing competition policy issues. Apart from the costs to WA consumers of potato market regulation (around $12 million a year, probably along with a reduced quality and range of product) the impact of such policing tactics seems intrusive, authoritarian and expensive. While this regulation seems small scale from a national or state-wide perspective, to the Galati family and other potato growers it is very important indeed. The Potato Marketing Act is currently under review. CCI has called for the Act to be repealed and Western Potatoes to be disbanded.

Appendix 3 comprises documents on this case study of some of the issues and conflicts which can arise when compulsory marketing arrangements are imposed on agricultural produce. It includes:

- a photocopy of the section of WA Hansard giving the questions on notice and responses arising from this issue.
- A copy of a CCI press release issued in response to the announcement that Western Potatoes had spend $268,000 on surveillance of the Galati's property.
- A copy of CCI's submission to the review of the Potato Marketing Act
- A copy of the Galati family's submission to government calling for deregulation of the potato industry (reproduced with permission)

More commonly, however, competition policy issues arise around conflicts between the interests of consumers and producers, rather than from the common or conflicting interests of producers alone.

Anti-competitive legislation intended to enable producers to achieve a higher return at the expense of higher prices and lower quality or choice for the consumer will generally be difficult to justify under competition policy principles.

This is not because consumer benefits are necessarily given more weight than producer benefits +under competition policy. Rather, it reflects the fact that, by and large, market structures which use monopoly power to secure higher prices and lower output tend to yield inferior aggregate (consumer plus producer) benefits than competitive market structures (see Appendix 1 on page 21.

One of the key objectives of competition policy is to give appropriate weight to the conflicting interests of producers and consumers, and to do so through mechanisms which reduce the tendency for political processes to favour the interests of concentrated, identifiable and organised groups over more diffuse and less vocal interests (see The Public Benefit Principle on page 4).

Even though these processes will sometimes disadvantage rural producers, they are fair and appropriate. Their impact on regional communities will be offset if appropriate attention is paid to facilitating structural adjustment and, where appropriate, compensating losers; and more especially by vigorous pursuit of those competition policy reforms which will most benefit regional and rural Australia.

4.2.3 Particular Issues for Marketing Authorities

State governments have already undertaken a range of reviews of marketing authorities. Their diverse outcomes – with some retaining full regulatory powers, some authorities having their powers reduced or modified and some authorities abolished – demonstrate that National Competition Policy is not fundamentally hostile to marketing authorities *per se*, only to those which cannot demonstrate a net benefit to the community.

The public benefit test aims primarily to maximise the welfare of the Australian community as a whole.

Measures which enable producers to extract higher prices from overseas markets are more likely to be retained under National Competition Policy principles than measures which extract monopoly profits from domestic markets. For example, while the NSW Government and the NCC are in disagreement over whether New South Wales' domestic rice marketing arrangements comply with National Competition Policy, the NCC has accepted that continuation of an export monopoly is appropriate.

Domestic marketing monopolies have also been retained where they are demonstrated to yield cost savings, economic efficiencies or direct consumer benefits, for example in the Queensland sugar industry.

4.3 Government Business Enterprises

One of the areas in which National Competition Policy and related reforms are already delivering substantial benefits to regional and rural Australia is in reform of larger government business enterprises in areas such as gas, electricity and rail transport.

4.3.1 Gas Deregulation In WA

In Western Australia the phased and still incomplete deregulation of the gas market has seen gas prices for large industrial users in the state's Pilbara and Goldfields regions fall by more than 50 per cent in most cases. This price reduction has acted as a direct catalyst for a number of major investments, notably the construction of the Pilbara-Goldfields gas pipeline and associated infrastructure (mainly power generation), and has allowed the reticulation of gas in Kalgoorlie.

Perhaps even more importantly, the pipeline cuts through some of the state's most significant mineral production areas, from the iron ore bearing regions of the north west through the nickel and gold belt to the north of Kalgoorlie.

Mines in these areas previously generated power on-site using diesel generators. Access to cheaper energy has cut production costs and has been credited by businesses as providing a stimulus to further investment.

Cheaper energy has not only led to increased mining activity. It is also one of number of factors which means that Western Australia faces the real possibility of developing major downstream processing industries, industries which previously were deterred by relatively high energy costs.

For example, BHP cited lower energy costs as one of the factors influencing its decision to build an HBI plant and related infrastructure in the Pilbara.

Although the recent crisis in Asian economies means that other projects may be somewhat slower to come on stream, the range and value of resource-related investment projects under consideration in Western Australia gives good grounds for confidence that the resource sector will continue to underpin relatively strong economic growth in Western Australia in the medium and longer terms.

4.3.2 Mining and the WA Economy

Of course, energy deregulation is not the sole cause of the very strong performance of the Western Australian mining sector in recent years.

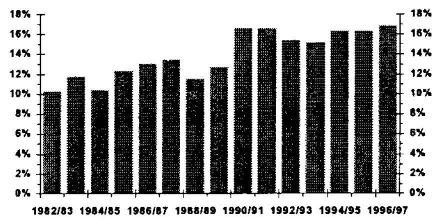
But it has certainly helped, as have a range of other National Competition Policy and broader micro-economic reforms which have reduced input costs, improved access and enhanced competition.

Because mining is so important to the State's economy (it is the largest industry sector in WA, accounting for 16.9 per cent of Gross State Product in 1996-97) and because its recent performance has been the single most important driving factor behind WA's relatively strong economic growth in recent years, it is worth outlining a few facts and figures on the sector's performance.

The mining share of Gross State Product has risen in recent years, to reach almost 17 per cent in 1996-97. Recent strong growth in the industry's output means that this share is likely to have risen further since then, although more recent state product data are

Figure 1

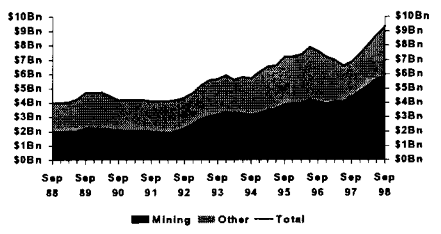
MINING SHARE OF STATE PRODUCT
Western Australia



Source ABS Cat 5220.0

Figure 2

WA BUSINESS INVESTMENT
Level, 4-Quarter Rolling Sum



Source ABS Cat 5646.0

not yet available.

Growth in investment in WA mining has been a major factor underpinning the state's relatively strong aggregate growth in recent years.

Over the past 10 years annual investment in the WA mining sector has risen from $2.1 to $5.9 billion, while investment in other industries (including resource-related manufacturing) has risen from $1.9 billion to $3.4 billion a year.

To put these figures in context, about one dollar of every eight invested by the Australian corporate sector is currently invested in the Western Australian mining industry.

Western Australia has around a tenth of Australia's population and contributes 11 per cent of Gross Domestic Product but accounts for around 20 per cent of corporate sector investment.

Its disproportionate contribution to exports is even greater, comprising mainly mineral exports but also reflecting the greater contribution of agriculture to the state's economy. In 1996-97 Western Australia contributed 27 per cent of Australia's merchandise exports, by far the largest export value of any Australian State.

Since the current data collection began in 1988-89, the value of WA's exports has risen by more than 150 per cent, or from 21.2 to 27.4 per cent of national exports.

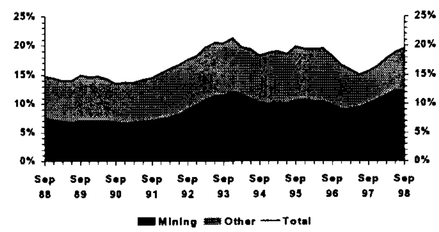
While the short-term outlook for the WA resource sector has been clouded by the Asian economic meltdown, medium to longer term prospects still look bright.

Estimates compiled by Access Economic and Delta Electricity indicated that, in June 1998, WA had $69 billion of investment projects ranging from only possible or under consideration to committed or under way.

This was more than twice as much potential investment as in News South Wales, the state with the next largest list of potential

Figure 3

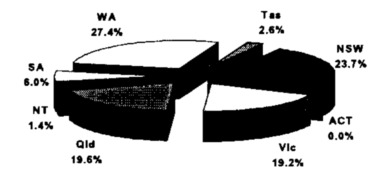
WA BUSINESS INVESTMENT
% National Total



Source: ABS Cat. 5646.0

Figure 4

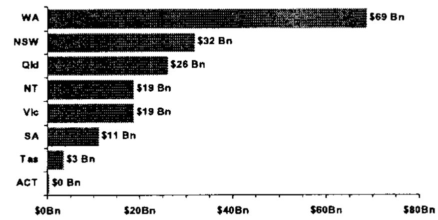
SHARE OF AUSTRALIAN EXPORTS
States, 1997-98



Source: ABS Cat. 5422.0

Figure 5

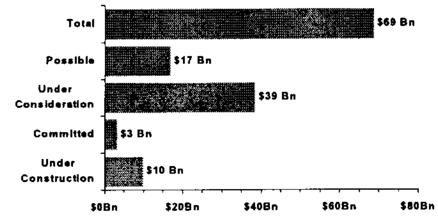
INVESTMENT PROJECTS
Australia, June 1998



Source: Delta Electricity and Access Economics Investment Monitor

Figure 6

INVESTMENT PROJECTS
Western Australia, June 1998



Source: Delta Electricity and Access Economics Investment Monitor investments.

Of the $69 billion of possible projects in Western Australia, $37 billion are in extractive mineral industries and a large proportion of the $23 billion of manufacturing projects are in some way resource-related (see Appendix 3, which lists CCI's own data on current and possible investment projects in Western Australia).

The investment outlook is perhaps not quite as rosy as these data suggest. Of the $69 billion of projects listed, the great majority are either "under consideration" ($39 billion) or just "possible" ($17 billion). Only $3 billion are committed, and $10 billion are under construction.

In short, the outlook for large-scale export-oriented investment projects is crucial to Western Australia's medium and long-term growth prospects. If a significant proportion of the major projects currently under consideration actually proceed, the state will almost certainly maintain its strong growth record. These projects are particularly crucial for economic development in regional and rural Western Australia – virtually all are located outside the metropolitan area, primarily in the Pilbara and Goldfields regions.

Competition policy reforms which allow major players access to essential infrastructure and drive improvements in the pricing and quality of energy and transport are key factors influencing the viability of export-oriented resource projects. It is through these reforms that Western Australia in general, and regional and rural WA in particular, have already reaped significant benefits from National Competition Policy. Further implementation of basic economic reforms, including those proposed in National Competition Policy, is the single most constructive measure which the government can undertake to promote the state's best medium and long-term economic prospects, and are of particular importance given the less favourable international trading environment which has arisen in the aftermath of the Asian economic meltdown.

Of course, other industries in WA have also gained from the impact of National Competition Policy, but in most cases the benefits have been more widely spread and the chain of cause and effect between reform and economic activity not so dramatically obvious. Benefits of National Competition Policy and related reforms include:

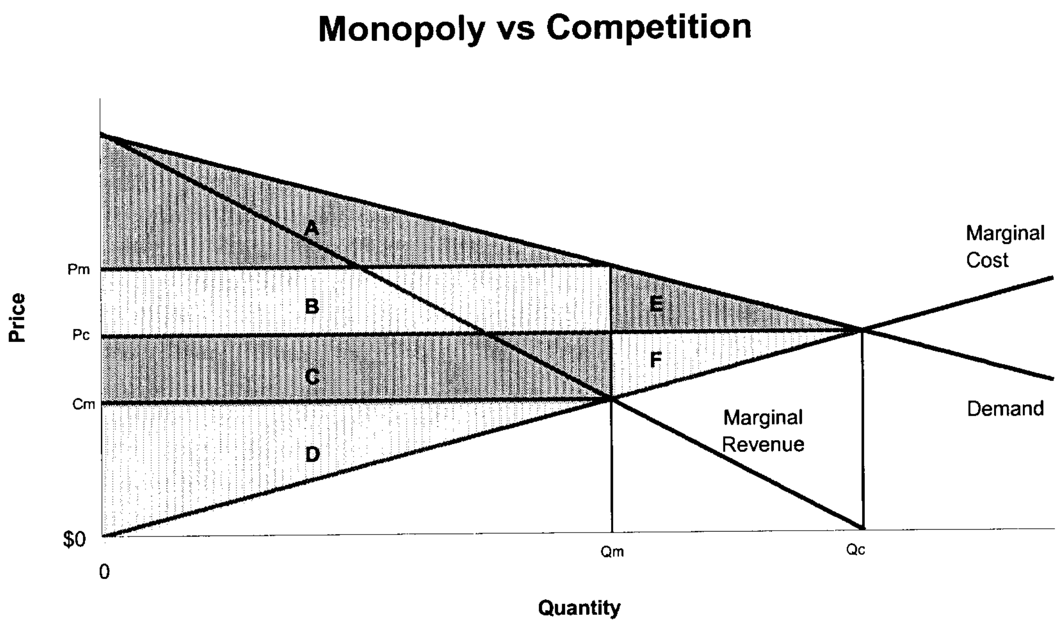
- a 20+ per cent reduction in real grain freight costs in the rail sector.
- reductions in electricity prices for industrial users
- a move to cost-based prices for water consumers which has been especially beneficial for small businesses
- deregulation which permits fertilizer and other bulk commodities to be transported by road

APPENDIX 1. COMPETITIVE MARKETS VS MONOPOLY

In perfectly competitive markets, there are many suppliers and no restrictions on entry to or exit from the industry. No single buyer or seller supplies a large proportion of the market, and each is a "price taker" – the price of the product is determined by aggregate supply and demand, but no single buyer or seller can push the market price up or down by increasing or decreasing their demand or supply.

A profit-maximising firm supplies product to the point where there is no additional profit to be made from supplying an extra unit of output – that is, to the point where marginal cost equals marginal revenue. In competitive markets marginal revenue is the market price – however much or little a single producer supplies, the market price is the same. In the illustration below, a competitive market will yield a market price equal to marginal cost at Pc, with quantity demanded and supplied equal to Qc. Net welfare is measured by the sum of the consumer surplus (A+B+E) and the producer surplus (C+D+F).

Figure 7



A monopoly is a market with only one seller. Because it is the only producer, the demand curve faced by the monopolist is the industry demand curve – it slopes downwards. If a monopoly wants to sell more of its product, it must reduce the price it charges.

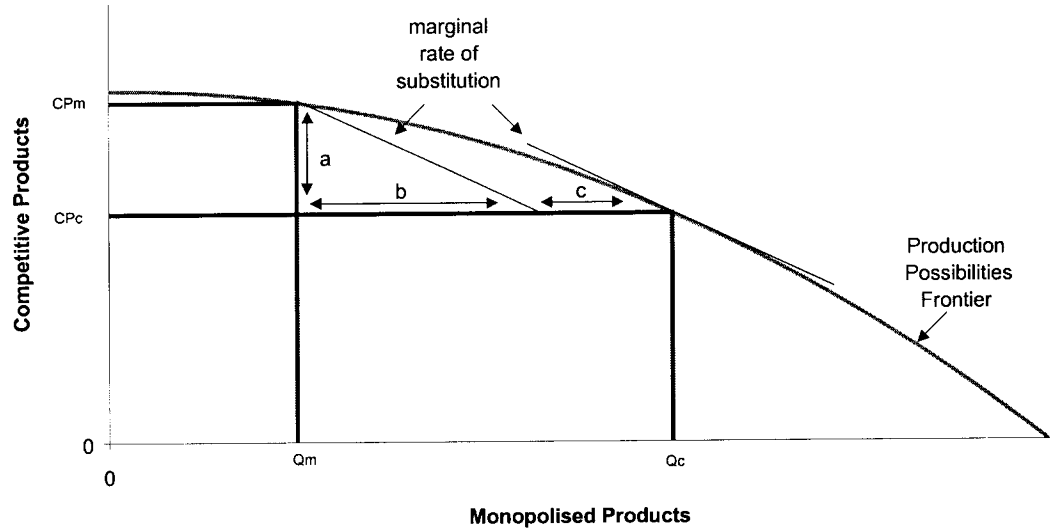
Unless the monopolist is in a position to separate different customer groups, it must charge less for all customers, so its revenue declines not only on the reduced price of selling one extra unit of output, but on all of its product. Thus its marginal revenue curve is downward sloping and lies below its demand curve.

As a result, the monopolist will find it most profitable to produce ***Qm*** units at a price of ***Pm*** (where marginal revenue equals marginal cost ***Cm***). In the illustration, this move to higher prices and lower output reduces the consumer surplus to area ***A*** and increases the producer surplus to area ***B+C+D*** (though the producer loses area ***F***).

There is a deadweight welfare loss of areas ***E +F***, representing the extent to which the sum of the consumer and producer surpluses is lower in a monopoly than in a competitive market.

Figure 8

Resource Allocation Implications Of Monopoly



There are several conditions which an economy must fulfil if it is to be efficient. It should be on its "production possibility frontier" – meaning that it is producing as much as possible with the resources it has at its disposal. For an economy to be working efficiently, however, it is not enough that all resources be used. They must also be used in the most productive way possible. For this to be achieved, it must be impossible to improve the value of production by arranging and using resources in different ways. The marginal rate of transformation (the value of production of one good which must be foregone in order to produce another good, and equalling the slope of the production possibilities frontier) must be equal to the marginal rate of substitution (the rate at which consumers are willing to trade one good for another).

Because monopolies tend to produce higher prices and lower output than competitive markets, they use fewer resources. Resources flow into competitive markets. Marginal rates of substitution are not equal to marginal rates of transformation, and the economy produces a less than optimum mix of products.

In the illustration, the reduced output (***b*** + ***c***) arising because of market power in the monopolised product markets is valued less highly than the additional output (***a***) arising because resources flow into the competitive products market. At current marginal rates of substitution, consumers would be prepared to sacrifice volume ***a*** of production from the competitive market sector in order to receive volume ***b*** of output from the monopolistic sector, while sacrificing ***a*** of production in the competitive sector would in fact free enough resource to produce **b+c** in the monopolistic sector. Production of ***Qm*** does not make the optimal use of the economy's resources.

APPENDIX 2. MAJOR INVESTMENT PROJECTS IN WESTERN AUSTRALIA

The following table lists investment projects in Western Australia which are currently under way, committed, under consideration or possible. It is maintained and compiled by CCI's Resource and Energy Projects Service (REPS).

PROJECT	PROJECT TYPE	VALUE ($M)	START DATE	END DATE	COMPANY
Hismelt Pilot Plant	Iron	310	Jan-92	Dec-99	Rio Tinto
Dardanup Sawmill Expansion	Timber	50	Jun-93	Jun-03	Wespine Industries
Infill Sewerage Program	Waste Disposal	800	Jul-94	Jul-04	Water Corp
Kanowna Belle Stage 3A (Underground)	Gold	81	Jul-95	Jan-99	Delta Gold
Collie Coal Fired Power Station	Power	575	Nov-95	Dec-99	ABB Power Generation
Subiaco Centro (Railway Tunnel, Station & Infrastructure)	Rail	92	Mar-96	Dec-00	Subiaco Redevt Auth
Northern City Bypass	Tunnel/Road/Bridge	335	Apr-96	Jun-00	Main Roads
BHP DRI/HBI Plant	Hot Briquetted Iron	2,400	Apr-96	May-99	BHP Iron Ore
Extension of Rous Head Stage 2	Harbour	3.5	Jun-96	Jun-05	Fremantle Port Authority
Kalgoorlie Region Gas Reticulation	Gas Reticulation	15	Jan-97	2002	AlintaGas
Orebody 18 development	Iron Ore	96	Mar-97	suspended due to mkt conditions	BHP Iron Ore
Perth Airport Upgrade	Airport	90	Jun-97	Jun-07	Westralia Airports Corp
Murrin Murrin, Stage 1	Nickel-Cobalt	1,030	Jul-97	Jan-99	Anaconda Nickel
Subiaco Wastewater Treatment Plant – new effluent pump station	Wastewater Treatment	8	Jul-97	Jul-99	Water Corp
Onslow Salt	Salt	80	Jul-97	Dec-99	Onslow Salt
Neerabup Groundwater Treatment Project, Stage One	Groundwater Treatment	25	Sep-97	Dec-98	Water Corp
Worsley Refinery Third Train Expansion	Alumina	800	Oct-97	Jun-00	Worsley Alumina
Wagerup Refinery Expansion to 2.19Mtpa	Alumina	258	Nov-97	Jul-99	Alcoa of Australia
RAAF – Learmonth Base Update, Stage 1	Defence	62.5	Dec-97	Nov-99	Defence Dept
Port Hedland Boat Harbour	Harbour	07-Aug	Dec-97	Dec-98	Transport Dept
Sons of Gwalia Underground Development	Gold	25	Jan-98	Jan-00	Sons of Gwalia
North West Shelf Drilling Facilities Refurbishment	Gas	80	Jan-98	Mar-99	Atwood Oceanics/Woodside
Loongana Lime Manufacturing Plant Expansion	Lime	4	Feb-98	Dec-98	Amalg Resources
Cogeneration Facility at Tiwest Pigment Plant, Kwinana	Power	40	Mar-98	Mar-99	Western Power
Wodgina Mine Plant Upgrade	Tantalum	14	Mar-98	Jun-99	Gwalia
Kwinana WaterLink (Woodman Pt WWTP Upgrade)	Wastewater Treatment	100	Mar-98	Mar-02	Water Corp
Second Gas Pipeline from Varanus Island to Mainland	Gas Pipeline		Apr-98	Dec-98	Harriet JV
Sodium Cyanide Plant	Sodium Cyanide	30	Apr-98	Apr-99	Australian Gold Reagents
Ammonia Plant	Ammonia	150	Apr-98	Oct-99	Wesfarmers CSBP
Wool Scouring Plant, East Rockingham	Clean Wool	40	May-98	Jul-99	CIL/Standard Wool Australia
Wonnich Gas Field	Gas	60	Jun-98	Apr-99	Apache Energy
Ellenbrook Water Supply & Wastewater Collection System	Water/Wastewater	17	Jun-98	Dec-99	Water Corporation
Buffalo	Oil		Jul-98	Late 99	BHP Petroleum
Pig Iron Prototype Plant	Pig Iron	18.5	Jul-98	Apr-99	Westralian Sands
Oxychloride Plant	Oxychloride	5	Jul-98	Apr-00	Hanwha Ceramics
Mitchell Freeway Bridge Duplication	Bridge/Road	10	Jul-98	Jun-99	Main Roads

PROJECT	PROJECT TYPE	VALUE ($M)	START DATE	END DATE	COMPANY
Neerabup Resorvoir/Supply Mains	Water	1.9	Jul-98	Jul-01	Water Corp
HMAS Stirling (Stage 3)	Defence	19	Jul-98	Jul-01	Defence Dept
Residential Underground Power Program	Power	55	Jul-98	2010	Western Power
Paraburdoo (Mt Olympus deposit)	Gold	8	Aug-98	Jan-99	Lynas Gold/Sipa Resources
Sewer Pressure Main b/w Ellenbrook and Wangara	Sewer	7	Aug-98	Jun-99	Water Corp
Windimurra	Vanadium	115	Oct-98	Dec-99	Precious Metals Australia
North Rankin A – Drilling Facilities Refurbishment	Offshore Petroleum	80	Nov-98	Mar-99	Woodside
Cossack Pioneer Shut Down	Oil	190	Jan-99	Jun-99	Woodside
Sunrise Dam – Mill Grinding Capacity Increase	Gold	10	Jan-99	Jun-99	Acacia Resources
Murrin Murrin – Cobalt Expansion	Cobalt	15	Jan-99	Jul-99	Anaconda Nickel
Bullabulling (Geko Deposit)	Gold	6	Jan-99	Jul-99	Nexus Minerals
Windimurra Gas-Fired Power Station	Power Station	40	Jan-99	Sep-99	Western Power/AGL
Mondarra Natural Gas Storage Facility	Gas	50	Jan-99	Dec-99	CMS Gas Transmission
Wool Processing Plant	Wool Processing	30	Jan 99	Dec-00	Finerwool
Legendre	Oil	100	Jan-99	Jan-01	Apache
Onshore Treatment Plant – Liquids Expansion (North West Shelf)	LPG/Condensate	650	Jan-99	May-01	Woodside
Mid West Natural Gas Transmission line, Stage 1	Pipeline	72	Jan-99	Sep-99	Western Power/AGL
Ashburton (Paulsens deposit)	Gold	25	Feb-99	Sep-99	Taipan Resources
Neerabup Groundwater Treatment Project, Stage Two	Groundwater Treatment	20	Jan-99	Oct-99	Water Corp
Bunbury Woodchip Mill	Woodchip	10	Mar-99		Bunnings Forest Products
Lambert/Hermes – production well and subsea completion	Oil	200	Mar-99	Dec-99	Woodside
Diatomite Plant	Diatomie	20	Mar-99	Mar-00	Hudson Resources
Karonie	Gold	4	Mar-99	Jul-99	Border Gold
Tower Brick & Tile Plant	Bricks and Tiles	150	Mar-99	Aug-00	Saracen Properties
Mining Area C	Iron Ore	200	Mar-99	Dec-00	BHP Iron Ore
Nullagine (Golden Eagle orebody) Gold Project	Gold	20	Apr-99	Sep-99	Welcome Stranger Mining
Lexia Groundwater Scheme	Groundwater Treatment	30	Apr-99	Oct-00	Water Corp
Dardanup Mine & Plant	Mineral Sands	35	Apr-98	Dec 99	ISK Minerals
Ravensthorpe Laterite Nickel Project	Nickel	200	Apr-99	Apr-01	Comet Resources
Murrin Murrin Expansion Project	Nickel-Cobalt	700	Apr-99	Jun-01	Anaconda Nickel
Exmouth Prawn Farm	Aquaculture	15	Apr-99	2002	Cape Seafarms
Goldfields Water Project	Desalination	750	May-99	Aug-01	Goldfields Utilities
White Foil	Gold	40-44	May-99	Dec-99	Mines & Resources Australia
Pilbara LNG Plant/4 Power Stations at Broome, Derby, Fitzroy Crossing and Halls Creek	LNG/Power Supply	65	May-99	Nov-00	Energy Equity Corp
Aluminium Fluoride Plant	Aluminium Fluoride	60	May-99	May-01	Alichem
Derby Tidal Power Plant	Power	125	May-99	Oct-01	Tidal Energy Aust
Dampier Port – Mermaid Marine facilities upgrade	Port Faciltiies	3	Jun-99	Dec-99	Mermaid Marine
Whim Creek	Copper Cathode	18	Jun-99	Jan-00	Lynas Gold
SRDC (formerly Ant Hill)	Manganese Sulphate	7.5	Jun-99	Jun-00	Sovereign Resources
Albany Port – New Berth & Permanent Loader	Port Facilities	15-20	Jun-99	Jul-00	OJI/Bunnings/CALM
Albany Woodchip Mill	Woodchip	20	Jun-99	Dec-00	Bunnings/OJI Paper/Itochu
Mid West Iron Ore Mine and Steel Project	Iron Ore/Steel	1,700	Jun-99	Jun-01	An Feng Kingstream

PROJECT	PROJECT TYPE	VALUE ($M)	START DATE	END DATE	COMPANY
470 MW power station for MWIS Project	Power	375	Jun-99	Jun-01	TransAlta/ABB Group
Oakajee Shipping Port	Port	192	Jun-99	Mar-02	Dept Resources Devt
Albany Port - Oil Bunker Terminal	Port	25	Jul-99	Dec-99	WA Bunkering Services
Cosmos	Nickel	52.2	Jul-99	Jan-00	Jubilee Gold Mines
Jervoise Bay Industrial Infrastructure and Harbour Development	Harbour/Road/ Technology Park	203	Jul-99		DCT
Marvel Loch Underground	Gold		Jul-99		Sons of Gwalia
Geraldton – Murrin Murrin Pipeline	Pipeline	100	Jul-99	Jun-00	Anaconda Nickel/StateWest Power
Pinjarra Rare Earth (Monazite) Plant	Rare Earth Nitrates	50	Jul-99	Jul-00	Rhodia Pinjarra
Cobalt Refinery	Cobalt	35	Jul-99	Dec-00	Centaur Mining & Exploration
Bulong, Stage II	Nickel	300-350	Jul-99	Jul-01	Resolute
Prospector 'super' train (Perth-Kalgoorlie line)	Rail	30	Jul-99	Jul-01	Westrail
AvonLink commuter trains	Rail	10	Jul-99	Jul-01	Westrail
Beenyup Wastewater Treatment Plant – upgrade secondary treatment	Wastewater Treatment	5	Jul-99	Jul-01	Water Corp
Cape Lambert Pellet Plant Recommissioning	Iron Pellet	250	Jul-99	Dec-01	Robe River Iron Assocs
Robe River Processing Capacity Expansion (to 32Mt)	Iron Ore	15	Jul-99	Dec-01	Robe River iron Assocs
RAAF – Pearce Base Redevelopment	Defence	31	Jul-99		Defence Dept
Golden Cities	Gold	30	Aug-99		AMX Resources
Kanowna Belle Shaft Development	Gold	100	Aug-99		North/Delta
Maroochydore Copper Project	Copper	150-200	Oct-99	Oct-00	Straits Resources
Balla Balla	Vanadium	95	Oct-99	Oct-00	Tanganyika Gold
Kwinana Export Facility	Port Infrastructure	50	Oct-99	Oct-99	Koolyanobbing Iron/Fremantle Port Auth/Westrail
Harvey Dam	Dam		Nov-99	Nov-01	Water Corp
Ammonia-Urea Plant	Granular Urea	750	Dec-99	Dec-01	Plenty River Corp
Magellan Lead Project	Lead	50	Dec-99	Jul-00	Magellan Mining
Dowerin Wheat Mill	Pasta	30	Dec-99	Dec-00	Dowerin Pasta Company
North West Shelf LNG Expansion (timing is for train '4'; train '5' to follow)	LNG	3,000	Dec 99	Dec-03	Woodside/North West Shelf J.V.
West Angelas	Iron Ore	1,000	Dec-99	Jun-02	Robe River Iron Assocs
Whicher Range	Gas	25	Dec-99	2003	Amity Oil
Northern Metropolitan Railway Extension	Rail	60-80	Late 99	Late 00	Westrail
Woollybutt	Oil	90	2000	2003	Hardy Petroleum
Rosemont	Gold	50-70	Jan-00	Oct-00	Johnson's Well Mining
RAV8	Nickel		Jan-00	Nov-00	Tectonic Resources
Larranganni	Gold		Jan-00	Dec-00	Glengarry Resources
Jangardup South	Mineral Sands	33	Jan-00	Jan-01	Cable Sands
Mount Margaret	Nickel	1,000	Jan-00	Jun-01	Anaconda Nickel
Ord River Irrigation Scheme Stage 2 (Sugar plantation and refinery)	Irrigation/Farming/Sugar	300	Jan-00	2002	Wesfarmers/Marubeni
Pilbara Petrochemicals Project	Petrochemicals	2,000	Jan-00	2003	DRD
Mt Weld Rare Earths Mine & Beneficiation & Secondary Processing at Meenar	Rare Earths	65-80	Jan-00	Jul-01	Ashton Mining
Gorgon	LNG	9,000	Jan-00	Jan-04	WAPET
Centralised Treatment Plant – Mount Pleasant/Ora Banda	Gold	150	Feb-00	Oct-01	Centaur Mining & Exploration
Mount Pleasant – Pressure Oxidation Plant	Gold	42	Feb-00	Oct-01	Centaur Mining & Exploration
Austeel DRI/HBI Plant	Hot Briquetted Iron	2,500	Mar-00	Mar-03	Mineralogy

PROJECT	PROJECT TYPE	VALUE ($M)	START DATE	END DATE	COMPANY
Austeel Steel Plant	Steel	3,400	Mar-00	Mar-03	Mineralogy
AUSI DRI Project	Hot Briquetted Iron	1,500	Apr-00	Sep-02	Australian United Steel
Kemerton Pigment Plant Expansion	Titanium Dioxide	470	Jun-00	Mar-02	Millenium Incorganic Chemicals
Kemerton Heavy Mineral Sands Project	Mineral Sands	10	Jun-00	Dec-00	Cable Sands
Pig Iron Plant Expansion (to 100,000tpa)	Pig Iron		Jul-00	Dec-00	Westralian Sands
O'Sullivans Lignitic Coal/Oil Project	Oil/Electricity/distallate	($US)250	Jul-00		APEC
RAAF – Learmonth Base Update, Stage 2	Defence	30-60	Jul-00		Defence Dept
RAAF Curtin Base – Aircraft Support Facilities	Defence	28	Jul-00	Jul-02	Defence Department
Kwinana/Naval Base Private Port	Port		Jul-00	Dec-01	(Proponent not yet announced)
Mt Gibson Magnetite Project	Hot Briquetted Iron	($US)900	Jul-00	Jan-03	Asian Iron
Hope Downs	Iron Ore	1,000+	Oct-00	2002	Hancock Prospecting/Iscor
Lyndon River	Gypsum/Limestone	25	2001		Shalinden
BP Refinery – Hydrocracker Complex (20,000bpd)	Refinery	150	2001	2004	BP Refinery
BP Refinery - Propylene Unit	Propylene	35	2001		BP Refinery
BP Refinery Crude Unit Upgrade	Refinery	12	2001	2002	BP Refinery
BP Refinery Alkylation Upgrade	Refinery	3	Jul-01	Jan-02	BP Refinery
North West Shelf Second Trunkline, Slugcatcher & Domgas Debottlenecking	Gas	600+	Dec-01	Dec-03	Woodside
BP Refinery Cracker No.2 Upgrade	Refinery	6	2002	2003	BP Refinery
Exmouth Limestone Project Stage II (kiln)	Limestone	40	2002	2003	Whitecrest Enterprises/Swan Cement
Perth-Mandurah Railway, Stage One (Perth to Jandakot)	Rail	200+	2004	2005	Westrail
BP Refinery Inbound Logistics Upgrade	Refinery	50	2005		BP Refinery
BP Refinery – rail terminal	Rail	5	2005		BP Refinery
Scott Reef and Brecknock Fields	Gas/Condensate		2005		Woodside
Partially raised Mundaring Weir	Dam	32	2005		Water Corp
Jane Brook Pumpback (to raised Mundaring Weir)	Dam	65	2005		Water Corp
BP Refinery Cracker No.2 – Second Stage Upgrade	Refinery	10	2006		BP Refinery
Hismelt full-scale commercial plant (direct iron ore smelting facility)	Iron	1,000+	2006		Rio Tinto
Cockburn Sound Port	Port		2015+		Planning Ministry
Albany Windfarm	Power				Western Power
Argyle Diamond Mine, Stage 2 and 3 Expansion	Diamonds				Argyle Diamond Mines J.V.
Bald Hill	Tantalum				Gwalia
Bambra	Gas/Oil	30			Apache Energy
Beta Creek	Diamond				Striker Resources
BHP DRI/HBI Plant, Stage 2 Expansion (1.25-3.25Mtpa)	Hot Briquetted Iron	500			BHP Iron Ore
Boddington Gold Mine – Wandoo Project/Extended Basement Operation	Gold	300-400			Worsley Alumina
Capacity Expansion – Nelson Point, Stage 2	Port/Rail	100			BHP Iron Ore
Cape Peron	Gypsum				Shark Bay Resources
Cattlin Creek	Tantalum	4			Greenstone Resources
Cawse, Stage Two	Nickel	400			Centaur Mining & Exploration
Chalice Deeps	Gold	11			Resolute

PROJECT	PROJECT TYPE	VALUE ($M)	START DATE	END DATE	COMPANY
Chlor-alkali Plant Expansion, Kwinana (42,000tpa)	Chlorine	40			Nufarm Coogee
Coobina Chrome Ore Beneficiation Plant	Chrome Ore	2.5			Danelagh Resources
Cotton Gin	Cotton	15			Ord River District Coop/Colly Farms
Curara Well (Kirkalocka Gold Project)	Gold				Sons of Gwalia
De-Inking/Waste Paper Plant	Recycled Paper				Westpaper
East Kundana	Gold				Gilt-Edged Mining
Emily Ann	Nickel	52			Roundtop JV
Esperance Port – Third Berth	Port	20-25			Esperance Port Auth
Ferro-Alloy Smelter	Ferro-Alloys				Consolidated Minerals
Fremantle Port – Bulk Cargo Jetty in Outer Harbour	Port				Fremantle Port Auth
Fremantle Port – 3rd Container Terminal (likely 2015)	Port				Fremantle Port Auth
Gallium Metal Production Facility	Gallium Metal				Rhodia Pinjarra
Gingin	Gas	14			Empire Oil & Gas
Homestead Iron Ore Project – Stage 2 and 3	Iron Ore				Hamersley Iron
Honeymoon Well	Nickel	450			Outokumpu
Indee	Gold				Resolute
KCGM Gold Operation Expansion	Gold	100			KCGM
Keast	Gas				Woodside
Khartoum	Gold				(Western Metals selling project)
Kintyre	Uranium	120			(Rio Tinto)
Klondyke	Gold				Lynas Gold
Lake Chandler Alunite	Potash/Alumina				Welcome Stranger
Laminated Veneer Lumber Plant	LVL	60			Sumitomo
Larranganni	Gold				Glengarry Resources
LNG Development (based on Scarborough)	LNG	5,000			Esso /BHP Petroleum
Macedon/Pyrenees	Gas/Oil	300			BHP Petroleum
Maggie Hays	Nickel	260			Roundtop JV/LionOre Australia
Maitland	Gas/Condensate	350			Novus Petroleum
Maitland Heavy Industrial Estate, Karratha	Land Devt	200-300			LandCorp/DRD
Marine Service Industrial Estate, Dampier	Port Facilities/Serviced Industrial	50			DCT/Dampier Port Auth/Land Corp/DRD
Manyingee	Uranium	30			Paladin Resources
Moora Pulp Mill	Straw Pulp	103			Pacifix Matrix
Mount Keith expansion – third processing train	Nickel				WMC Resources
Narngulu to Oakajee Rail & Services Corridor	Rail				DRD/Westrail/LandCorp
Nimbus Deeps	Silver/Zinc/Lead/Gold				Homestake
Nimbus Oxide Silver Deposit	Silver				Homestake
Onslow Solar Salt Project, Stage 2	Salt				Onslow Salt
Panorama	Zinc/Copper/Gold	150			Sipa
Pig Iron Plant (full-scale development to 250,000tpa)	Pig Iron	55			Westralian Sands
Kwinana Pigment Plant Upgrade (180,000tpa)	Titanium Dioxide	160			Tiwest JV
Pilbara Ammonium Nitrate Project	Ammonium Nitrate				Pilbara Explosives Company (PEXCO)/SMX
Pillara, Stage 2	Zinc-lead				Western Metals
Pinnacles Laterite Nickel	Nickel	250			Kanwona Lights
Randalls Ore Processing Facilities	Gold	10+			Mt Monger JV
Range Well	Chromium	22.8			Dragon Mining

PROJECT	PROJECT TYPE	VALUE ($M)	START DATE	END DATE	COMPANY
Silicon Metal Production – capacity expansion	Silicon Metal				Simcoa Operations
Sodium Cyanide Plant	Sodium Cyanide	50			Orica
Southdown	Magnetite	300-600			Terrex Resources
South-West Metropolitan Railway, Stage Two (Jandakot to Mandurah)	Rail	1,600			Westrail
Sparkes	Kaolin				(Rio Tinto selling project)
Speewah Acid Grade Fluorspar Project	Fluorspar	20			Elmina
Standard Gauge Rail Upgrade between Perth and Kalgoorlie (signalling system & concrete sleepers)	Rail	175			Westrail
Sunrise Dam – "Mega-Pit" proposal/Underground Devt/Combination of two options	Gold	100			Acacia Resources
Tern/Petrel	Gas				Santos
Wagerup Unit 111 expansion to 3.3 Mtpa (from 2.19Mtpa)	Alumina	700			Alcoa of Australia
Waggon Creek	Gas	70			Amity Oil
Weaber Gas Field	Gas				Energy Equity
White Fused Alumina Plant (Abrasive Grade)	Fused Alumina	17			Australian Fused Materials
Wundowie Vanadium Plant	Vanadium Pentoxide, Aluminium Trihydrate	30			Shark Bay Resources
Xanthate Plant	Xanthate	5			Orica
Yakabindie	Nickel	450			North Ltd
Yamarna Gold Project	Gold				Zanex
Yeelirrie	Uranium				WMC

APPENDIX 3. THE WA POTATO MARKETING ACT

Attached are documents relating to the operation of the WA Potato Marketing Act, comprising:

- a photocopy of the section of WA Hansard giving the questions on notice and responses arising from this issue.
- A copy of a CCI press release issued in response to the announcement that Western Potatoes had spend $268,000 on surveillance of the Galati's property.
- A copy of CCI's submission to the review of the Potato Marketing Act
- A copy of the Galati family's submission to government calling for deregulation of the potato industry (reproduced with permission)