

INTERIM SUBMISSION OF THE DEPARTMENT OF TRANSPORT AND REGIONAL SERVICES

Introduction

The Department of Transport and Regional Services (DTRS) is pleased to provide an interim submission to this Inquiry. Other submissions and the outcomes of the Inquiry will be of particular interest to the Department in its new role.

The newly restructured portfolio of Transport and Regional Services

The newly restructured portfolio of Transport and Regional Services, will incorporate important rural programmes from the former Department of Primary Industries and Energy, and have a new emphasis on regional service delivery as well as regional economic development.

Globalisation and the resulting structural adjustment have changed the nature of regional Australia. Government reforms such as National Competition Policy are providing opportunities for rural industry and communities to take advantage of this change through lower price structures and a global demand for goods.

Some regions are clearly more directly affected by structural change. While it remains to be seen whether these effects are transitional or on-going, it is nevertheless important to consider the regional impacts of all government policy. It is for this reason that DTRS is undertaking research on the impact of competition policy on three regional communities. The results of this research are due in early February.

At this point DTRS can only provide limited responses to the Inquiry based on our involvement with NCP to date. This response includes analysis of some existing reports and a summary of some of the concerns that have been expressed about the different impacts of NCP on regional Australia. Issues covered include defining rural and regional Australia, impact of NCP on regional development and Local Government, mechanisms for dealing with NCP, and our case study approach. Our final submission, due in February 1999, will expand upon these themes with the inclusion of findings of the research being undertaken.

Involvement of DTRS in NCP

The Department has been actively involved in two facets of National Competition Policy (NCP). On the one hand, the Department has progressed reforms, through for example, facilitating the sale of portfolio Government Business Enterprises (GBEs) and, on the other hand, through administering programmes that mitigate the negative impact of NCP in Australia's regions.

The Department has been involved in the implementation of NCP in four major areas:

- transport infrastructure;
- transport operations;
- local government; and
- structural adjustment.

For example, local government users have benefited from the lower costs of building and maintaining infrastructure and from the lower costs of local government services. Transport users have benefited from the increase in competition between transport operators facilitated by easier access to infrastructure, the reduced administrative burden faced by road and now rail operators, and better infrastructure achieved by the introduction of private sector funding and expertise.

Greater competition has also enhanced our transport capacity internationally and domestically, and increased innovation and our industry skill base. These benefits are passed on to consumers through lower prices or improved services and range of services. Competition and privatisation has also preserved transport activities which, had they remained in public sector hands, would have remained dependent on subsidies and presented an uncertain future for their employees; instead, enterprises like the former Australian National Railways Commission now offer sustainable, long-term employment in expanding, innovative companies.

Competition policy seeks to establish the necessary balance between the public and private sectors - identifying those tasks which the private sector is best placed to do, versus those which governments can handle best, or in which the market can not be relied upon to produce the most satisfactory outcomes. This balance will differ according to the industry in which it is being sought - while all the Commonwealth's transport operations have been or are intended to be sold, the Commonwealth retains some transport infrastructure in industries where it is not satisfied private ownership will at this time yield the best outcomes.

The Department is also aware that the implementation of competition policy is not without its costs - where it is recognised that the short-term impacts of competition policy will be felt particularly strongly on a regional basis, it has provided resources to assist communities in addressing those impacts.

The Government's objective for regional Australia is to provide the economic, environmental and social infrastructure necessary for Australia's regions to realise their potential. Policy and programme initiatives are being taken across all portfolios to achieve this objective. These initiatives aim to promote economic growth, generate jobs, renew and extend regional infrastructure, ensure equitable access to services for people living in regional Australia and ensure environmental sustainability.

The initiatives are being achieved through a 'whole of government approach' in which linkages between portfolios are further strengthened and where an increased emphasis is placed on communications to ensure regions are aware of and able to take advantage of relevant Commonwealth programmes.

For example the Department is administering a \$20 million dollar structural adjustment package following the Government's decision to sell the above-track operations of Australian National Rail. Given most of the anticipated job losses from the sale are occurring in South Australia, the bulk of these funds will be spent on employment generating projects in the affected regions of that State. Some other funds from this programme are allocated to Tasmania, Western Australia and the Northern Territory.

Defining Rural & Regional

The issue of what constitutes “regional Australia” is by its nature complex. There are many different ways of defining regional Australia, often based on administrative criteria. However, there would be some merit in a single definition. Any process of definition is subjective. Definitions simply exist to incorporate a single theme. For example, there are a number of different themes or ‘drivers’ available, such as those determined by the Australian Bureau of Statistics (ABS), local government authorities, business groups, environmental catchments and economic linkages etc. Some general definitions are possible, such as rural versus metropolitan, regional as covering a range of discrete Local Government Areas (LGAs), or geographical areas and economic subregions.

It is probably unnecessary to agree on one definition for rural and regional given that regional organisations develop from the ground up and as such are self-defining. For example, local industry groups and the surrounding community will often define themselves as a region according to economic or industry boundaries. Likewise, it is common for local government authorities to voluntarily join together to take advantage of economies of scale for particular projects and they will refer to themselves as regional organisations also. State governments such as South Australia and Western Australia have also divided their States into sub-economic units, Boards and Commissions, for the purpose of regional development. As a result, there can be overlapping boundaries amongst different regional organisations both within and across jurisdictions.

Impact on Regions & Local Government

Regions

Regional Australia comprises a substantial proportion of the population and contributes significantly to the position of the country in global markets.

Globalisation and structural adjustment are changing the nature of regions. Many regions are growing rapidly, taking full advantage of opportunities offered by globalisation and government reforms. The South West and Kimberley regions of Western Australia, Victoria’s Goulburn Valley and Far North Queensland are all successfully attracting national and international investment across industries as diverse as tourism, dairy-farming and processing, mining and viticulture.

This has been acknowledged in the Treasury submission to the Senate Select Committee on Competition Policy. Economic change has uneven geographic impacts and some of Australia’s regions are facing difficulties in adjusting to structural change. Regional communities can experience more extreme and more prolonged effects than metropolitan regions from structural change. Even those regions that may benefit from competition policy in the long term can incur short term costs due to the limited size and scope of economic activity and access. In general, regions relying on a single industry will require a greater adjustment process.

The former Industry Commission found that implementation of competition policy and related reforms would increase Australia’s GDP by \$23 billion per annum. At this

stage, research on the impact of reforms has concentrated on the substantial benefits to the nation. Several State departments have considered impacts at the State level, but little to date has been done on the benefits to regional Australia. This may explain misunderstandings about NCP within some regions.

There has been some confusion, particularly in regional communities, about NCP. There are claims that it means forced privatisation and the contracting out of service provision to large corporations from outside regional communities. There is particular concern about the effect of competitive neutrality on rural local councils. Specific detail on impacts will be provided following the case studies currently being undertaken by the Department.

Local Government

The assessment by the States and Territories of their progress in implementing NCP and other microeconomic reforms in the local government sector is included in the 1997-98 Local Government National Report. The Report was tabled in the Commonwealth Parliament on 8 December 1998. A copy of the Report is attached – see Chapter 5 and Appendix F. The Department would note in particular the discussion on page 179 on the benefits, concerns and lessons to be learned from the Victorian local government compulsory competitive tendering provisions.

Mechanisms for Dealing with NCP

Geographic disadvantage that may occur as a result of NCP reforms must be addressed. There is a need for a wider discussion of mechanisms for the provision of exemptions to NCP. This should include serious consideration as to whether the existing public interest mechanisms and the use of community service obligations (CSOs) are proving effective in achieving the desired competition reforms in rural and regional Australia without apportioning higher costs on those communities.

The competition agreements contain public interest tests that address social justice and viability issues to ensure some areas do not disproportionately bear the costs of reform. The NCP agreement recognised that “it is not always possible, or sensible, to promote competition in each and every market.” Consequently, NCP includes provisions that enable restrictions on competition where such arrangements can be shown to be in the ‘public interest’. That is, reforms are anticipated to benefit the community as a whole.

The public interest provisions cover employment, regional development, business competitiveness, the environment, and social justice and CSOs. Unfortunately, there is little detail available on these provisions, and in regional Australia there seems to be a lack of knowledge of the very existence of public interest provisions. The regional consultations being undertaken by the Productivity Commission as part of this Inquiry should go a long way to addressing the lack of knowledge. Further research is needed on the best way to develop amelioration strategies for those regions that are negatively affected.

The Treasury submission to the Senate Select Committee on Competition Policy suggests that governments give serious consideration to adjustment mechanisms. This would best be achieved through the use of transition mechanisms. It may be that the

transitional costs of NCP are more extreme and more pronounced on a regional basis, whereas the long term benefits of NCP will be more gradual and more evenly spread.

The issue of CSOs is an important one in the NCP debate. There is concern that adherence to CSOs will decline as a result of businesses complying with NCP reforms being unable to afford the obligations. The Treasury submission explains that, as businesses/utilities are opened up to competition, they become unable to cross subsidise profits to pay for CSOs. As many CSOs have historically been directed towards services provided for regional areas, regional people may find their services under pressure.

Telecommunications is an example where CSOs can potentially affect profits and where the Government is providing assistance. The Regional Telecommunications Infrastructure Fund has been developed to improve telecommunications through full and open competition. It is designed to provide support for projects over and above the universal service obligation (which ensures that all Australians, regardless of where they live or work, have reasonable access on an equitable basis to the standard telephone service).

Reforms of government monopolies and GBEs have led to changes in the patterns of government employment, and most often the result is downsizing of staff levels. This is a serious issue in rural and some regional areas where government is often a major employer. Downsizing can lead to a serious loss of income to the regional community. This downsizing is coupled with the general structural change of employment in regions where, generally speaking, the rates of decline in employment have been higher and more varied than in metropolitan areas.

Internationally, considerable importance is placed on assisting regions currently suffering regional economic disparity. One third of the European Union's budget is allocated to regional development to stimulate economic and employment growth in the poorer regions through infrastructure development, promoting private sector investment, building industry networks, technology transfer and education and training.

Case Studies

The report commissioned from the Bureau of Transport Economics will contribute to the final submission to the Productivity Commission from the Department in a number of ways. One aim is to highlight any perceived gap between the expected benefits and costs of NCP and the specific impacts felt by rural and regional Australia. Impacts may take the form of changes in the structure, competitiveness and regulation of major industries and markets integral to rural areas, but also include flow-on effects felt by the local communities and the Australian economy as a whole.

The varying economic performance of Australia's regional economies can be expected to influence the impact felt from national competition policy reforms. The Department's final submission will examine this interaction. In accurately assessing the range of outcomes from national competition policy it is necessary to filter out the effects of other factors (other government policy, business decisions and global trends) which impact on regional performance.

A wider community understanding of the nature of effects of NCP requires a level of understanding and acceptance of the aims and objectives of the policy, and an understanding of the methods of implementation. The final submission will explore the depth of this understanding and the implications of misunderstandings for the acceptance and effectiveness of NCP. The submission will examine existing methods of spreading the benefits and minimising costs from NCP and the potential role for new measures.

The submission will be based on case studies of three regions in Australia. Together these regions provide a microcosm of regional Australia – comparing a range of growth patterns and economic opportunities that result from the interplay of different population and employment trends, major industries and businesses, and geographical advantages.

In each region discussions will be undertaken with representatives of local government, regional development organisations, major industry, business and commerce peak bodies, and community groups. The broad cross section of interests represented by these groups and the ability to interview similar groups across the three regions will allow useful conclusions to be drawn as to determinants of regional costs and benefits of NCP.

While recognising the Commission has consulted widely in regional Australia in the process of this inquiry, DTRS's final submission should add value by providing a point of comparison. Additionally, the study, through overlapping with some regions the Commission has visited, may elicit further information from participants who have now had some time to reflect on the nature of NCP and may more fully recognise the costs and benefits to regional Australia arising from its implementation.

The three case study regions and their major features are outlined below.

Far North Queensland

This region is based around Cairns and encompasses townships such Malanda, Innisfail, Mareeba, Atherton, Port Douglas, Kuranda and Mossman. It is one of the fastest growing regional economies in Australia. The residential population of the region is currently over 200,000 with more than 30,000 visitors at peak times in the region. Population projections indicate a doubling of the region's population over the next 20 years.

This growth, during periods of decline in other areas of regional Australia, is based on two natural advantages. First, Far North Queensland has a strategic location near to the newly industrialised fast growing Asian economies. Indeed, this is the most internationalised of the three case study regions. Secondly, the region has a pristine bio-diverse environment and contains two World Heritage listed areas (Great Barrier Reef and Daintree Rainforest).

The region exports goods and services to Asia and Pacific Rim countries. The international airport developed for the tourism industry also provides an important competitive advantage for the region's producers and services.

The tourist industry is now worth over \$1 billion a year to the region, attracting about 1.3 million domestic and 600,000 international visitors. The Cairns Port Authority predicts that in a little more than 10 years the number of visitors arriving via the Cairns airport will be in excess of 7,000,000 annually.

The region's historical base is in agriculture. The value of the region's agricultural sector, including associated processing, is currently about \$800 million per annum. Crop production in the region is valued at around \$500 million and the pastoral industry (dairying and beef) has a farm gate value of about \$140 million per annum. The largest export cargoes are sugar and molasses.

Another industry of importance to the region is mining. Mining production has risen from being worth about \$60 million to the region in the mid 1970s to having a value of production today of about \$480 million. Servicing the mining industry of nearby Asia (particularly the Freeport mine in Irian Jaya) and the Pacific has also provided stimulus to the region.

Forbes/Parkes, NSW

This is a strongly agricultural based area in the central west of NSW. The central west as a whole has a population of over 200,000 while Parkes and Forbes have populations of less than 15,000 each.

Agriculturally, the economy of the region is diverse - livestock, cereal crops, grain and oil seed crops, dairies, and horticulture. The use of irrigation is increasing. In addition to agriculture there are some rural value added industries such as meat processing, skins/hide and leather production, pet foods, and viticultural industries. There are also concrete and fertiliser production, a wool distribution centre and saleyards. Industry is assisted by access to natural gas.

The region relies heavily on agriculture and farming for employment and income generation. There is also a fairly high proportion of employment in secondary industry. Tertiary industry is, however, limited.

Gippsland, Victoria

The Gippsland region includes the towns of Orbost, Sale, Moe, Traralgon and Morwell.

Population changes have been closely associated with changes in the level of economic activity – and therefore the labour requirements - of the Gippsland's large regional employers. The brown coal mining and electricity generation industries in the Latrobe Valley had provided large numbers of jobs, however job shedding in the late 1980s and early 1990s resulted in high regional unemployment. Although there has now been a reduction in unemployment. This reduction has been aided by the voluntary relocation of a proportion of the unemployed population.

Agriculture and forestry have also been traditional industries of the region. Although the employment provided by these industries has fallen in line with the general shift

away from primary industry employment towards secondary and tertiary industries, technological change and diversification has increased the value of farm product from this region. Dairying, beef and vegetable production are the major farming enterprises, but fruit production, pigs, cut flowers, nurseries and sheep/wool are also important.

The proximity to Melbourne has aided the development of a small regional tourism industry. This proximity has also resulted in Gippsland being the major water and power source for the Melbourne metropolitan area.

Conclusion

DTRS is looking forward to the outcomes of the Productivity Commission's inquiry. To date, there has been little information available on the costs or benefits of NCP. This is due to the infancy of the reforms and the uncertainty amongst regional communities in separating out NCP from general microeconomic reforms. The analysis which is available, such as that conducted by the former Industry Commission and the Report of the National Competition Council, is based on the overall national benefit of NCP reforms, rather than region by region.

The Productivity Commission's Inquiry is crucial to the work of the re-shaped Transport and Regional Services portfolio, which will soon include several rural programmes from the former Department of Primary Industries and Energy. The findings of the Inquiry will assist DTRS in its policy development by providing further knowledge of the current situation in regional Australia. This will assist the Department to continue its 'whole of government approach' in assisting regions to take advantage of new global opportunities.