

QUEENSLAND FARMERS FEDERATION

SUBMISSION ON NATIONAL COMPETITION POLICY TO PRODUCTIVITY COMMISSION

INTRODUCTION

In the course of the last year or so Queensland Farmers Federation has become keenly aware of concerns expressed by several member organisations regarding difficulties which they have experienced with the application of National Competition Policy (NCP) Reviews to their industries.

QFF's objective in this submission is to present a brief overview of the concerns of member organisations. It is left to individual industries to present their specific concerns in more detail.

In addition QFF has acquired some first hand experience in the application of NCP to the water industry and some brief comments are made on problems which have been encountered in this area.

Observations made in presenting this overview of the experience of rural industries in Queensland do not fall neatly into the terms of reference for this enquiry and for this reason the issues will be addressed as a whole.

CUMULATIVE EFFECTS OF GLOBAL INFLUENCES AND REFORM ON RURAL AUSTRALIA

Rural industries in Australia have been exposed to a succession of reforms in the last fifteen years or so which taken together with the influences emanating from the global economy have profoundly affected their profitability, the structure of their industries and the general level of economic activity of country towns located in rural areas throughout Australia. It is no exaggeration to say that in many areas the fabric of rural life has been all but destroyed. Key social indicators such as alcoholism, poor health, suicides and marriage breakdown suggest that primary producers and rural residents generally have been subjected to an unreasonable succession of influences which have largely been outside of their control.

Each individual reform process has delivered recommendations to Government which have been rational in terms of the terms of reference set for the particular process. In turn Governments have in large part implemented these recommendations with outcomes considered to be good for the economy as a whole but often ones which have had profound effects on particular industries and regions.

Whilst each individual reform may well have been bearable, the cumulative effect of a succession of such reforms together with the influence of global economic forces has not been. In rural areas generally and particularly in areas where industries are subject to review a climate of uncertainty and insecurity has been created. There is a perception that Public Utilities such as Telstra, Australia Post and the Electricity Authorities are delivering lower levels of service or less reliable services. These concerns overwhelm potential gains from reforms in these areas.

At a political level the emergence of “One Nation” is a clear indication that a significant group of Australians have not been able to cope with these cumulative effects.

A first step in addressing this issue is for Governments to recognise that the pace of change has not been manageable for a lot of people and that future reforms should be introduced more gradually and in a way which recognises any adverse impacts and provides assistance to ameliorate these impacts.

Beyond that, Governments may be able to enter into dialogue with industries to create common long term visions which will recognise the need for change and the pace at which this will occur. Such a process should be able to establish an agreed framework which would provide guidance to all players within an industry in relation to investment decisions. There may be good examples of such joint industry/government planning initiatives which have been completed in the past. These should be given some prominence and used as a guide to assist industries in the future, especially smaller industries which would not normally have the resources to undertake such initiatives.

To address these issues QFF proposes the following:

- 1. That an Interdepartmental Committee be established within the Prime Minister’s Department with representation at the level of Departmental head, to provide the Federal Government with comprehensive advice on the regional, social and distributional impacts of proposed economic reforms and assistance measures required to ameliorate such impacts.**
- 2. That the Federal Government ensure that Industry Policy and National Competition Policy complement each other and consider a process of establishing joint industry/government long term plans which would provide a decision making environment designed to reduce uncertainty and which would incorporate the implementation of agreed reform measures.**

NEED TO RESCHEDULE THE REFORM TIMETABLE

As a result of significant changes in several factors affecting both rural industries and the Australian community as a whole, QFF considers that there is a need to reschedule the timetable for reform by giving industries a longer period to implement any changes arising from NCP Reviews.

In recent years major primary industries in Queensland such as sugar and wool have seen substantial reductions in commodity prices. Prices for exports of live cattle have also been adversely affected with the downturn in Asia. Grain prices have also weakened and much of the potential for this year's crop has been lost as a result of climatic factors. There has been a small improvement in prices for some classes of cattle however profitability remains depressed in this industry which dominates many parts of the State. The outlook for the dairy industry is also clouded by reduced export demand from Asia and other countries.

In Queensland rural industries provide the main source of economic activity in many regions. Given that this level of activity has been trending downwards over a long period of time and is under particular pressure at the present time, any NCP reform of primary industries which is likely to impact adversely on an industry or region should be implemented over a long period to ameliorate this impact. As an example QFF considers that follow-up reviews of the sugar and the dairy industries should be conducted in 10 years time rather than 5 years.

The parlous state of the international economy with recession likely in many countries in the next couple of years indicates a further deterioration in prospects for rural and regional areas. Pursuit of NCP reforms in such an environment may exacerbate the difficulties being experienced and would seem to call for some rescheduling of the current timetable.

The reform agenda adopted by all Australian Governments reflected the thrust of the Hilmer Report which extolled the virtues of taking a "bold" stance on reform. This bold stance had two elements. It proposed reform across virtually all areas of the economy where anti-competitive arrangements existed and it proposed that the pace of reform be accelerated.

The Hilmer Report argued that there was widespread community support for their proposals for economy-wide and accelerated reforms.

QFF believes that if such widespread support did in fact exist in the early 1990's there would be little doubt that it has now disappeared. "Reform fatigue" seems to have set in since then with a vengeance. Whilst it is not suggested that the NCP reforms be put on hold, the change in community sentiment indicates a need to examine ways in which the adverse impacts can be softened.

3. It is accordingly proposed that the timetable for implementing reforms arising from NCP Reviews of rural industries in Queensland be critically examined with the objective of ameliorating adverse impacts to primary producers and associated businesses in rural areas by doubling the periods of implementation and review.

Taken together with other proposals contained in this submission QFF considers that the changes required are sufficiently substantial to justify a fundamental review of existing NCP arrangements at the highest level.

4. QFF therefore proposes on behalf of rural industries in Queensland that the Commonwealth Government be asked to convene a special meeting of the Council of Australian Governments (COAG Mk. 2.) to agree to a new NCP which has been redesigned in the light of proposals arising out of the current Review.

INADEQUACIES IN ECONOMIC ANALYSIS

Reviews of the rural industries in this State (dairy, chickenmeat and sugar) have revealed that the quality of the economic analyses conducted have not always been as rigorous as they should have been.

The principal concern with the analytical work which has been done is that only parts of the industry have come under close scrutiny with other parts not analysed at all. This has left open the distinct possibility that potential efficiency gains which might result from removal of anti-competitive elements within production sectors will be absorbed by economic players holding dominant positions in the market place further down the marketing and distribution chain. In such circumstances consumers are unlikely to benefit from “reforms” targeting primary producers.

Another problem has been the quality of the data used in the economic analyses undertaken. There is always a tendency to use data which is readily available rather than go to the expense and trouble of obtaining information which will provide genuine insights. Short-cuts have been taken in the work done in reviewing at least one industry in this State which certainly throw into question the reliability of the results. Quite simply quantification is likely to mislead rather than inform unless good quality data is used.

Some rural industry organisations in Queensland do not have the resources to conduct economic analyses and arrangements need to be explored which will assist such industries to meet the costs associated with such studies.

5. QFF proposes that the Commonwealth and State Governments should provide adequate funding to ensure that comprehensive empirical analyses are undertaken in full consultation with industry.

IMPORTANCE OF COLLECTIVE BARGAINING

Given the level of economic concentration in the processing and retailing sectors of the food industry, primary producers are very concerned that arrangements for collective bargaining which form part of existing legislation will be lost.

Existing arrangements for collective bargaining provide producers with some countervailing power in the market place. If these arrangements are unravelled there would be a shift in market power with the already large processors and retailers gaining greater dominance and primary producers suffering a loss of influence.

The net result of such a process would be a loss of income for the production sector and higher profitability for processors and retailers. Consumers may benefit if the small number of players in the processing and retailing sectors act competitively. However both experience and theory suggest that market dominance usually benefits business enterprises rather than consumers.

Effective arrangements for collective bargaining would therefore result in producers having a better chance of maintaining a reasonable share of profits. The alternative is likely to deliver enhanced profits for economic intermediaries with both consumers and producers losing out.

6. QFF accordingly proposes that any proposals for reform of rural industries preserve arrangements for primary producers to collectively bargain with processors and retailers holding positions of significant economic power within the marketplace.

REGIONAL AND DISTRIBUTIONAL CONSEQUENCES

For some rural industries the pursuit of economy wide efficiency gains under NCP can have serious regional consequences. In certain areas industries such as dairying and sugar represent the dominant economic activity with substantial flow-on effects to country towns and the wider regional community.

Such regional impacts have not been adequately assessed in the reviews which have been conducted to date. In some circumstances public policy outcomes may be enhanced by the preservation of existing rural industries which are so important to the economic base of regions in which they are located.

There is growing evidence from both sides of politics that regional issues are being given higher priority than has previously been the case. This is not surprising in view of the disastrous levels of unemployment, particularly youth unemployment, in regions across Australia. In these circumstances it might be expected that NCP reviews would be required to provide assessments of regional impacts likely to result from the adoption of new arrangements primarily designed to capture national economic efficiency gains.

In a similar way more attention should be paid to documenting the likely distributional outcomes of pursuing efficiency gains. Such information is required if Governments are to make decisions which take account of the full range of impacts resulting from NCP reforms.

In some of the rural situations being analysed the impacts on individual landholders and on associated businesses in rural communities is likely to be quite severe to the point where it will be impossible to maintain viability of these enterprises. In contrast the benefits from the proposed reforms may be modest especially when the distribution of the gains over many consumers is considered.

To our knowledge this type of information has not been systematically provided as part of reports going to Governments. Until sufficient information on such impacts is made available any decision making by Governments must be regarded as inadequately informed.

7. QFF therefore proposes that the Review process be amended to incorporate detailed information on the regional and distributional impacts of proposed reforms.

TRANSITION ARRANGEMENTS AND ADJUSTMENT ASSISTANCE

Governments of all persuasions make the most of any policies or assistance measures which are supposed to provide assistance to those adversely impacted by policy changes and industry reforms. The reality apparently falls well short of promises made at the time the reforms are introduced as it is understood that recent studies have concluded that such assistance has not been effective in helping those in need.

QFF considers that the NCP Review process has not paid adequate attention to transition arrangements for industries which have been reviewed. This criticism assumes real importance where the impacts of reform are severe on existing participants in the industry. Comments made elsewhere in this paper point to the importance of obtaining good information on likely regional and distributional impacts. Where this information indicates significant adverse impacts, close attention to industry adjustment packages is called for.

Whilst a primary focus of transition assistance will be on those producers adversely affected, particularly those who are likely to have to leave their industry, it is equally important that measures are provided which are forward looking and seek to position the reformed industry to take advantage of new growth possibilities.

Professor Hilmer identified the strategic importance of such assistance in his report(p.xv) - as follows:

A possibly more difficult challenge is to develop in a way that creates new jobs and growth rather than see the economy shrinking to an efficient but diminishing core of activity.

Later on in his report he suggested that transition arrangements would need to be determined in the context of individual cases with some guidance provided by the NCC.

QFF considers that whilst some industries have been able to formulate comprehensive adjustment packages which address future challenges much more attention needs to be focused on these if the Review process is to achieve the broad objective of industry reform.

Within Queensland the sugar industry provides a good example of what can be achieved in a positive sense for an industry as a result of the NCP review process. The Working Party (see p.11 of summary report) conducting the Review developed a balanced package of recommendations designed to:

facilitate the sustainable development of an internationally competitive, export - oriented industry, which benefits both the industry's participants and the wider community.

It is clear from this objective that the industry recognised an opportunity to place the NCP Review in the context of their vision for the future. The final recommendations on regulatory changes cover a wide range of issues including commercial focus, facilitation of research and development and innovation and environmental and social matters.

Assistance Packages will need to strike an appropriate balance between measures which assist producers adversely affected by new arrangements and those designed to assist industries to address future challenges. The former will typically include financial, counselling, and educational assistance designed to assist displaced people to find alternative occupations and places to live. Some of the new measures in the Commonwealth's Triple A Package will be applicable. Other measures to assist individuals and to help the industry focus on future growth will need to be regionally specific.

8. QFF proposes that the Productivity Commission in its report to the Federal Government emphasise the importance of providing Assistance Packages to industries being reviewed which meet the needs of individuals adversely affected by proposed changes and which assist industries to meet the future challenges of growth and development in a competitive environment.

THE DECISION MAKING ENVIRONMENT

Discussions which QFF has held with a wide variety of industry and government personnel associated with the NCP reform process indicate that other factors are operating which are not conducive to balanced decision making.

The first of these is an overt and at times aggressive attitude by Government representatives in relation to the primacy of efficiency gains. At times this approach could be described as economic "zealotry" which at times has not been well grounded in the complex and subtle framework of applied economics. It appears to be ideologically driven and somewhat divorced from a genuine search for balanced economic reform.

QFF is also concerned that there appears to be little understanding in the process of review of the theory of second best. Generally a more competitive business environment produces better

welfare outcomes. However to make one part of the market “ more competitive” while allowing other parts to remain in a less than perfectly competitive state does not necessarily improve the overall efficiency of the system. It may do no more than shift the balance of benefits towards the less competitive sectors.

This is a major reason for some of the regulation in rural industry. But the conduct of some of the reviews has been premised on a belief that any increase in competition is a priori better than less. This is an ideological view of the world . In an imperfect world this assertion needs to be supported by analysis and a good understanding of the operations of the market and perhaps a more sophisticated understanding of market economics than has at times been exhibited.

The other factor which we believe has distorted the decision making environment is the enormous influence which the NCP payments play. State Treasuries appear to be more influenced by what their agencies might derive from these monies than by a balanced consideration of all the facts and all the impacts of undertaking reforms.

It is understood that implementation of the Federal Government`s new Taxation Package may mean that these NCP payments to the States will need to be re-negotiated. This would provide an opportunity for putting in place an arrangement which does not distort the search for policy outcomes which give some priority to regional objectives.

Within the Queensland Government it is understood that with the recent change to a Labor administration, responsibility for NCP has been transferred from Treasury to Premier`s Department. QFF is hopeful that this will lead to better whole of government consideration of NCP Reviews with agencies responsible for rural and regional matters given adequate opportunity to influence the final outcome.

9. QFF proposes that the Productivity Commission closely examine existing review processes at both Federal and State levels to ensure that agencies and industries representing rural and regional interests are given reasonable opportunities to influence final policy outcomes

WATER RESOURCES INFRASTRUCTURE

QFF is concerned at the way in which NCP has been applied to rural water users. Water underpins rural industries across much of rural Queensland.

Sunk Infrastructure Costs

The COAG agreement and NCP are seeking to retrieve infrastructure costs for sunk investments in dams. Dams built many years ago formed part of economic and social development strategies for rural and regional areas and met the requirements which Governments set at that time. It is not sensible or required by any version of economic theory

decades later to rewrite the rules to increase water prices to recover sunk costs. If windfall gains existed, they have long since been capitalised.

Infrastructure Development

In recent years QFF on behalf of a wide cross - section of rural industries and working in partnership with Queensland Governments of both political persuasions has secured commitment to water infrastructure development which is sustainable from economic and environmental standpoints. Rural industry in Queensland does not understand why the National Competition Council want to see a re-examination of this program. Queensland has under-developed water resources and Governments have decided that it is in the interests of regional and overall State development that these resources be more fully utilised.

The NCC seems again to be taking a zealous approach to what is a State matter and provided for under the COAG agreements. If a State Government wishes to push back the frontier or support basic infrastructure development to kick start a regional growth process by way of developing or subsidising water infrastructure, there is nothing in the COAG agreement to prevent this. Indeed our understanding is that this option was an essential element to Queensland participating in the COAG agreement for water. The only requirement in the documentation we have sighted is for this involvement to be transparent, thereby providing communities the opportunity to decide whether these subsidies should be removed or not.

However what seems to be happening now is that the NCC is taking a view that such an approach by a State Government is anti-NCP and should be resisted and subjected to an extraordinary level of scrutiny.

Water Pricing

Rural industries in Queensland operate in a very risky environment and the availability of secure supplies of irrigation water is a very effective way of ameliorating this risk and guaranteeing supplies of quality produce on world markets. Given that a high proportion of rural production is exported, rural industries are very concerned with the NCP thrust to substantially increase the price which primary producers pay for water. These industries are price takers on world markets and have no capacity to pass increases in costs on to consumers. This means that substantial increases in water prices have the capacity to make irrigation enterprises unviable. This would also have severe impacts on regional economies.

Discussions have been held with the NCC on the issue of cost recovery and QFF considers that the Commission has overstated the extent of cost recovery which is required. It is in fact very difficult to achieve the degree of transparency which is required to mimic economic contestability in terms of cost recovery analysis when dealing with a corporatised public monopoly.

Our producers also question the national and regional benefits of this cost recovery process. They note that few of our competitors on world markets face similar pressures for price increases. They also note that the Australian Government has provided assistance to irrigators in other countries and these irrigators then benefit from subsidised water.

NCC is also raising some concerns in regard to its interpretations of water pricing under the COAG agreements. It was our understanding that charging for water services on a volumetric basis was only to occur where it is cost effective to do so. NCC is promoting that this caveat must now apply more generally .

There are other concerns regarding NCC's interpretations of the COAG agreement. For example NCC seems to be stating that water allocation and entitlement management systems must be in place for all catchments and groundwater systems by 2001. It was our understanding that there was no requirement to implement these systems and water trading in those catchments and groundwater systems where there was not a net benefit to the community on either environmental or economic grounds in doing so.

Environmental Assessment and NCP

The Courier Mail recently printed an article with comments attributed to the NCC indicating it was seriously considering action against the State Government on environmental grounds because of its commitment to the Fitzroy developments. QFF has to question the mandate provided to the NCC to become involved in environmental investigations. We also need to question the competency of the NCC in environmental matters.

The time deadlines being set for the introduction of the COAG reforms are unrealistic. This is the result of a serious lack of understanding of the complexities involved in introducing for example water allocation and trading systems. Governments have totally underestimated the work and time that will be required to implement these changes in a way that is understood and accepted by rural industry and environmental interests. Effort over the last two years has been primarily internal to government. The implementation process has yet to be adequately addressed. It is a significant concern that governments are not adequately planning for the needs of stakeholders during implementation.

10. QFF considers that clarification and renegotiation is required on a number of key issues relating to water and that such modifications be included in the new NCP agreement to be renegotiated at COAG.

SUMMARY AND RECOMMENDATIONS

QFF considers that experience to date with NCP Reviews of Queensland's rural industries does not suggest that the nation as a whole is maximising the benefits which are potentially available from the process This is because in some instances there have been serious flaws in the economic analyses which have been conducted and because the regional and distributional consequences of proposed reforms have not been adequately addressed.

In addition insufficient attention has been paid to assistance measures designed to support people and regions adversely affected by the reforms and to help industries to position themselves to meet future challenges if they are to grow and develop.

A further difficulty is that the decision making environment has been distorted by ideological and financial influences both of which reduce the likelihood that balanced policy outcomes will be achieved.

QFF considers that NCP is now held in such poor regard that that unless major modifications are made, Governments may be forced to abandon the program altogether. QFF believes that adoption of the following recommendations would make both the policy and the process more acceptable to the rural sector.

- 1. That an Interdepartmental Committee be established within the Prime Minister's Department with representation at the level of Departmental head, to provide the Federal Government with comprehensive advice on the regional, social and distributional impacts of proposed economic reforms and assistance measures required to ameliorate such impacts.**

- 2. That the Federal Government ensure that Industry Policy and National Competition Policy complement each other and consider a process of establishing joint industry/government long term plans which would provide a decision making environment designed to reduce uncertainty and which would incorporate the implementation of agreed reform measures.**

- 3. That the timetable for implementing reforms arising from NCP Reviews of rural industries in Queensland be critically examined with the objective of ameliorating adverse impacts to primary producers and associated businesses in rural areas by doubling the periods of implementation and review.**

- 4. That the Commonwealth Government be asked to convene a special meeting of the Council of Australian Governments (COAG Mk. 2.) to agree to a new NCP which has been redesigned in the light of proposals arising out of the current Review.**

- 5. That the Commonwealth and State Governments provide adequate funding to ensure that comprehensive empirical analyses are undertaken in full consultation with industry.**

- 6. That any proposals for reform of rural industries preserve arrangements for primary producers to collectively bargain with processors and retailers holding positions of significant economic power within the marketplace.**

- 7. That the Review process be amended to incorporate detailed information on the regional and distributional impacts of proposed reforms.**

- 8. That the Productivity Commission in its report to the Federal Government emphasise the importance of providing Assistance Packages to industries being reviewed which meet the needs of individuals adversely affected by proposed changes and which assist industries to meet the future challenges of growth and development in a competitive environment.**

- 9. That the Productivity Commission closely examine existing review processes at both Federal and State levels to ensure that agencies and industries representing rural and regional interests are given reasonable opportunities to influence final policy outcomes .**

- 10. That a number of key issues relating to water be clarified and renegotiated and that such modifications be included in the new NCP agreement to be renegotiated at COAG.**