

QUEENSLAND GOVERNMENT SUBMISSION

**PRODUCTIVITY COMMISSION INQUIRY
INTO THE IMPACT OF
COMPETITION POLICY REFORMS ON
RURAL AND REGIONAL COMMUNITIES**

February 1999

Executive Summary

In 1995, Queensland, along with other Australian Governments, signed three intergovernmental agreements to implement the National Competition Policy (NCP). The NCP reforms arose out of the Council of Australian Governments (COAG) processes and were essentially an extension of the micro-economic reform agenda which was in place at that time. The Agreements provided a framework of reforms designed at increasing Australia's productivity and international competitiveness and applied to Commonwealth, State, Territory and Local Governments.

The Queensland Government submission to the Productivity Commission's Inquiry into the *Impact of Competition Policy Reforms on Rural and Regional Australia* addresses the impact of the implementation of NCP in Queensland, particularly in regional and rural communities. The Queensland Parliament on 11 November 1998 unanimously passed a motion expressing concern about the impact of NCP on job security, social welfare, equity, health and safety, consumers and regional development. The motion called for NCP reforms to be subjected to a rigorous public benefit test (PBT) to address community concern. Queensland continues to apply a rigorous PBT to all legislation reviews and structural reforms to ensure that there is a demonstrable net public benefit before any reforms are implemented.

Queensland has been concerned to ensure that any negative impacts from the implementation of NCP are managed to the greatest extent possible. Queensland has a particularly widely dispersed population and community service obligations (CSOs) are instrumental in providing equitable access between rural and urban communities to services. Queensland, therefore, has maintained the right of governments to use CSOs to guarantee access to services for all Queenslanders.

Queensland has undertaken a number of major NCP-related reviews which have had the potential to have a deleterious effect on rural and regional communities. However, by carefully considering the issues associated with the implementation of the reforms, pragmatic and beneficial outcomes have been achieved. This approach is evidenced in the outcome of reviews such as those relating to the Sugar Industry, the Brisbane Market Authority, the Dairy Industry, the Grain Industry and the Chicken Meat Industry. It is expected that the restructuring of the electricity industry in Queensland will also have beneficial flow-on effects to rural and regional industries through lower energy prices and improved levels of service.

In terms of the economic and social impacts on regional and rural Australia from changes to market structure, the Queensland Government is mindful of the significant role played by local government in developing opportunities which provide employment and contribute to the continuing viability of communities. In remote areas, it is not unusual for a local government to economically and socially underpin an entire town or shire. The Queensland Government takes these factors into consideration in the implementation of reforms and has a history of working with local government to ensure the viability of regional and rural communities. It is stressed, however, that the Commonwealth Government has the potential to impact directly on rural and regional communities, for example, through withdrawal of Commonwealth grants and funding for programs.

The Queensland Government has offered local councils a significant incentive to ensure that the benefits accruing from NCP reforms are also shared with regional and rural communities. With this in mind, the Queensland Government has offered local councils a combined incentive package of \$150 million over a five year period for implementation of NCP reforms. Other initiatives include the Queensland Government's *Regional Communities Program* and the *Queensland Government Agent Program* which interfaces with those people in regional and rural areas requiring contact with the Queensland Government. Queensland has been the leader in implementing NCP at the local government level.

Transitional arrangements and phasing in of reforms are also an important feature of Queensland's approach to implementing NCP. In this way, the Government is able to ensure that the efficiency gains are attained, whilst at the same time managing or minimising, through adjustment strategies, the costs of social, employment and regional community impacts that can arise from significant deregulation of regional and rural industries.

Essentially, Queensland has adopted a pragmatic case-by-case approach to implementing NCP reforms which recognises the need to manage the adverse impacts of change on certain sectors of the community.

The Queensland Government has expressed concern about some aspects of the National Competition Council's (NCC's) role in implementation of NCP. These concerns are being taken up directly with the NCC and through the COAG processes.

The Queensland Government has been instrumental in requiring refinements to the COAG water reforms in conjunction with other participating jurisdictions and the NCC, and considers the NCC needs to adopt a constructive approach to water and other reforms.

The Queensland Government therefore recommends:

- NCP reforms be implemented in a pragmatic case-by-case manner which recognises the need to manage the adverse impacts of change on certain sectors of the community.
- NCP is one of a number of influences currently impacting upon rural communities and it is too early in the implementation phase to make any definitive assessment of the impacts of NCP reforms to date. There is a need, however, for some attempt to assess impacts and any such assessment needs to consider the social, employment and community impacts and not just the economic efficiency gains.
- The timeframe for reviewing and implementing legislative reforms by the year 2000 will be unmanageable in some instances. There should be sufficient flexibility within the timeframe to allow for such instances and this issue needs to be revisited through the COAG processes, with a view to changing the Competition Principles Agreement if necessary.
- Greater consideration needs to be given to the adoption of transitional arrangements to assist industries and communities to adjust at an appropriate pace.

- There may be a justifiable argument for specific exemptions from NCP reform in some cases, for example, in the case of resource management legislation, or for particular remote locations.
- There should be recognition that jurisdictions have the right to provide CSO payments where they consider them necessary in pursuit of their policy agenda.
- The role of the NCC in implementing NCP needs to be carefully re-assessed through the COAG processes and changed if necessary.

Introduction

At the meeting of the Council of Australian Governments (COAG) in April 1995, Queensland, along with the Commonwealth and other State and Territory Governments, signed three intergovernmental agreements to implement the National Competition Policy (NCP). These agreements were:

- the *Competition Principles Agreement*;
- the *Conduct Code Agreement*; and
- the *Agreement to Implement National Competition Policy and Related Reforms*.

The Agreements provided for the following:

- extension of the coverage of the *Trade Practices Act 1974* to private and public sector business activities;
- prices oversight of government owned monopoly businesses;
- third party access to nationally significant monopoly infrastructure;
- competitive neutrality measures aimed at ensuring government business activities do not enjoy any competitive advantage or disadvantage by virtue of their government ownership over their private sector counterparts;
- structural reform of public sector monopoly businesses to ensure separation of commercial and regulatory functions;
- review of legislation that restricts competition; and
- implementation of related competition reforms to key sectors of the economy, in particular electricity, gas, water and road transport.

Whilst local government was not a party to the Agreements, the Agreements provided for application of the reforms to local government. Through an extensive incentive package for local governments, Queensland has been the leader in implementing competition policy at this level.

In the context of the terms of reference for the Productivity Commission's Inquiry into the *Impact of Competition Policy Reforms on Rural and Regional Australia*, the Queensland Government submission addresses the impact of the implementation of all the NCP Agreements, including related reforms agreed to through the COAG processes.

With any reform process such as National Competition Policy (NCP), the costs are more immediately apparent than the benefits, which tend to accrue over a longer period. Further, there is concern about changes emanating from NCP and the broader micro-economic reform agenda. Some of these changes have occurred in the context of globalisation pressures and as the result of technological change, enhanced international transport and telecommunications, and increased international trade and movement in finance - all aimed at making Australia more internationally competitive.

Whilst many of the changes are, or are perceived to be, part of the NCP reforms, they are also intrinsic to rigorous policy development and continuous improvement in Government regulation and service delivery. NCP is also often associated with changes occurring due to other factors, including demographic shift from rural to urban areas, consumer preferences and changes in purchasing patterns, and the declining state of some rural industries when

compared with growth in service industries. That is not to say, however, that some community disquiet about the impact of NCP is not warranted.

Accordingly, the Queensland Parliament's motion (Attachment 1) of 11 November 1998 reflected community disquiet and called for the application of NCP in Queensland to be subjected to a rigorous public benefit test (PBT) to address all these issues. The motion, which was passed unanimously, expressed concern about the impact of NCP, particularly its impact on job security, social welfare, equity, health and safety, consumers, and regional development.

The Queensland Parliament recognised that Community Service Payments can be used to counteract any negative impacts of NCP. This not only ensures the maintenance of quality services to people in regional areas, but also acknowledges the right of the Queensland Government to determine its Community Service Obligations (CSOs).

The provision of CSOs is a legitimate role for government, including local government, seeking to guarantee access to services for all people. Queensland has a particularly widely dispersed population and CSOs are a means of providing equitable access to services between rural and urban communities. However, the provision of CSOs for particular activities has been called into question by the National Competition Council (NCC). Equitable access is inherent within many government policies and has been the fundamental principle on which the Commonwealth Grants Commission recommends the distribution of grants to the States.

In Queensland, major legislation reviews and structural reforms emanating from the NCP are subjected to a rigorous PBT process. This has provided not only for assessment of the economic impacts of reform, but also the social and environmental impacts. In Queensland, the application of the PBT has been responsible for a number of pragmatic outcomes from the reform process, for example, in the dairy, chicken meat and sugar industries. However, in light of Parliament's concerns, the Queensland Government is reviewing its current PBT Guidelines to determine that these matters continue to be addressed in the best possible way and in line with the Queensland Government's articulated priorities. It is acknowledged that account must also be taken of the dynamic benefits arising from new and often unforeseen opportunities arising from removal of legislative restrictions on economic activity, including under NCP, and that assessments of the costs and benefits associated with a particular legislative review need to take account of such broader dynamic benefits.

Despite Queensland's initiatives to ensure that the NCP reforms are only implemented where there is a net public benefit, there is considerable concern about the administration of NCP at the national level. The Queensland Parliament also expressed its concern in this regard and called on the Government to negotiate changes to the administration of NCP to ensure that greater account is taken of the adverse social implications of the policy. Concern has been expressed about some of the NCC's views on the implementation of NCP particularly that they do not pay sufficient regard to the adverse impacts of reform, particularly on employment and services in rural and regional areas. These matters are being taken up directly with the NCC.

The Queensland Parliament sought changes to the administration of NCP with greater emphasis on the adverse social implications and sought a diminution in the NCC's role and

transfer of responsibility for reforms back to the COAG. The reform process needs to be refocused on longer-term pragmatic outcomes and away from narrow adherence to arbitrary milestones and timetables. Some of the original timelines for reforms are no longer realistic: for example, the timetable for implementation of the gas reforms was sufficiently delayed in the earlier stages so as to require renegotiation of the timelines. This was done successfully by the Prime Minister in conjunction with the heads of government.

Similarly, the timelines for the conduct and implementation of the reforms emanating from the legislation review timetable need to be reconsidered. Whilst the reviews may be completed by the year 2000, it may not be practical or possible in some instances to implement the reforms by that date: for example, where there are significant industry and community adjustments to be made or complex implementation issues to be addressed. Further, many of the reforms require lead-in or transitional periods to ensure that adverse impacts are minimised.

This is also the case in the implementation of the COAG agreed water reforms which have enormous potential for impact on regional and rural communities. Queensland is involved in the COAG process which is re-examining the original time-frames in the Water Reform Agreements. The Standing Committee on Agriculture and Resource Management and the Senior Officials Committee on Regulatory Reform met recently with representatives of the NCC to consider issues concerning the implementation of the water reform agenda. The approach agreed to at the meeting involves a commitment to the COAG framework while allowing for implementation of the reforms in a realistic and long-term sustainable way.

The current processes for implementing NCP reforms do not account for limits to jurisdictions' resources or ability to implement NCP reforms. Further, the Commonwealth Government sets broad policy parameters in key sectors which may not be consistent with NCP. Where this occurs, it is almost impossible for jurisdictions to adopt policies which align with NCP principles. NCP cannot continue to operate in isolation from other policies and broader policy agendas may actually conflict with NCP. For example, it may not be appropriate for private patients in public hospitals to be charged the full cost of their treatment (in line with competitive neutrality), as this would increase the cost of insurance premiums and reduce the participation rate in private health insurance. Such an approach would undermine the Federal Government's attempts to increase private health insurance coverage. Explicit recognition of these constraints should be given and the issue left for resolution at the broader level rather than within the bounds of NCP.

As to the overall impact of NCP, there is little supporting overall quantitative evidence or definitive assessment available at this point. It is likely, however, that NCP has impacted on different regions and sectors of the economy in different ways. In regional, rural and remote areas, where the scope for households and local businesses to benefit from additional competition is likely to be more limited, it is easy to find perceived negative impacts and extremely negative views about NCP. For example, whilst not specifically a result of NCP, negative impacts resulting from the application by the Commonwealth of competitive tendering on all National Highways is then associated by regional and rural communities with NCP.

In the absence of comprehensive supporting data, it is noted that the NCC's Annual Report for 1997/98 claims some price reductions of more than 20% for grain haulage, 25% to 30% for electricity (in some States), 40% for container rail freight and up to 50% for gas. It could be implied that these costs savings have benefited rural and remote communities, however, there is scant empirical evidence to substantiate this.

As with other microeconomic reforms, the full overall economic gains from NCP are likely to accrue over the longer term and may be widespread, while there may be short term disbenefits which are concentrated on fewer people. This contributes to cynicism about NCP's impact on regional, rural and remote communities, and provides grounds for appropriate adjustment arrangements where necessary.

The smaller regional, rural and remote local governments are not likely to have a significant business activity (in NCP terms) which would be subject to NCP reforms. Therefore, it is not likely NCP will mean a significant change to the current style of operation. However, the issue for these smaller local governments is not the application of NCP to themselves, rather the application of competitive tendering processes by Government agencies in their dealings with the small councils.

Much of the above is expanded below in the context of the specific terms of reference for the Productivity Commission's Inquiry.

Terms of Reference

(a) The impact of competition policy reforms on the structure, competitiveness and regulation of major industries and markets supplying to and supplied by regional and rural Australia.

Some rural and remote Queenslanders view NCP as a burden imposed by Government which simply compounds the difficult economic and social environment created by factors beyond their control (for example, declining terms of trade for agricultural products, the Asian crisis, technological change replacing jobs). There are often statements and comments from rural and remote areas which suggest a wide-spread lack of understanding of the nature, aims and objectives of NCP. There is a perception in rural Queensland that in implementing NCP, Governments are failing, or not wanting, to understand the difficulties of life in rural and remote areas. It is not unusual for people to resist change and suggest that 'we're different' and should not have to endure reforms. However, there are genuine issues to be considered given the greater population dispersion in Queensland relative to other jurisdictions such as Victoria.

Whilst it is unfortunate that the implementation of NCP has coincided with a long period of drought, low commodity prices and shrinking markets, it appears that the limited efforts to promote the purpose and benefits of NCP during implementation, have contributed to this lack of understanding.

Queensland has undertaken a number of major NCP-related reviews which have had the potential to have a deleterious effect on rural and regional communities. However, by carefully considering the issues associated with the implementation of the reforms, pragmatic

and beneficial outcomes have been achieved. Details of such instances are set out in Attachment 2 and include reviews of the Brisbane Market Authority, the Sugar Industry, the Dairy Industry, the Grain Industry and the Chicken Meat Industry.

In July 1997, the Queensland Government restructured its electricity industry. This resulted in the creation of three generation corporations, the establishment of a separate corporation responsible for the State's transmission infrastructure and system control function, seven distribution corporations and three retail corporations (which have since been merged into two retail corporations). These changes are related to the introduction of a national electricity market. To assist the integration of Queensland into the national electricity market, Queensland will be physically connected to the national electricity grid when the interconnection with New South Wales is completed in 2000. A threshold reduction strategy will phase-in competition in the retail sector so that consumers will be able to exercise choice in the selection of their supplier. It is expected that the market will be fully contestable for all categories of customers by 2001/02.

Given the downward trend in prices for electricity to commercial and industrial users, reforms should not be of major concern to rural and remote users. One important factor that remains an issue is the phenomenon of high energy losses associated with supplying rural and regional customers. To address concerns about the possibility of increased prices due to those high losses, customers will be able to avail themselves of 'safety net' tariff provisions. It is expected that the reforms in the electricity industry will have beneficial flow-on effects to rural and regional industries in terms of energy prices and service levels.

Similarly, the recent removal of the moratorium on access to Queensland Rail track infrastructure for coal haulage is another example of a reform that could have benefits for the mining industry and which could be expected to produce flow-on benefits to regional, rural and remote communities.

(b) 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.

Local governments in rural and remote areas play a significant role in local community development through employment creation and contributions to the continuing viability of communities. In remote areas, it is not unusual for the local government to economically and socially underpin an entire town or shire.

A range of community economic development professionals have determined through research that between 40% and 80% of economic growth in rural communities stems from the expansion of established local businesses. The loss of a local business can mean the loss of expertise and the loss of future opportunities. Not using a local business is considered to be contrary to well established international rural community development principles. Community economic development professionals in the United States of America (USA), for example, have focussed directly on opportunities arising from local business expansion and retention. In the USA, this strategy has delivered economic success to many communities formerly considered to be in a state of serious decline.

Since the 1970s, the USA has focussed on community development models which recognise the importance of linking social and economic factors to stimulate local economies. In this regard, the implementation of NCP related policy needs to be structured to reflect a cautious approach and to ensure the continued viability of rural and regional communities.

Some local businesses may offer a slightly more expensive product or service, but may provide desirable local knowledge (eg soil types for roadworks). On major jobs, these local businesses or local governments are normally too small to compete on a cost basis with bigger urban based businesses, but may provide a better overall product due to local experience. There is concern that the larger coastal businesses could, after eliminating smaller locally based opposition, raise prices resulting in the community losing any cost advantages. However, in a competitive market, any attempt to charge excessive prices would be constrained by potential or actual competition. In any event, competitive tendering processes based on value for money should allow local suppliers, whose tenders are superior because of local knowledge or service, to obtain contracts at a somewhat higher price than coastal competitors.

Local councils are usually the biggest employers in rural towns and if they award jobs to city based businesses, local job losses occur. Road construction and maintenance workforces are particular examples where, in the absence of appropriate mitigating policies, open tendering would threaten the continued employment of local people.

The Queensland State Government has a history of contracting with local governments to carry out roadworks. This is aimed specifically at sustaining vulnerable rural communities in addition to obtaining value for money. The dual goals of providing sustainable rural communities and achieving value for money in roadworks are managed through a system of agreed performance contracts for outputs and prices. The Government is aware of, and responsive to, the needs of regional and rural areas with regard to ensuring that its processes for delivery of roadworks do not undermine the viability of rural communities. The history and specific details of the current policy are attached (Attachment 3).

Assessment of the impact of competition policy reforms should include an investigation of the impact, if any, of NCP on employment patterns such as the gathering trend towards part-time and casual employment. Further, an assessment could be made of the impact of competition policy reforms on the provision of Commonwealth Government support and services to job-seekers.

NCP also has an impact on the economic performance of industries which use and rely on Queensland's natural resources. The Queensland Government has taken particular care to ensure that competition is not applied at the expense of rural and regional communities. In evaluating the net benefits of proposed policy in accordance with NCP principles, it is generally less easy to quantify or value benefits of resource and environmental management over time than it is economic and social impacts. However, it is important that qualitative assessments of resource and environmental factors are not ignored in regional areas where they may assume greater importance because of the relative effect a small change might make on particular communities.

As an example, in relation to water reform, the Queensland Government is addressing not only the economic benefits which will be obtainable from tradeability of water entitlements, but also the impact on users of water in some areas and the resultant flow-on effect on local communities.

The Queensland Government, on behalf of the community, allocates, regulates and manages a range of natural resources and acts as a specialist adviser to private managers. In these roles, it is responsible to the community for stewardship of these natural resources. "Community" for this purpose includes future generations and so there is an obligation for Government to observe the precautionary principle in managing and allocating resources. This will occur where there is uncertainty associated with the sustainability of the resource and a lack of detailed knowledge and understanding of the resources and ecological processes.

Queensland is carefully assessing any competition decisions in the resource and environmental area to ensure decisions are primarily directed at assessing, planning, managing and conserving the resource base for use (including multiple use) on a sustainable basis. Where a resource is potentially under pressure, decisions on the extent of access available to users and the conditions are taken into account.

If the application of competitive processes is used to allocate access and rights to the use of natural resources, the processes must be efficient and equitable. Indeed, sustainable resource management may be enhanced by market reforms. The OECD has found, for example, that rural producers who are exposed to market conditions (as in Australia and New Zealand) are more likely to take voluntary environmental action than their counterparts operating in much more protected and substantial markets. The implementation of competition reforms, therefore, may have positive effects on sustainable development but needs to take account of externalities in implementing changes to prices and subsidies.¹

Knowledge about the natural resource base is imperfect. This impacts on decisions of producers who use the resources in competitive situations and is recognized by the Queensland Government in NCP policy proposals, particularly in relation to the timing of change. The issues of timing of reforms and public information on competition reforms are currently under consideration by all Australian governments.

(c) 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.

Both the Hilmer Report and the NCP Agreements acknowledge that competitive markets may not always be the most appropriate solution from the point of view of net community benefit and achievement of Government's broader objectives. Queensland's highly dispersed population and large land mass compared to most other states and territories, for example, may reduce the ability for Queensland to meet particular benchmarks. The NCP process

¹ *The countries in which land-care groups have developed the furthest - Australia and New Zealand - are also the countries that have consistently provided the lowest degrees of agricultural support, and whose incomes are most directly exposed to market forces.* R. Steenblick. "When Farmers Fend for the Environment", OECD Observer, December 1996-January 1997, pp 16-18.

needs to take account of spatial, climatic and demographic differences when assessing the success or otherwise of the implementation of NCP in particular jurisdictions. For these reasons, in Queensland a public benefit test underpins the NCP reform process.

Queensland is seeking to address any significant unintended negative flow-on effects of NCP that directly affect regional, rural and remote communities more than major urban centres. To this end, Queensland's *Policy for the Delivery of Roadworks* protects vulnerable rural communities from the consequences which might arise if local government workforces were required to compete on the open market for all State funded works: for example, lack of continuity of work could result in a local government not being able to sustain a skilled and appropriately equipped workforce which would be able to respond to local situations and natural disasters.

Shire councils in the central west of the State indicate there are some businesses that require a large share of local markets to be viable in more remote areas. A viable local business may support one or more families in the community, produce students for the local school, generate income that is spent in the town and support other local services such as health and law and order. In particular, Isisford has a rock crushing plant selling product to the Blackall Shire Council. Isisford is a small town and if this business lost its market in Blackall due to competitive tendering, Isisford would lose 6 jobs and potentially 6 families. This would certainly threaten the viability of the one teacher school and ultimately, the town itself.

There is an increasing tendency for a drift from rural to urban population centres. In some areas, crime rates do appear to have altered in the preceding one to two years as a result of these changing demographic patterns. This, however, appears to be more a result of changes in the availability of some services in rural areas rather than being directly attributable to NCP.

The Queensland Government provides assistance to a range of clients living in regional and rural communities. The services are delivered directly through a regionalised structure and indirectly by funding the community services sector to provide direct service delivery.

Generally, a significant proportion of this group is also in receipt of income support from the Commonwealth Department of Social Security. This group has been adversely affected by a range of structural changes in industries and this has resulted in unemployment for many unskilled and semi-skilled people. Reductions in government services include greater targeting of income support payments and contracting out of job placement agencies, with a subsequent reduced level of support to those clients requiring a greater level of governments' support resources. Whilst it is difficult to isolate how individual reforms have impacted, they have considerable cumulative impact.

The introduction of competition and prices more closely related to costs has the potential for households to receive much smaller price reductions than large business users for services such as electricity. This in part reflects past cross-subsidies from business users to domestic users, principally those in rural and remote areas, and will help business to be more competitive and create more jobs. The Queensland Government has taken steps, with the advent of the new competitive electricity market, to provide customers with a safety net to ensure that they are not disadvantaged. The threshold reduction strategy will phase-in

competition in the retail sector so that customers can select the supplier of their choice. Queensland aims to have full contestability for all categories of customers by 2001-2002.

Additionally, the Queensland Government's Q-Build provides many services which are particularly significant to rural and remote areas of Queensland. (Q-Build is the Queensland Government's building maintenance unit for tied Government clients.) This enables Q-Build to maintain its substantial long term commitment to providing training for apprentices and trainees in the building and construction industry, and maintaining critical latent capacity requirements for post-disaster recovery. In fact, the public sector is traditionally a major source of training for the building industry in Queensland.

(d) 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.

Local government was not a party to the Competition Principles Agreements, however, the Agreements provided for application of the reforms to local government. Because the Queensland Government is aware of the possible impact of reform on local governments, it has been the leader in ensuring that they also receive a share of any benefits which may accrue from the implementation of NCP. The Queensland Government has offered local councils a \$150 million share over a five year period in the Queensland Government's competition payments from the Commonwealth for implementing NCP reforms. While the bulk of the funds have been allocated to the 17 largest councils (which make up around 80% of business expenditure by Queensland local governments) all councils have been allocated some funding.

Whilst the Queensland Government has been innovative in its approach to implementation of NCP at the local government level, it is mindful of the need of small rural businesses for some element of flexibility to enable them to compete with bigger urban business. It is in the interest (both economically and socially) of rural communities and the nation as a whole to have viable and productive businesses based in rural towns.

Serious issues have been identified and the concept of the PBT has been developed in direct response to these concerns and a recognition that not all elements of NCP are beneficial to all communities. Moreover, the decline of many rural communities in western economies has been thoroughly documented over the past 15 years. The Queensland Government has actively sought to maintain the fabric of rural communities to the greatest extent possible.

For example, the Queensland Government conducted a review of rail services following community concerns arising from an announcement to close 27 branch lines in 1993. A major community consultation program was undertaken offering communities the opportunity to develop innovative ways to improve the use of local rail services. This measure gave communities more direct control over the future of a local service and facility. The Queensland Government has also put in place the *Queensland Government Agent Program* (QGAP) which operates 46 agencies across the State. QGAP serves as a central point of contact for those in rural and regional areas requiring interface with the Queensland Government. Additionally, the Queensland Government's *Regional Communities Program* has been developed in consultation with major regional areas in direct response to concern in

regional communities about a range of issues including NCP. These are but three examples of the Queensland Government's response to the ramifications of social and economic restructuring. Whilst economic considerations should not be ignored, they should be tempered by a well balanced approach which incorporates social and environmental factors.

NCP reviews should be undertaken in a manner that avoids, as far as possible, adverse effects on regional communities, maintains positive elements generated from reform, and determines the public benefit potentially associated with the introduction of competition. It is entirely possible that, in undertaking legislation reviews, a more restrictive scenario can be the recommended outcome, if it is shown to produce the greatest net benefit to the community. The Queensland Government PBT Guidelines allow for this scenario, in that, as with the *Competition Principles Agreements*, the Guidelines place emphasis on the net community benefit. Further, when assessing the net benefit of liberalising a market, the adjustment costs of the liberalisation process need to be addressed. The assessment of adjustment costs should take account not only of adjustments costs in the industry under review, but also of the impact on adjustment costs in other industries undergoing change.

These adjustment costs include social impacts, changes in employment, and significantly, the effect adjustment will have on particular regions and communities. These effects are likely to be positive in some communities and negative in others. All of these impacts would have a substantial influence on the overall determination of the net public benefit of any proposed alternative. To assist agencies in carrying out reviews of minor community-based legislation, the Queensland Government has recently released tailored PBT Guidelines for such reviews.

Examining alternative transitional arrangements is also a means by which Government can ensure that the efficiency gains that are likely to arise from deregulation are attained, whilst at the same time managing or minimising, through appropriate adjustment strategies, the costs of social, employment and regional community impacts that can arise from significant deregulation of industry. When assessing the impact of reform initiatives, consideration must be given to the likely response by markets to absorb displaced resources. The transitional arrangements for implementing the recommendations of the Dairy Industry Review (Attachment 2) are an example of pragmatic transitional arrangements.

Additionally, it is difficult for people displaced from their jobs to find new employment and assistance with retraining and/or relocation would be beneficial. (This in itself may involve relocation from rural to urban areas.) Any impact assessment needs to take account of the costs of disruption and assistance (as well as the positive impacts of new opportunities arising from reform). Where a PBT shows a net benefit from a NCP reform, the reform timetable may need to provide adequate time for structural adjustment. It is essential that this is taken into account by the NCC in its assessment of the jurisdictions' commitment to NCP and resultant competition payments.

Reviews of agricultural industries highlight the need, in conducting the PBT, to give at least as much consideration to regional and social adjustment factors as to the economic efficiency effects and income transfers. It also needs to be noted that while the latter is easier to quantify, the former usually requires qualitative assessment. The consideration of these additional factors is essential and this is clearly specified in Queensland's *Public Benefit Test Guidelines*.

The consideration of social and community impacts of deregulation often results in the examination of transitional arrangements for affected industries so that social and community adjustment costs are reduced. The review of the Dairy Industry took account of these factors. The PBT undertaken for the Review Committee identified relatively small efficiency gains that could be achieved from deregulation. The Review Committee in its report also acknowledged that, given the market forces for change, deregulation within the industry was inevitable. However, the PBT also indicated that abrupt deregulation would, in a much larger way, adversely affect farmers and dairying regional communities. As a consequence, the Committee recommended that a managed transition arrangement should be implemented.

Summary

It is often difficult to determine the longer term cumulative effects of particular policies such as NCP. Where economic modelling is conducted to determine the aggregate and sectoral impacts of policy changes, as well as attempting to estimate the long term economic impacts and adjustment costs, it is important that social costs and benefits and distributional impacts also be estimated. Whilst economic modelling may not capture all of these aspects, it may be used as an information tool to inform decisions in the broader context. Those issues it does not address need to be captured in some other way including qualitative assessment and projection.

Governments are often placed in the difficult position of either being perceived to 'over consult' or not consulting sufficiently. Some rural sectors are starting to express distaste with the public consultation process with regard to NCP and any other legislation or reforms assumed to have a negative impact on rural and remote communities (for example, the reform of Government monopolies such as Telstra and Australia Post). The rural sector at times expresses frustration at the extent of consultation and the significant personal costs this incurs in time and travel to attend consultation sessions.

It is imperative, however, if Governments are not to be accused of having pre-determined outcomes, for the community in general, and the rural community in particular, that consultation continue to the greatest extent possible. Governments may be able to minimise costs of individual consultation and provide greater potential for input by rationalising the review process itself. That is, Governments may be able to combine the consultation process for reviews or to consider the personal costs when determining the number of consultation 'venues' during any review process including inquiries such as that being undertaken by the Productivity Commission.

Some rationalisation of the process can be achieved when governments across the Commonwealth and State levels consult with each other in providing input into national reviews of legislation. An example of such rationalisation is the collaboration on reviews of food legislation and review of the legislation governing the distribution and use of agricultural and veterinary chemicals. It is disappointing that more national reviews of legislation have not been initiated.

Whilst long term economic benefits could be expected through competition, especially as industries and organisations compete and operate in an increasingly global market, in rural Queensland, there is often the perception that NCP is having a negative impact on the current economic and social well-being of rural communities. NCP is aligned with other negative social and economic variables such as drought, population decline and reduced commodity prices. In the current environment that is challenging the survival of many rural and remote communities, the claimed long term benefits of NCP are of little consequence to people living in these areas.

NCP needs to be sufficiently flexible to take account of the loss of control over jurisdictions' ability to implement NCP due to the Federal nature of Australian Government. The Commonwealth Government, for example, may set broad policy parameters which may not be consistent with NCP and which impact on the jurisdictions' ability to implement NCP principles according to a legalistic interpretation of the *Competition Principles Agreements*. Another example, where Commonwealth policy impacts on the implementation of NCP is that, the *Competition Principles Agreement* encourages the transparency in service delivery arising from corporatisation of business activities. At the same time, corporatisation of local government business activities would result in the removal of their exemption from Commonwealth income and wholesale sales taxes.

NCP cannot be applied generically, nor should it be. It would seem to be a valid request of the people in any region for Government to clearly demonstrate what will be the short and long term economic and social costs and benefits to regional, rural and remote communities. It is imperative, therefore, that governments are mindful of the economic, social and environmental benefits and costs of the introduction of NCP to rural and regional Australia.

The Queensland Government therefore recommends:

- NCP reforms be implemented in a pragmatic case-by-case manner which recognises the need to manage the adverse impacts of change on certain sectors of the community.
- NCP is one of a number of influences currently impacting upon rural communities and it is too early in the implementation phase to make any definitive assessment of the impacts of NCP reforms to date. There is a need, however, for some attempt to assess impacts and any such assessment needs to consider the social, employment and community impacts and not just the economic efficiency gains.
- The timeframe for reviewing and implementing legislative reforms by the year 2000 will be unmanageable in some instances. There should be sufficient flexibility within the timeframe to allow for such instances and this issue needs to be revisited through the COAG processes, with a view to changing the Competition Principles Agreement if necessary.
- Greater consideration needs to be given to the adoption of transitional arrangements to assist industries and communities to adjust at an appropriate pace.

- There may be a justifiable argument for specific exemptions from NCP reform in some cases, for example, in the case of resource management legislation, or for particular remote locations.
- There should be recognition that jurisdictions have the right to provide CSO payments where they consider them necessary in pursuit of their policy agenda.
- The role of the NCC in implementing NCP needs to be carefully re-assessed through the COAG processes and changed if necessary.

Motion passed in the Queensland Parliament

11 November 1998

‘This house supports the Beattie Government’s commitment to apply a rigorous Public Benefit Test in any application of the National Competition Policy in Queensland.

This House considers that this test must give full weight to issues including jobs and job security, social welfare and equity considerations, health and safety, and regional development as well as the interests of consumers.

Further, the House supports the use of Community Service Payments to ensure the maintenance of quality services to people in regional areas and the right of the State Government to identify and determine such Community Service Obligations.

Further, the House condemns the views emanating from the National Competition Council and calls on the Federal Government to constrain the powers of this unelected body in order that it is not able to slash millions of dollars from State Government budgets with potentially devastating effects on employment and services, particularly in rural and regional areas.

...and calls upon the Government to negotiate changes to the administration of the National Competition Policy to take into greater account the adverse social implications of these policies and that furthermore, responsibility for the administration of National Competition Policy be transferred from the National Competition Council to the Council of Australian Governments.’

Productivity Commission Terms of Reference (a)

Queensland Reviews of Agricultural Industries

Brisbane Market Authority

A report of the review of the Brisbane Markets was presented to Government in May 1998. The Brisbane Market Authority (BMA) review considered the anti-competitive aspects of the exclusivity provisions for the marketing of fruit and vegetables in the City of Brisbane area and competitive neutrality issues pertaining to the BMA, as well as the recommendation of the Queensland Commission of Audit to privatise the BMA. The Review Committee's report recommended the removal of exclusivity and privatisation of the Brisbane Markets.

The review committee recommended that, if privatisation of the BMA was not acceptable then it should be corporatised with consideration of privatisation at a later date. In October 1998, the Queensland Government decided to corporatise the BMA and established a Government Steering Committee to expedite this process. The Government has also agreed to introduce legislation to terminate exclusivity effective 31 August 1999.

Dairy Industry

The public benefit test in relation to Queensland's Dairy Industry *concluded that alternative arrangements (that is, competition) that are clearly superior could not be established*². The Queensland Dairy Industry Legislation Review Committee recognised, however, that Queensland could not conduct its dairy industry in isolation from other world and national forces. To do so would ultimately have a more severe effect on the industry than deregulation *per se*.

With this in mind, the Committee considered amongst other matters, the NCP reviews in NSW and Victoria, the effects of post farm gate deregulation in Queensland, the Asian economic crisis and the withdrawal on 30 June 2000 of the Commonwealth Domestic Market Support Scheme.

It was recognised that abrupt deregulation would adversely affect farmers and dairying regional communities. However, given the market forces for change, the Committee considered that deregulation was inevitable and that a managed transition should be implemented. Its key recommendations were:

- maintain the farm-gate price and supply management for five years from 1 January 1999, subject to changes required in response to any deregulation by NSW or Victoria in that

² Economic Insights Pty Ltd. Public Benefit Test of Restrictions on Competition - Final Report. 1998. Prepared for the Queensland Dairy Legislation Review Committee.

period with a further review to occur prior to 1 January 2003;

- extend supply management to Central and North Queensland; and
- retain licensing, food quality and safety assurance and generic promotion legislation

The Queensland Government decided in October 1998 to accept and implement the three key recommendations of the review.

Grain Industry

Queensland's NCP review of the *Grain Industry (Restructuring) Act* was completed in August 1997 and the recommendations arising from that review were endorsed by the Queensland Government in November 1997.

As a consequence of the review, the previous Government decided to deregulate domestic grains with the support of industry but retain single desk selling for export barley for a period of five years subject to any significant change in the policies of the Japanese Food Agency (JFA) or any changes to interstate barley regulation.

However, the domestic marketing of the three grain crops previously covered by the Act (namely, grain sorghum in central Queensland, and wheat and barley State-wide) is now completely deregulated. The export marketing of grain sorghum is also now open to competition, while export wheat powers are currently not yet in force pending the outcome of the Commonwealth's review of the national export wheat marketing arrangements (that is, the Commonwealth Wheat Marketing Act) in 2000.

The previous Government also endorsed a review of public accountability requirements applying to the Queensland Grain Industry. The DPI, in consultation with industry, is developing a proposal to ensure that adequate accountability requirements are in place.

The Victorian and South Australian Governments are conducting a joint review of their Barley Marketing Acts. These Governments have announced that they will:

- deregulate the domestic markets for barley and oats with the expiration of current legislation on 30 June 1999;
- establish a grower owned company to replace the Australian Barley Board (ABB) by 30 September 1998; and
- confer the single desk export powers of the ABB on the grower owned company until at least 30 June 2000.

If the South Australian and Victoria Governments decide to remove the single desk monopoly for barley exports after July 2000 then a review of Queensland's decision to retain Grainco's single desk for export barley sales will be necessary. The NSW Government has recently commenced a NCP Review of its grain legislation.

Chicken Meat Industry

The Queensland Chicken Meat Industry Review Committee completed the review of the *Chicken Meat Industry Committee Act 1976* in November 1997.

The review recommended deregulation initiatives including market-determined growing fees, but importantly recommended an enhanced legislative framework that includes a legislative authorisation from the *Trade Practices Act 1974* for collective bargaining between a grower group and a particular processor. This latter provision addresses differences in market power (that is, a few larger processors and many small growers) that would otherwise disadvantage growers. The legislative framework will also give greater assurance to growers in the contract negotiation and mediation process. Individual growers may opt to negotiate directly with a processor. This framework is similar to that being recommended in NSW and has the support of growers and processors in Queensland.

The NCC recently urged individual jurisdictions to consider any national implications arising from NCP reviews. A NCP Chicken Meat Industry Review has effectively been completed in New South Wales. It is important that any national implications are considered when review recommendations are implemented.

A national meeting was held recently and will assist in ensuring that a consistent approach will be taken across all states in completing reviews and implementing any recommendations.

Primary Producers' Organisation and Marketing Act and Fruit Marketing Organisation Act

A comprehensive review of these two Acts, including a review of anti-competitive restrictions for NCP purposes is currently underway.

The previously identified anti-competitive measures, which all relate to "marketing" rather than "organisational" matters, are all "dormant" (that is, expired or unused) and are not likely to ever be reactivated in their current form.

Accordingly, the Department of Primary Industries intends to seek Government approval in February for the drafting of legislation to provide for the termination (that is, repeal) of these provisions in both Acts. The review of the 'organisational' provisions, none of which has previously been identified as a restriction of competition, is not yet complete.

Sugar Industry

Over the past 15 years the Queensland sugar industry (which produces ninety five per cent of Australia's sugar) has embraced considerable reform with gradual tariff reduction, pricing innovation and increasingly commercial marketing. Restrictions on expansion have been lifted in recent times and the industry is growing with new areas opening to production and new farmers planting cane.

A further review was conducted by the Queensland and Commonwealth Governments in 1995-96. This initiative involved a review of the *Sugar Industry Act* 1991 (the Act), the *Sugar Milling Rationalisation Act* 1991 and the sugar tariff. Its purpose was to ensure that regulatory and marketing arrangements for the sugar industry were consistent with the principles of NCP and to provide for the development of an internationally competitive, export-oriented sugar industry.

The review's terms of reference were to review the need for a tariff on raw and refined sugar and to review current legislation for the promotion and regulation of the sugar industry in Queensland and to investigate alternative arrangements. The review was to be undertaken within the context of NCP principles.

The review was conducted by the Sugar Review Working Party (SIRWP) and resulted in seventy-four recommendations for extensive reforms to the sugar industry.

In considering reform options, SIRWP took the view that *the sugar tariff and the provisions of the Sugar Industry Act and the Sugar Milling Rationalisation Act as being an overall 'package' of measures.*

The SIRWP recommendations were agreed to by representatives of all key industry groups and were endorsed by the Queensland Government in December 1996 and by the Commonwealth Government early in 1997.

A draft *Sugar Industry Bill* was released to industry for consultation in late 1998. It was previously envisaged that the legislation be in place for the 1998/99 season, however, given some unresolved issues between industry stakeholders and the government's legislative timetable, the complete legislation will now not be in place until the 1999/2000 season.

It is the position of the Queensland Government that the new legislation must proceed as expeditiously as possible so that the major reforms agreed to by the whole of industry can be implemented. Of the 74 recommendations proposed by SIRWP and endorsed by both State and Federal Governments in 1996-97, only those related to cane supply arrangements and the domestic marketing of raw sugar have been sources of contention within the industry.

The remainder of the SIRWP recommendations are being implemented largely as already agreed to by State and Federal Governments. Some of the key reforms being introduced are the removal of the sugar tariff (a Commonwealth matter which has been debated in, and accepted by, the Commonwealth Parliament), removal of production controls, separation of QSC regulatory powers from its marketing functions, devolution of industry production decision making to local areas (on a commercial basis) and transfer of Bulk Sugar Terminal ownership from government to industry.

Queensland's Policy for the Delivery of Main Roads Works by Local Governments

Background

The Queensland Government's *Policy for the Delivery of Main Roads Works by Local Governments* provides for roadworks as a means of sustaining vulnerable rural communities. The policy, however, also requires value for money in roadworks which are either carried out under contract or directly.

Initially, these twin requirements were managed by having three different levels of competitive market operating within the State, and protecting those councils vulnerable to a reduction of roadworks contracts from the State Government. The policy also provided for a transition to increase the amount of works going to open competition over time. Following a change of Government in 1996, the policy was revised and known as the Three Zone Policy. This policy revision continued to give effect to the intentions mentioned above. Under this policy, the State was then divided into three areas according to the stage of development of the commercial market, that is, a western zone characterised by the lack of private sector competition, a provincial and coastal zone characterised by a highly developed private sector market, and a central zone characterised as being in transition towards a competitive road construction market.

The specific elements of the three zone policy included:

- all councils in each zone being offered *routine maintenance* work they had traditionally undertaken on behalf of Main Roads on a sole invitee basis;
- a decision about whether to call tenders (for non-traditional council work) in the intermediate zone was to be determined with regard to social objectives and the need to maintain a 'right-sized' council workforce;
- all councils could compete for works, which were available in the central and coastal zones by way of open competitive tender;
- any council which competed unsuccessfully for an open tender could be offered a second project on a sole invitee basis, but not necessarily of the same value or in exactly the same area;
- references were included in the policy to the need to obtain value for money for roadworks, and councils, where given sole invitee work, would do so via a performance contract agreeing outputs and prices. Similarly, the private sector would need to compete for those projects not specifically identified as being appropriate for sole invitation.

In early 1997, the policy was reviewed after concern by some rural and semi rural councils that significant numbers of council jobs on roadworks were being lost because of competitive tendering practices. Whilst some councils cited instances where they had competed unsuccessfully for open competition projects, these projects were those which had effectively been identified as not being necessary to support councils.

The Queensland Government's 1997 review process involved local communities and councils and a survey was undertaken of staff levels of councils over time and various other assessments were undertaken.

Current policy

The 1997 review indicated that:

- the need for competitive tenders preceded, and is not a specific requirement of, NCP;
- councils' workforce numbers had altered but decreases in one area of a council often coincided with an increase in another as result of internal restructuring, possibly due in part to competition;
- there was a great deal of concern and fear driving requests for change;
- a general lack of understanding existed about the safeguards in existence to maintain council workforces; and
- a new policy approach would be appropriate for the protection of vulnerable councils.

As the result of the 1997 review, the Queensland Government adopted a new roads *Policy for the Delivery of Main Roads Works by Local Governments* which:

- preserves in areas where community viability is an issue, the levels of local government employment which have prevailed over the last 3-5 years on Main Roads Department funded work;
- identified likely vulnerable councils according to population and other characteristics, rather than by geographic location;
- required more clearly than before, decision to be made to call tenders only after assessment of the position of vulnerable councils in the area;
- provided the potential for back-up projects where councils unsuccessfully tendered for non-traditional work;
- continued the previous arrangements of councils having exclusive right, by way of sole invitation, to traditional types and sizes of work;
- enabled, where project size may be an issue for a council, Main Roads may be flexible about the timing of the completion to enable the council to meet its other commitments to the community, as long as there is no cost premium; and
- more adequately addressed councils' needs for smoother income flows.

The awareness and responsiveness of the Government in relation to the social needs in rural areas, particularly those considered vulnerable to changes in Main Roads funding, cannot be over emphasised. Balancing this, however, the Government has effective policies in place for value for money results for taxpayers generally, and works with councils through exposing them to joint-venture processes to enable them to work on projects from which they would not otherwise benefit.