

Submission of the Queensland Government in response to Draft Report of Productivity Commission Inquiry into the Impact of Competition Policy Reforms on Rural and Regional Australia

The Productivity Commission's Draft Report on the impact of competition policy reforms on rural and regional Australia raises several issues upon which the Queensland Government wishes to provide comment. These comments are supplementary to the Queensland Government's original submission to the Inquiry.

A number of matters relevant to the Inquiry have also been the subject of separate discussions between Queensland Government officials and Productivity Commission officials, during which specific information was sought by the Productivity Commission. This submission incorporates the requested information.

In addition, a number of minor amendments are suggested to Item C.4 of the Draft Report. The suggested changes are detailed in an Attachment to this submission.

The following information is provided to assist the Productivity Commission in finalising its Report.

Quantification of Effects of National Competition Policy Reforms by the Productivity Commission

The Productivity Commission has used MONASH-RR, a version of the MONASH model to quantify the effects of National Competition Policy (NCP) reforms on regions. The regional facility of MONASH adopts a "top down" approach to regional analysis. Under this approach, national results are generated for each industry. These results are then subdivided into State effects and then further subdivided to give impacts at the statistical division level. The breakdown of the national results is based on the industry mix of each State/statistical division.

Given this approach, the Queensland Government seeks further clarification in regard to the large employment impact from Telecom NCP reforms in Queensland. The Supplement to Draft Report, *Modelling the Regional Impacts of National Competition Policy Reforms* reports an estimated employment benefit of 0.16% from Telecom reforms of a total employment benefit of 0.25%. This result seems to be at odds with the results one would expect to obtain from "bottom up" regional modelling of these Telecom reforms.

NCP and State Sovereignty

The Productivity Commission's Draft Report briefly discusses the issue of NCP and State Sovereignty. This matter is one of the fundamental issues in NCP implementation.

The Queensland Government has proposed that responsibility for oversight of NCP implementation should be transferred from the National Competition Council (NCC) to a

secretariat in the Department of the Prime Minister and Cabinet reporting directly to the Council of Australian Governments (CoAG).

Such an arrangement is considered essential to restoring the primacy of democratically elected Governments in management of NCP reform, thereby ensuring that governments are able to take full account of the potential impacts of reforms, particularly at the rural and regional level, as intended in the Competition Principles Agreement.

The Queensland Government has a number of specific concerns about the role of the NCC in the implementation of NCP. In particular, there is concern regarding the NCC's role in resolution of disputes about interpretation of the NCP agreements and the scope of the NCC to make recommendations to the Commonwealth Treasurer that, when accepted, arbitrarily reduce competition payments to the States.

To date, the NCC's approach to interpretation of the NCP agreements has reflected a rigid adherence to arbitrary milestones and timetables. This issue is elaborated upon in the following section headed water reform in this submission.

The NCP reform process needs to be refocussed on pragmatic outcomes based on thorough public interest analysis. This will not be achieved while the NCC is in a position to place unilateral interpretations on the meaning of the NCP agreements. CoAG, which drafted the agreements, is the appropriate forum to resolve disputes about interpretation of these agreements.

The Productivity Commission's Draft Report rejects the notion that the NCC seeks to dictate NCP outcomes, particularly in the area of legislation review. The Draft Report notes that the NCC has only once recommended that a jurisdiction receive a deduction in its competition payments and in that case the NCC based its recommendation on the relevant jurisdiction's failure to provide a public interest justification for ignoring recommendations of a review.

The Productivity Commission would now be aware of the NCC's recommendation to suspend 25% of Queensland's competition payments for 1999-2000 (a suspension of \$15 million) on account of the Government's plan to construct the St George offstream storage project. The Commission would also be aware that the Federal Treasurer has accepted the NCC's recommendation.

In the case of the St George offstream storage project, the NCC has indicated that it is not satisfied that the project is either economically viable or ecologically sustainable. The NCC has been advised that the Impact Assessment Study relevant to this project indicated that the 25,000 ML St George Irrigation Area Cell is economically viable. While the "compensation cell", which is to provide for the environmental enhancement of rivers downstream of St George, can be justified on purely economic grounds, it may also be justified on the basis of other non-economic criteria. The environmental benefits of the compensation cell will, by their very nature, be subjective to the extent that economic analysis tools have yet to be fully developed in this area (compared with a traditional analysis based on gross farm margins etc). In this regard, the Government, on behalf of the community, has a legitimate role in making a value judgement

regarding those areas where conventional economic analysis tools either do not exist or fail to provide a useful basis for such judgements.

Queensland questions the NCC's technical capacity to assess the merits of this scheme or to "second guess" the legitimate decision making process of the Queensland Government on matters of public interest.

In the case of water reform generally, the NCC has clearly failed to take account of Queensland's substantial progress in water reform implementation over the last 12 months. Further, the NCC has ignored detailed information provided by the Queensland Government which clearly demonstrated that water development projects were justifiable both economically and ecologically.

With respect to the review of Queensland's dairy industry legislation, the Council has summarily dismissed the findings of a comprehensive public benefit test. In effect, Queensland faces a potential substantial financial penalty as a result of the Government's decision to accept the findings of a review carried out in accordance with NCP principles.

Aside from the inadequacy of the NCC's assessment of both Queensland's water reform progress and dairy review, a more general point of concern in the assessment approach is that the financial penalties recommended by the NCC appear to be totally arbitrary in their quantum and allocation.

The NCC has failed over a number of years to develop any consistent model for the recommendation of penalties, resulting in situations in which jurisdictions are open to the whims of the NCC. The approach of the NCC in undertaking its second tranche assessment is a clear indication of the NCC's desire to dictate NCP outcomes and to seek to use the threat of financial penalty to pressure the States and Territories into taking a particular course of action.

Water Reform

Water is Queensland's most valuable natural resource. Not only is water a basic requirement for human consumption and sanitation, it is an essential input for agriculture, industry, food processing, mining, electricity generation and is essential to maintaining the health of rivers and the ecosystems they support.

In this context, the 1994 CoAG Water Resource Policy was developed jointly by the States of Australia to address a range of issues arising in the water industry and to ensure the long term sustainable use of the resource into the future. The Queensland Government fully supports the implementation of the CoAG principles. The Queensland Government considers the framework to be a sensible policy that clearly articulates a strategy for combating the problems facing water resource use into the 21st century.

In implementing the CoAG Water Resources Policy, the Queensland Government's objective is to ensure that:

- unsustainable demands are not placed on Queensland's river systems;

- water use does not lead to serious problems of river stagnation, salinity, erosion, pollution, loss of native habitat and loss of agricultural viability;
- existing water infrastructure is placed on a long term financially viable footing and that water users have incentives to improve efficiency of water use;
- water allocations are defined in such a way as to give certainty to water users and to allow trading in water between mutually agreeable parties; and
- future water development is sustainable, both economically and environmentally, to cater for anticipated growth in population and water demand.

However, the Queensland Government is committed to ensuring that changes only occur where there is a benefit to the community, and is firmly committed to ensuring strong community consultation and education on the water reform process.

Since 1994, the Queensland Government and Queensland local governments have made substantial progress in the implementation of the CoAG reforms, tailored to meet the specific characteristics of the Queensland water industry. Major reforms implemented in Queensland are summarised below.

Local Government

In 1997, amendments were made to the *Local Government Act 1993* to form the framework for implementation of CoAG water reforms in the urban sector. The *Local Government Act 1993* requires that local governments implement full cost pricing, two-part tariffs and clearly identify cross-subsidies and community service obligations (CSOs). However, reforms are only implemented where there is a demonstrated public benefit.

Water reform in urban areas has concentrated on the biggest 17 local governments in Queensland. To date, all 17 local governments have completed public benefit tests and implemented full cost pricing; have also completed public benefit assessments for the implementation of two-part tariffs; and all but four have resolved to implement the recommendations of the two-part tariff reports. Further, the 1998-1999 Annual Reports of these councils will clearly identify CSOs provided for water and sewerage.

Further, 76 other local governments have committed to investigating the implementation of water reforms.

Rural Water Pricing

The Queensland Government is adopting a pragmatic approach to the implementation of the CoAG pricing target for rural areas. The policy approach is that water prices should be set at a level to achieve long-term financial viability. The rate at which this target is achieved reflects an assessment of the level of cost recovery currently being achieved by individual schemes and a

desire to encourage long-term sustainable use of the resource without significant adverse economic and social impacts.

Specifically, a three-tier approach to the implementation of the CoAG water price target has been adopted:

- *Category 1* – irrigation schemes that will achieve, or exceed minimum cost recovery by, or before 2001. Category 1 schemes cover 84% of the total nominal allocation in Queensland, including the Burdekin Irrigation Area where irrigation prices are already above the lower bound;
- *Category 2* – irrigation schemes that will achieve minimum cost recovery by 2004, with transitional subsidies made transparent. Category 2 schemes account for approximately 11% of Queensland's total nominal allocation; and
- *Category 3* – those schemes where achievement of the pricing target would result in significant negative social and regional impacts. Category 3 schemes will target a level of cost recovery but will require transparent Government assistance over the longer term. Category 3 schemes reflect 5% of the total nominal allocation in Queensland.

In developing price paths for Queensland irrigation schemes, the operations of State Water Projects (SWP) are being subjected to an efficient cost benchmarking process to ensure that prices are set at an efficient level. The cost benchmarking process is a fundamental element of the pricing process and a new step for rural water service provision in Australia.

Commercialisation of State Water Projects

On 1 July 1997, SWP was established as a commercialised business unit within the Department of Natural Resources. Commercialisation of SWP is designed to ensure that SWP focuses on its commercial performance, including improving customer standards of service and increasing the efficiency of its service delivery. Commercialisation also allows the Department of Natural Resources to focus on its regulatory and resource management responsibilities, separate from the commercial objectives of SWP.

In addition, consideration is now being given to issues associated with the possible corporatisation of SWP. The aim is to develop a combination of corporatisation and local management of schemes to optimise the advantages of water industry reforms and maximise the benefits of the investment in existing infrastructure.

Water Allocations and Trading

The Queensland Government has introduced a comprehensive system for defining and allocating water resources within the State through the development and approval of Water Allocation and Management Plans (WAMPs). The development of WAMPs is considered to be at the frontier of water management across Australia.

A WAMP is designed to provide the framework for clearly establishing environmental flows, water allocation and the resource management considerations under which the trading of water allocations can occur.

The WAMP process emphasises community involvement through the establishment of community reference panels. The panels are drawn from a broad range of interest groups including industry and commerce groups, conservation groups, indigenous Australians, fishing and tourism groups, recreational groups, local government and community groups. Diverse representation on the community reference panels as far as possible assists in striking the balance between water that can be withdrawn for stock, urban, domestic, industrial or irrigation purposes and water to maintain the health of the water basin in accordance with the principle of ecologically sustainable development.

New Regulatory Framework for the Queensland Water Industry

The Queensland Government is currently developing a new regulatory framework for the Queensland water industry that will apply equally to all water users and service providers regardless of ownership (ie. public or private sector). The new regulatory framework will:

- (i) provide a new water allocation and management planning framework that will balance the needs of the environment and water users, provide for both public and private sector development and operation of infrastructure under a clearly defined resource management regulatory regime, and clearly specify tradeable water entitlements;
- (ii) provide a new regulatory framework for the provision of water services to apply to all water service providers and seek to ensure the maintenance of a safe and reliable water supply and protect the interests of customers;
- (iii) provide a corporate governance framework for public sector water providers that will apply consistent accountability mechanisms and governance operations across existing and future public sector water service providers; and
- (iv) provide a water supply planning and development framework that will support comprehensive assessments to achieve an efficient and sustainable water industry through cooperative information gathering, evaluation of current and future water demands and supply strategies and the setting of guidelines for future management, allocation of water, future development and regulatory decision making.

Legislation to underpin the above frameworks is proposed for enactment by the end of 1999.

Private Sector Involvement in Water Infrastructure Provision

In April 1998, the Queensland Government announced SUDAW Developments Ltd as the preferred developer for the Nathan Dam on the Dawson River. SUDAW is currently completing detailed feasibility studies before a final decision to proceed with the development is made.

The proposed development of the Nathan Dam is the first private sector development of a major water storage facility in Queensland. Expressions of interest for the Nathan Dam were called on the basis of little or no financial contribution from the Queensland Government. Thus, should SUDAW proceed with the development of the Nathan Dam, irrigation water is expected to be sold at fully commercial rates.

The Nathan Dam will be the first large dam built in the new resource management environment, and will be operated within the boundaries established by the Fitzroy Basin WAMP.

Assessment of Progress by the Productivity Commission

In view of the above, the Queensland Government is particularly concerned at the Productivity Commission's assessment of the implementation of CoAG water reforms in Queensland. In particular, the Commission's assessment is rather narrow in scope and does not take account of areas where considerable progress has been made in the implementation of reform requirements.

Accordingly, the Queensland Government requests that Table 5.3 "Summary of jurisdictional progress in implementing the urban and rural water reforms" be amended to reflect the true status of reform in Queensland as follows:

Type of Reform	Queensland
Pricing reform	
- <i>urban water (1998)</i>	
• Two part tariff	<input type="checkbox"/>
• Full cost recovery	<input type="checkbox"/>
• Reduction/elimination of cross-subsidies	<input type="checkbox"/>
• Remaining subsidies made transparent	<input type="checkbox"/>
• +ve rate of return	<input type="checkbox"/>
- <i>rural water (2001)</i>	
• Consumption based pricing	<input type="checkbox"/>
• Full cost recovery	<input type="checkbox"/>
• Reduction/elimination of cross-subsidies	<input type="checkbox"/>
• Remaining subsidies made transparent	<input type="checkbox"/>
• Rate of return	*
• Sinking fund	<input type="checkbox"/>
Investment reform	
• Investment appraisal	✓
Water Trading	
• Environmental allocation	<input type="checkbox"/>
• Water property rights separate from land	<input type="checkbox"/>
• Trading in water entitlements (1998)	<input type="checkbox"/>
Institutional Reform	
Separate roles (1998)	<input type="checkbox"/>
Holistic approach to resource management	✓
ICM approach to water management	✓
Performance comparisons	✓
Community consultation	✓

✓ - implemented

- implementing

* - little or no progress

The CoAG Water Resources Policy 1994 outlines a series of principles for improving the management of water resources in Australia. At its inception, it was intended that the States would implement the CoAG Water Resources Policy in a pragmatic manner, reflecting each State's own individual circumstances.

However, the Queensland Government considers that the subsequent linking of the CoAG Water Resources Policy to the Competition Principles Agreement, and specifically the creation of the NCC to place its own interpretation on the framework, has clouded the original intention and spirit in which the CoAG framework was developed. In particular, the Queensland Government considers that the NCC has seemingly placed greater emphasis on rigid adherence to timelines and its own interpretation of "economic efficiency" with limited regard to the individual circumstances of particular States or to the fact that genuine reforms (that have community support) require adequate community consultation and education.

To this end, despite the Queensland Government having made significant progress in the areas of CoAG Water Reform implementation, the NCC has chosen to focus on those areas where reforms are not fully finalised rather than on the considerable achievements to date.

In the area of local government water reform, rather than giving credit to local governments for collectively embarking on the most extensive reforms to water businesses in recent years and commending the achievement of the majority of the framework at a time of considerable disquiet towards NCP, the NCC instead chose to focus on those few areas where, despite the reforms having been substantially implemented, audited Annual Reports were still to be finalised. Such actions by the NCC discourage, rather than encourage, the implementation of further reforms, and devalue the significant progress that has been made.

A further area of contention between the Queensland Government and the NCC has been the NCC's view of CSOs in the area of water reform. The Queensland Government has continuing concerns that the NCC has sought to establish itself as the judge of what are legitimate social objectives to be pursued by Governments. The Queensland Government firmly believes that all Governments, as elected representatives, have a role in determining appropriate CSOs in the discharge of their responsibilities to the electorate. For the NCC to take a role in "validating" the social objectives of elected Governments is undemocratic and well beyond its legitimate jurisdiction.

Accordingly, the Queensland Government considers that the NCC should place stronger emphasis on ensuring that the States are implementing the broader water reforms, with lesser emphasis on rigid timelines and "economic efficiency" to the point of overriding social and regional considerations and the individual characteristics of each State's water industry.

In summary, the Queensland Government is committed to ensuring that water resources in Queensland are managed in a long-term economically and ecologically sustainable manner and is committed to the implementation of the principles outlined in the CoAG Water Resources Policy. However, changes to the water industry will be implemented in a pragmatic manner to achieve a wider benefit for the economy, the community and the environment.

The Productivity Commission has requested that the Queensland Government comment on statements made by the Mayor of Boonah to the effect that water prices will increase by 1000% in his shire due to the implementation of NCP.

The Boonah Council sources its water from Moogerah Dam, controlled by SWP, the commercialised arm of the Department of Natural Resources. On 1 July 1999, the Boonah Council's long-term water supply contract with SWP expired and SWP sought to renegotiate, in accordance with NCP principles, the terms of the new contract based on commercial water pricing principles.

Under the terms of the old water supply contract, water was supplied to the Boonah Council at \$7.30/ML. The full commercial price of the water is assessed by SWP to be \$93/ML. At \$7.30/ML, the price of water supplied to the Boonah Council was amongst the lowest in the State. Neighbouring councils such as Ipswich and Beaudesert pay bulk water charges of \$110/ML for water supply from the South East Queensland Water Board.

It is understood that a price path until 2004 (to provide for a gradual increase in water prices) will be negotiated by SWP with the Boonah Council.

Contractors and Road Works

During hearings, the Productivity Commission has taken evidence from the Civil Contractors Federation on the issue of contractors and road works.

The Federation expressed the view that it expected NCP would result in more road construction work being opened up to competition. The Federation also expressed the view that the private sector had not been a beneficiary of NCP to date in the area of road construction.

Much of the material provided by the Federation would appear to be irrelevant to the Inquiry given that it is based on the view that more, or all, government work should be contracted out.

As the Commission would well be aware, NCP does not require governments to outsource their work. Where jurisdictions have opted to call tenders for all road works, this has been a deliberate policy decision on the part of the jurisdiction in question, rather than an NCP-related outcome.

This point needs to be clearly made in any coverage of this issue in the Productivity Commission's final report.

The Federation in its submission to the Inquiry also raised competitive neutrality concerns in relation to road construction. Queensland has established the Queensland Competition Authority to deal with competitive neutrality issues. Any concerns with regard to competitive neutrality in road construction should be referred to that body.

The relationship between the Department of Main Roads and Civil Contractors Federation is one where any issues, such as purchaser/provider splits and the amount of work offered to tender and won by the private sector, have been addressed in detail when they have been raised. These are matters which are best understood and managed against a background of the interaction of a range of government policies, procedures and objectives existing at any point in time.

Notwithstanding the above, the Queensland Department of Main Roads has a policy of maintaining three viable sectors (ie. private, local government and state government sectors) with a view to sustaining employment in the private and public sectors. In the case of Main Roads' works allocated to councils, a test is used to determine a council's viability. This test examines a council's population, geographic size and its reliance upon Main Roads' works for continuity of its workforce. Where viability is not established as an issue, construction and rehabilitation work generally proceeds to open competition.

However, where vulnerability is an issue, individual negotiations are held with councils to determine if sole invitee work is required to ensure local government employment levels that have generally prevailed, are maintained. Again, this is Queensland Government policy and does not contravene any elements of NCP.

Electricity Reform

The following information provides a status report on the Queensland electricity industry.

Industry Structure

The most recent change in industry structure is the amalgamation of the six regional electricity distribution corporations into a single corporation - Ergon Energy effective from 30 June 1999. The six regional distribution corporations, each with its own board of directors and executive management team, imposed a significant layer of costs on the industry and created a complex and costly interface between the corporations and shareholding ministers.

Also the arrangements under which six separate and diverse distributors owned the single regional retailer, Ergon Energy Retail, were dysfunctional and confusing to customers.

The new industry structure has improved governance arrangements between the electricity Government Owned Corporations (GOCs) and their shareholders and strengthened the ability of the industry to compete effectively in the competitive National Electricity Market (NEM).

Regional electricity councils have been formed across the State to provide direct community input to their distribution corporation and the Minister for Mines and Energy.

Status of Interconnections

Two interconnections - Queensland to New South Wales Interconnector (QNI) and Directlink - are proceeding to link the Queensland and New South Wales' grids.

A large proportion of the easements along the QNI route in rural New South Wales and Queensland has been cleared. Tower construction and erection will begin in July/August 1999, with the stringing of wires in September 1999. Construction of lines and substation works is planned to be completed by October 2000, with commissioning expected in late 2000.

TransEnergie Australia Pty Limited is proposing to construct Directlink, a 80kV high voltage DC unregulated interconnector, between the Tweed Valley in New South Wales and Queensland's Gold Coast. In April 1999, NorthPower called for expressions of interest for the civil works and electrical/mechanical/structural installations associated with the project. Construction of the new Directlink interconnector will be between June 1 and December 15, 1999. Testing of the new facilities will take several months. The first phase of Directlink (60MW) will come into operation in December 1999 with final completion of the total project in January 2000.

TransEnergie has been working closely with National Electricity Code Administrator and other interested parties to effect the necessary amendments to the National Electricity Code to enable Directlink to participate effectively in the market. These changes are currently with the Australian Competition and Consumer Commission (ACCC) for authorisation.

Supply/Demand Balance and New Projects

Peak demand last summer reached 5,994MW on 18 February 1999, 200 MW higher than last year.

Total system supply capacity currently stands at 7,807MW following the commissioning of over 550MW of generation capacity. This extra capacity comprises two new peaking power stations in Townsville and two new gas turbines at Roma (75MW) and Swanbank (37MW).

Three further power stations are scheduled to come on-line by the end of 2001:

- Construction is currently under way at Oakey for the 303MW gas-fired power station scheduled to be open in January 2000.
- Site preparation work is under way for the 840MW coal-fired Callide C plant. 420MW is scheduled to come on-line in May 2001, with the remaining 420MW in December 2001.
- A 30MW biomass co-generation unit at the Rocky Point sugar mill is under investigation. The plant is currently planned to be commissioned in July 2000.

These power projects (and the interconnectors) will take system capacity to 8,062MW in Summer 1999/2000; 8,092MW in Summer 2000/2001 and 9,402MW in Summer 2001/2002. This is expected to provide sufficient reserve capacity to meet expected peak demand at these times.

The forecast average growth in demand for electricity in this State is approximately 3.6 per cent over the next 10 years.

In addition to the above projects, there are currently a number of private sector and Government owned enterprises considering new developments across the State. Projects under consideration include both gas-fired and coal-fired capacity and total approximately 6,000MW of capacity.

Proposed projects include Millmerran, Kogan Creek, Wambo, Stanwell North-Queensland, Sithe's development at Gibson Island and expansions at Tarong (at Tarong and Wivenhoe) and Swanbank. A number of these projects could provide further base-load and intermediate-load capacity in Southern Queensland and will ensure an adequate supply capacity to fully meet demand in the period to 2005 and beyond.

Recently, the Government announced the grant of a generation authority for the Millmerran project. This represents an important step forward for this project and an announcement on firm project commitment is expected shortly.

Status of Electricity Reform

The NEM commenced on 13 December 1998 between the participating jurisdictions – Queensland, New South Wales, Victoria, South Australia and the Australian Capital Territory. Queensland will operate as a separate region in the NEM until the interconnection with New South Wales in 2001.

Competition in the retail sector is being phased in with around 7,000 electricity consumers now eligible to shop around for their electricity supplier and price.

Two further tranches of contestability were delivered in 1998 and 1999 – Tranche 2 on 1 October 1998 (for 430 customers using more than 4GWh per year) and Tranche 3 on 1 July 1999 (for 6400 customers using more than 0.2GWh per year). A significant number of contestable customers have entered the market and, to date, achieved total savings estimated at \$90 million per year.

As part of the Queensland Government's strategy of enhancing consumer protection arrangements in the NEM, standard customer contracts (for connection and supply) and service quality standards have been developed.

Wholesale Electricity Prices

The moving average wholesale electricity price in Queensland since the NEM started (at around \$57/MWh) has been higher than originally forecast. This has been due largely to some periods of very tight supply/demand and prices in recent weeks have been much lower at around \$25/MWh. The Queensland Government is confident that the moving average wholesale price will continue to track down over time, particularly as new capacity comes on stream and the interconnects with New South Wales are completed.

Deregulation of Wholesale Price of Fuel

The repeal of the Commonwealth Petroleum Retail Marketing and Sites Acts and the institution of a new mandatory Oilcode are the cornerstones of the Commonwealth's Petroleum Retail Sector Reform Package, first announced in July 1998. In the view of the downstream petroleum industry, this legislation previously posed key regulatory obstacles that inhibited competition and restructuring. This legislation applied only to the four refiner/marketers in Australia (BP

Amoco, Caltex, Mobil and Shell). These companies claimed that it prevented them from competing on a level playing field with imports.

The regulatory regime had long been a source of concern to the companies, probably because it limited their capacity to develop and operate their retail networks. The reform process requires action by both the petroleum industry in conjunction with the Motor Trades Association in each State jurisdiction, and introduction of new legislation by the Commonwealth.

The essential elements of the proposal are:

- there would no longer be any government regulation of the wholesale price of fuel;
- the ACCC would no longer publish wholesale prices of fuel; and
- establishment of a dispute resolution mechanism to provide independent arbitration of disputes arising out of the new terminal access provisions.

The Commonwealth's key legislation to enable these reforms, the Bill to repeal the Petroleum Marketing and Sites Acts, has yet to be considered by Parliament. The Commonwealth Government has said that the Acts will not be repealed until agreement has been reached between all parties on the proposed Oilcode. The Department of Industry, Science and Resources is the Commonwealth's representative agency for the reform process.

A key component of the process is the requirement of the majors to provide open and direct access to bulk fuel customers at their terminals. However, such access is only available on a commercial basis, ie. where commercial terms and volume criteria can be agreed to make the access a commercial proposition.

Not unexpectedly, the Commonwealth has moved very cautiously to date on this reform, referring the matter to the Senate Rural and Regional Affairs and Transport Legislation Committee for consideration.

It remains to be seen whether the reforms will deliver lower retail prices to the customer, particularly in country areas where prices have not reflected the variations seen in metropolitan areas.

Sugar Industry Infrastructure Package

The objective of the Sugar Industry Infrastructure Package (SIIP) is to enhance the economic performance of the industry by providing funding for infrastructure projects which best lead to effective improvements in that performance.

SIIP initiatives include:

- Retention of tariff until the end of the 1996 season
- Expansion of the industry to be determined at a local level
- Changes to pool pricing arrangements to reduce the differential between No 1 pool and No 2 pool from 12% to 6% by 1995
- A Commonwealth/State funding package of \$40 million for infrastructure over a four-year period (\$38 million for Queensland and \$2 million for NSW).

The following selection criteria apply to SIIP projects:

- Projects must be for infrastructure (eg drainage, irrigation schemes or certain transportation projects); and result in industry expansion through increased acreage and/or increased yields, or provide reduced costs for industry.
- Projects must be economically viable such that the discounted direct economic benefits over the project's lifetime must exceed its discounted direct economic costs.
- Preference will be given to projects where industry is prepared to make a proportionate monetary contribution to the project's costs.
- Preference will be given to obtaining a spread of projects throughout the State. However, it seems unlikely that all mill areas will gain a project.
- Projects should be ecologically sustainable and consistent with best land management practices.
- Evidence of long-term regional viability and sustainability for sugar cane production will need to be provided by industry for projects to be eligible.
- Note shall be taken of the need to have some balance in project selection relative to the changes in pooling arrangements.

A total of 11 projects were selected from 39 applications. The total cost of projects was \$117.5 million, of which \$38 million was provided by package funding, with the remainder provided by industry and other parties. The following table outlines the funded projects.

Project	Region	Package Funds \$ million
Teemburra Creek Irrigation	Mackay	10.58
Walla Weir Irrigation	Bundaberg	9.49
Murray Valley Infrastructure	North	4.60
Herbert Expansion	Herbert	3.88
Southern Cane Railway	Sarina	5.00
Avondale Irrigation	Bundaberg	1.35
Russell Mulgrave Water Management	North	1.07
Eli Creek Effluent Irrigation	Maryborough	1.04
Klondyle-Lillesmere Irrigation	Burdekin	0.62
Small Weirs Irrigation	Mackay	0.20
Sandy Creek Irrigation	Burdekin	0.17

In its second tranche assessment, the NCC raised specific concerns about the Teemburra Creek Project and the Walla Weir.

With respect to the Teemburra Creek Project, the NCC concluded that the level of Government contribution to the scheme did not seem consistent with the reform commitment that the rural scheme be financially viable. However, as the project obtained final approval prior to Queensland becoming a signatory to the NCP agreements in April 1995, the NCC has not proposed a penalty in respect of this particular project.

In the case of the Walla Weir, the NCC has formed the view that "an apparent failure to figure cost recovery into the economic assessment of the Walla Weir is a fundamental flaw in the economic viability of this scheme." The NCC concluded that the project could not be said to be recovering costs consistent with reform commitments to achieve full cost recovery.

The NCC has advised that, in finalising its recommendations in respect of Queensland's water projects, it may be appropriate to recommend a penalty for non-compliance with reform commitments.

As noted earlier in this submission, the NCC has recommended the suspension of 25% of Queensland's competition payment for 1999-2000 until its concerns are resolved, or until December 1999, at which time the NCC will make a final recommendation on the penalty that should be imposed.

Other Industry Assistance Packages

These issues are treated on a case-by-case basis.

In the case of the World Heritage listing of Fraser Island, the Commonwealth and Queensland Governments agreed to provide ex gratia compensation of \$38 million to promote regional adjustment assistance. The funds were spent on business compensation, job creation, redundancy packages for workers and training initiatives for displaced workers.

An assistance package was also developed in 1997 for the Queensland Tobacco Industry. The Department of Primary Industries, in conjunction with Queensland Treasury, Queensland Rural Adjustment Authority and the tobacco industry, developed the \$30 million Tobacco Assistance Package 1997 (QTAP97) for Queensland tobacco growers. The scheme was designed to provide an opportunity for growers wishing to exit the industry to do so and to enhance the productivity of those growers that remained.

Each grower who participated in QTAP97 was eligible to receive \$4.50/kg of Grower's Basic Quota held at the close of business 31 August 1996. Eligible tobacco growers were able to select one of the following options:

- Option 1 Exit from the Tobacco Leaf Growing Industry on Welfare Grounds;
- Option 2 Exit from the Tobacco Leaf Growing Industry; or
- Option 3 Restructuring Support to Continue as a Tobacco Leaf Grower.

The welfare exit option provided a lump sum payment to tobacco growers for their immediate exit from the industry where, due to personal circumstances beyond their control, it was impractical to continue growing tobacco and they were experiencing financial difficulties or were unable to produce sufficient income from growing tobacco. This option resulted in 40 growers exiting the industry immediately.

Option 2 was available to eligible tobacco growers who wished to exit the industry gradually. Under this option, five annual payments are being made to growers allowing for a managed transition and providing considerable flexibility to growers in rearranging their tobacco

producing business. A further 43 growers chose this option, of which six exited immediately and a further 37 will exit prior to the conclusion of the scheme in 2002.

The remaining 132 growers chose Option 3 that provides restructuring support, in the form of five annual payments, to growers who wish to continue to grow tobacco leaf to assist them in enhancing their long term on-farm financial viability.

Growers who decided to exit the industry under Option 1 or 2 or who under Option 3 choose to exit the industry by selling their farm during the five year payment period must sign a restrictive covenant that precludes both the grower and his or her tobacco property from producing tobacco for five years from the date of execution.

A registered mortgage will be held over the property for the duration of the restrictive covenant by the Queensland Rural Adjustment Authority which will administer the scheme.

ATTACHMENT

**PROPOSED CHANGES TO ITEM C.4 (PAGES 404-408) IN DRAFT
PRODUCTIVITY COMMISSION REPORT**

1. **Page 405**, in the second paragraph – (i) delete words “*Chicken Meat Industry Committee Act 1976*” and substitute “*Review of the Farm Produce Marketing Act 1964*”; and (ii) add a further sentence to read: “Legislation was introduced into the Queensland Parliament in May 1999 to, amongst other things, implement the Government-endorsed outcomes of NCP reviews of the chicken meat and grain legislation, to facilitate the application of a competitive neutrality outcome for the Brisbane Markets (ie. corporatisation), and to terminate the dormant marketing intervention arrangements in two Acts (namely the *Primary Producers Organisation and Marketing Act 1926* and the *Fruit Marketing Organisation Act 1923*)”.
2. Delete the third paragraph and insert a new paragraph to read: “This legislation (the *Primary Industries Legislation Amendment Bill 1999*) was still before the Parliament as at 18 August 1999, but was expected to be debated in August, and if passed by the Parliament, to be proclaimed as soon as possible thereafter.”
3. Amend the Table C.5 as follows:
 - (i) for both *Chicken Meat Industry Committee Act* and *City of Brisbane Market Act*, substitute “**decision made**” for “**awaiting decision**” in the “*Status*” column;
 - (ii) for *Farm Produce Marketing Act*, insert “**awaiting decision**” in the “*Status*” column;
 - (iii) for both *Fruit Marketing Organisation Act 1923* and *Primary Producers Organisation and Marketing Act 1926*, substitute “**decision made**” for “**underway**” in the “*Status*” column;
 - (iv) insert rows for *Fisheries, Forestry, Sawmills Licensing & Vet Surgeons Acts* as follows:

<i>Fisheries Act 1994</i>	1999-2000	No	underway
<i>Forestry Act 1959</i>	1998-99	Yes	awaiting decision
<i>Sawmills Licensing Act 1936</i>	1998-99	No	underway
<i>Veterinary Surgeons Act 1936</i>	1998-99	No	underway
4. Add “Qld Dept Primary Industries” after “NCC(1997c)” in “**Source**” at the base of Table C.5.
5. **Page 407**, in the second paragraph – (i) in the third line, substitute “was” for “has been”; and (ii) add a further sentence to read: “The necessary amendments in this regard are contained in the *Primary Industries Legislation Amendment Bill 1999* which was still before the Queensland Parliament as at 30 June 1999. The new ‘sunset’ date for the barley vesting powers is to be 30 June 2002”. Please also note that the GIR Act is 1991 – and not 1993 as listed.
6. Third paragraph, delete the third sentence and replace by a new sentence to read: “The eight member QDLRC had an independent chairman and included 3 industry representation as well as 2 Government members and 2 other independent members.”

[Note: the chairman of QDLRC was not appointed in his capacity as chairman of QRAA, as in fact his appointment to the QDLRC chair preceded his appointment as the chair of QRAA. In QDPI's view, the reference to the chair of QDLRC also being chair of QRAA is quite irrelevant].

7. Page 408, in the first paragraph – (i) add a new sentence after the second sentence to read: “ These arrangements were legislated for via the *Dairy Industry Amendment Act 1998* in November 1998.” and (ii) amend the following sentence (currently the third sentence) by deleting “Subsequently, on” and commencing with “On”.
8. In the third paragraph – (i) in the second sentence, replace “Market” with “Brisbane Market Authority”; (ii) in the second sentence, omit “has”; (iii) in the third sentence, delete the last line and replace by new wording to read: “ were further considered by a Cabinet-appointed Steering Committee.”
9. Add an additional paragraph to read: “ In October 1998, Cabinet decided in favour of corporatisation of the Market rather than privatisation, and endorsed the removal of the ‘exclusivity’ provisions (ie. the provisions that prevented the establishment of any alternative facilities for the wholesaling of fruit and vegetables within the area of the City of Brisbane). The Act was subsequently amended in November 1998 to provide for the termination of ‘exclusivity’ on 31 August 1999, the date on which then-existing wholesaler lease arrangements expire. Further amendments to facilitate corporatisation are contained in the *Primary Industries Legislation Amendment Bill 1999*, which was still before the Queensland Parliament as at 30 June 1999. The expected corporatisation date is 1 September 1999.”
10. Add a final paragraph to read: “ Dormant legislative provisions that provide for the establishment of commodity marketing boards with vesting powers and for a raft of intervention measures in the fruit and vegetable industries (termed ‘Directions’) are to be repealed. These provisions are respectively contained in the *Primary Producers Organisation and Marketing Act 1926* and the *Fruit Marketing Organisation Act 1923*. Queensland at one stage in the mid 1980s still had as many as 13 separate marketing boards covering commodities as diverse as cotton, eggs, barley, tobacco, navy beans and peanuts. All ceased to operate over the period 1987-1996 and were replaced by non-statutory marketing bodies. The last fruit and vegetable Directions ceased in 1995. The repeal provisions to remove these now unused arrangements are also contained in the *Primary Industries Legislation Amendment Bill 1999*.”
11. The changes described above will then allow the description of Queensland’s reviews to be altered in the box on Page 180.
12. Table 7.1 on page 175 lists a number of statutory marketing authorities that operate in Queensland. This list needs to be updated in the following manner. Delete any reference to the Egg, Fruit Marketing and Tobacco Boards. The Tobacco Board has been dissolved and there are no longer any statutory powers exerted by the old Egg Board and the Committee of Direction of Fruit Marketing (QFVG). The Dairy Authority is now simply the Queensland Dairy Authority and Grainco is now a publicly listed company rather than a co-operative and administers the statutory powers on behalf of the Minister. They should just be referred to as Grainco Australia Ltd.